

# Tax Audit and Revenue on Small and Medium-Scale Enterprises in Nigeria

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## ABSTRACT

Tax is a key way for the government to make money, which is crucial for things like roads, schools, and other public services. This study looks at how tax audits like field audits and back-duty audits impact tax revenue from Small and Medium Enterprises (SMEs) in Nigeria, with a focus on how tax compliance plays a role. While tax audits are known to help improve compliance, not much research has been done on how tax compliance fits into the relationship between audits and tax revenue for SMEs. To gather data, this research surveyed 168 people from 42 SMEs and the Federal Inland Revenue Service (FIRS) in Lagos State. A random sampling method was used, and the data were analyzed with software like SPSS and STATA. The results show that tax policies, field audits, and back-duty audits all have a positive impact on tax compliance. Field and back-duty audits are also found to significantly affect tax revenue. Interestingly, while tax policy doesn't directly impact revenue, it does so indirectly by affecting tax compliance. The study shows that tax compliance partially mediates the link between tax audits and tax revenue, strengthening the relationship between back-duty audits and revenue while weakening the link between tax policy and revenue. The study suggests that improving tax audits can boost compliance, which is important for increasing tax revenue. Recommendations include making tax policies simpler, using more electronic tax systems, teaching taxpayers better, and tightening audit measures to reduce evasion and improve compliance.

**Keywords:** SMEs, Nigeria, tax audit, tax compliance, tax revenue.

## INTRODUCTION

Levies stand out as the most crucial and dependable source of income for governments, surpassing all other income sources. To obtain funding for public expenses, the government must impose taxes, which are obligatory levies on the income, profit, families, communities, or corporation bodies. A nation's capacity to cater to its citizens' basic requirements and desires hinges on the amount of money generated from taxes. The government's taxes on individual earnings include business earnings, salaries, dividends, interest, discounts and royalties (Amah & Nwaiwu, 2018). Tax can be either direct or indirect. People and businesses are subjected to direct taxes through organisations such as SIRS and FIRS. In contrast, indirect taxes are imposed on products and services. Developing and non-developing countries are under pressure to increase their tax revenue bases due to the rising cost of running their operations and the requirement to meet the social requirements of their inhabitants.

It provides funding for government initiatives, infrastructure improvement, and public services (Oladele *et al*, 2021). The most profitable strategy of increasing tax revenue in Nigeria is through tax audit. To collect enough income from taxes, the important tax agencies need to intensify tax audits. Tax auditing emerged as an avenue for preventing tax evasion and ensuring conformity to tax laws. It is the official assessment or inspection of the tax department conducted concerning the tax statement filled by the taxpayers under legal requirements. They

allow the taxpayer to abide by the tax laws and audit findings in the future. However, Auditing is an inspection as well as assessment of company's financial report. The principal objective is to give your influence on a financial statement.

SMEs in Nigeria fail to pay taxes, which creates visible dents in government revenues. This issue in the nation influences financing for public services and infrastructure development. An effective tax system is required to enable the government realize optimum revenue from taxes. This effective tax system in any county defines the capacity of the government to generate adequate revenues to fund its obligations. As the institution that provides the direction for the economy through the formulation of policies, including macroeconomic policies, the government is critical to the functioning of the households and firms which are economic agents like the government the policies of the government can make or mar the functioning of the household and the firm.

Unlike households and firms' the government's main source of income, that financing of its expenditure is through taxes. This explains why the government must do everything to enhance adherence to tax since the government's ability to optimize tax income is a role of the degree of tax compliance in the economy Aladejebi,(2018); Ogenyi, 2020; Udofot & Etim, (2017) .

This study strongly believes that tax audit can make some meaningful contribution to adherence to taxes, and hence stimulate the enhancement of tax revenue. Despite the relevance of taxes to the economic welfare of a country, there are certain shortcomings in the tax system that have militated against the actualization of the major goal of taxation. Some of these shortcomings include the cumbersomeness of payments and costliness of Otekurin *et al*, (2021); Mongwaketse,(2015).

Empirical evidence is available for electronic taxation is less cumbersome and less costly than manual tax filing and thus, more taxpayer-friendly with the propensity to enhance tax compliance and thus, likely to enhance tax compliance Night & Bananuka, (2020); Akpubi & Igbekeyi, (2020); Richards & Ekhatior, (2019); Otekurin *et-al*, (2021); Mongwaketse, (2015). The goal of a tax audit is to ensure tax compliance and thus, stimulate total tax revenue. Existing studies on tax audit and tax compliance include Mbotor (2019), Olaoye & Ekundayo (2019), Oladele *et al* (2021), Adelana (2022), Enofe *et al*. (2018) and Olaoyea & Ogundipe (2018), among others. Despite the abundance of evidence on levies income and tax audit, it appears none has attempted to mediate the connection between tax audit and government revenue with tax compliance.

Some studies have looked at how tax audits influence tax compliance. Others have checked how electronic tax systems help make filing easier and boost compliance. And some have pointed out the problems in Nigeria's tax system, like complicated payment methods. But none of these really dive into how tax compliance acts as a go-between for tax audits and tax revenue, especially among SMEs.

This study seek to treat tax compliance as something that plays a middle role instead of just a final result and to zero in on SMEs, which often evade taxes but are really important for the economy. So that a well-rounded view that includes tax policies, types of audits, compliance issues, and results in revenue. n summary this research aims to fill the gap in understanding how tax audits really impact tax revenue from SMEs through tax compliance, which hasn't really been explored in depth before. The specific objectives are to:

- (i) Examine the degree to which tax policy influences tax revenue from SMEs in Nigeria
- (ii) Ascertain the degree to which field tax audit enhances tax revenue from SMEs in Nigeria
- (iii) Investigate the degree to which back duty tax-audit influences tax revenue from SMEs in Nigeria
- (iv) Access the extent to which tax compliance influences tax revenue from SMEs in Nigeria
- (v) Evaluate the extent to which tax compliance mediates the connection between tax audit and tax revenue from SMEs in Nigeria

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## Research Hypotheses

In seeking to provide tentative answers to the pertinent questions of this study, the following null hypotheses will be tested:

- (i) Tax policy has no significant influence on tax revenue from SMEs in Nigeria
- (ii) Field tax audit has no significant influence on tax revenue from SMEs in Nigeria
- (iii) Back duty tax audit has no significant influence on tax revenue from SMEs in Nigeria
- (iv) Tax compliance has no significant influence on tax revenue from SMEs in Nigeria
- (v) Compliance does not have any significant mediating influence on the relationship between tax audit and tax revenue from SMEs in Nigeria

## LITERATURE REVIEW

SME's are the biggest support of the Nigerian economy. Which contributes to national growth, poverty alleviation and innovation. The potential to produce employment for a large majority of people is the primary relevance of analyzing tax audits and their impact on SME's tax collection (Lawal *et al*, 2020). In regards to this text, it becomes evident that researching tax audits and how they affect SME tax revenue is essential.

Tax audits serve as a means for tax regulations to examine SMEs' financial records and they ensure it is followed with tax laws. In addition to making sure that tax laws are followed, these audits are essential in increasing tax collections, which in turn funds government projects and public spending.

Given the crucial role in the economy by generating jobs, fostering innovation, and increasing GDP. However, this segment's particular potential and problems for revenue collection, audits, and tax compliance call for careful research due to their complexity.

Thus, it is imperative to investigate the function and workings of FIRS with respect to tax audits and SME revenue production. This chapter captures the research related to the concept, theoretical review and empirical framework between the tax audit and tax revenue on SMEs in Nigeria.

This study employs the Policeman theory of tax compliance as its framework. The choice of the Policeman theory is due to the repercussions of tax default, which seeks to serve as a deterrent to tax default. This is rooted in the desire to maximise the rate of tax default to optimise the total collectable taxes and by implication, total tax revenue. The availability of measures of punishment for these tax defaulters, which includes the capacity of a tax audit to expose the defaulter and cause him to face the consequences of tax default makes this theory appropriate.

## Empirical review

The relevance of tax audits to revenue generation makes empirical literature on tax audits abundant since tax audits act as a check on possible tax default through evasion or avoidance. This section reviews some empirical literature on tax audits and revenue generation in Nigeria to have some insights to current literature on tax audits in Nigeria.

” Tax audit and tax revenue generation in Nigeria” were examined by Adelana (2022) with the view of ascertaining the impact of tax audit on tax revenue generation in Nigeria. The research uses a cross-sectional survey design and structured questionnaire. The least-square technique served to analyse the data elicited from the respondents. The findings indicate the existence of a positive statistically significant relationship between tax audit and tax revenue generation in Nigeria. Based on the results of the study suggested that the intensification of the tax audit as well as the strict adherence of tax authorities to the established standards and procedures served as the major suggestions,.

Oladele *et al.* (2021) studied “the impact of tax audit practices on revenue generation in Nigeria” to ascertain how tax audit practices dimensions relate to company income tax. The population of the study consisted of nine hundred (900) Federal Inland Revenue Service (FIRS) employees from twenty-six (26) tax offices in South-South, Nigeria. The study used the Taro Yamane formula to determine of a sample size of 277 employees of FIRS. Subsequently, they desired information from the sampled respondents using a structured questionnaire instrument. They analysed the data using the Correlation technique and findings indicate that desk tax audit and field tax audit have a positive relationship with company income tax. Based on the findings, the authors suggested the need for need for policymakers to utilise desk tax audits and field tax audit to forestall revenue leakages and increase the level of taxpayers’ compliance.

Mbotor (2019) assessed “the effect of tax audit on the productivity of internal revenue service: cross river state experience.” The study used the cross-sectional survey design of 78 respondents selected from 217 employees of Cross Rivers state Internal Revenue Service. Descriptive statistics like frequency tables and percentages served as the initial analysis techniques. finally, inferential statistics which included multiple regression analysis, were conducted to firm up the descriptive statistics. The result of the study revealed that tax audit strategies have positive relationship with productivity but the relationship is statistically significant despite its use by the relevant tax authorities in the achievement of target revenue and reduction of problem such as tax evasion and avoidance. Furthermore, the study found that taxpayers do not usually cooperate with tax audit personnel during audit.

Gebreyesus (2020) examined “tax audit practice and its challenges” using Ethiopian revenue and custom authority large taxpayers. They study sought to assess the tax audit practice and its challenge for large taxpayers office and assess how factors like audit automation assists the proficiency of auditors, facilitates the reduction of tax evasions and avoidances and how it increases the compliance level of taxpayers.

The study used a cross-sectional survey design consisting of 48 tax audit staff and 588 large taxpayers’. It employed a structured questionnaire as the research instrument and out of 48 tax audit staff that received the questionnaire, 40 completed and returned theirs. Out of 588 taxpayers that received the instrument, 426 completed and returned theirs. The study employed mix method consisting of both quantitative and qualitative approaches in analysing the primary and secondary data used. The data consisted of the responses elicited from the sampled respondents while the secondary data consisted of information obtained from the annual financial statements.

The findings is how that the automation of tax audit to its maximum capacities was significantly constrained and the auditors appear to be incompetent auditors to tackle tax evasion and avoidance. A major setback to the enhancement of compliance level of taxpayers is the weak taxpayers’ education program. The study concluded that the use of competent auditors and automation of the tax audit system would translate to effective tax administration, improved compliance level and ultimately, increased tax revenue.

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Olaoye and Ekundayo (2019) investigated “Effects of tax audit on tax compliance and remittance of tax revenue in Ekiti State” with specific focus on the effect of desk audit, field audit, back duty audit and registration audit on tax compliance and remittance of tax revenue in Ekiti State. The design was a cross-sectional survey of the employees of Ekiti State Board of Internal Revenue, from which a judgmental sample of 60 served to represent the population.

A close-ended questionnaire served as the data collection instrument. Correlation matrix and multiple regression served as the data analysis procedure of the material elicited from the sampled respondents. The results indicated that desk-audit, field-audit, back duty-audit and registration audit all had beneficial significant

influences on tax compliance and remittance in Ekiti State. Field audit was the most significant predictor of tax compliance and hence tax revenue

To regulate the effect of tax audit and investigation of tax evasion, Enofe, Embele and Obazee (2018) looked at “Tax audit, investigation, and tax evasion”. The employees of revenue-generating agencies in Bayelsa State engaged in cross-sectional survey study design. Responses were gotten using a well-structured questionnaire that was given to the sampled respondents in person at their offices.

The Regression technique served to analyses the data elicited from the sampled respondent through rigorous test of hypotheses of the study. The results revealed that tax audit has negative influence on tax evasion and the negative influence is significant, thus implying that tax audit in any of the specified forms reduces tax evasion. Tax investigation also significantly and negatively exerts a significant explanatory power on tax evasion. The study thus, suggests the need to conduct tax audits on a situation basis to serve as a precautionary tool for tax evasion, among others.

Knowing the importance of taxes to the fiscal wellbeing of a country, tax compliance is a critical issues for tax regulations Akpabi & Igbekoyi, (2019); Manaye *et al*, (2019); Mohammed *et al*, (2016). The major shortcomings of tax payment are cumbersomeness and costliness Otekurin *et-al*, (2021); Mongwaketse, (2015). Some studies provided evidence that electronic taxation is less cumbersome and less costly than the manual tax filing (Otekurin *et-al*, 2021; Mongwaketse, 2015) and thus, likely to enhance tax compliance Night & Bananuka, (2020); Akpubi & Igbekoyi, (2020); Richards & Ekhaton, (2019).

It is likely that an actual tax audit system also contributes significantly to tax compliance and thus, stimulate tax revenue in the process. Some scholars have examined the likelihood of stimulating tax revenue through tax audit Oladele *et al*, (2021); Adelana, (2022); Enofe *et al*, 2(018); Gebreyesus, (2020); Mbotor, (2019); Olaoye & Ekundayo, (2019); Olaoye & Ogundipeb, (2018); Onuoha & Dada, (2016).

However, none of the investigations explored the influence of tax audit on tax compliance neither did any employ a mediator of the relationship between tax revenue and tax audit. In addition, none of these studies explained how tax audit contributes to tax revenues as none provided a theoretical justification for their findings. This study investigates how to fill these gaps. To this end, this study seeks to investigate the influence of tax audits on tax revenue using tax compliance as a mediating variable.

## METHODOLOGY

The design of this study is a cross-sectional survey of the respondents to be sampled from the FIRS and employees of selected SMEs in Lagos state. Federal Inland Revenue Service workers were chosen SMEs in Lagos make up the research population. This study's sampling consists of 168 respondents from 42 SMEs with a population size of 288. The Taro Yamane formula was employed to determine the sampling magnitude of 168 from the population of 288 employees from the 42 SMEs under focus. The study grouped the employees into three strata of homogeneous characteristics management, senior and junior staff. In addition, the study adopted a random sampling method to select the desired respondent. On the other hand, the sampling technique used to this end is stratified random. The basis of stratification was the staff status while the lottery method was the basis of randomisation and a combination of the stratification and randomisation yields stratified random sampling.

In line with cross-sectional survey designs, this study employed primary data to draw inferences about the research obstacle under investigation. The final data that the researcher derived from the sampled respondents established the researcher's data.



## Validity and Reliability of Instrument

Table 3.1 Discriminant validity

	tcp		Tpol		fta		Bda		Trv
.tcp	<b>0.728</b>								
.tpol	0.342		<b>0.630</b>						
.fta	0.215		0.440		<b>0.631</b>				
.bda	0.269		0.438		0.438		<b>0.798</b>		
.trv	0.003		0.305		0.415		0.562		<b>0.783</b>

Source: Author's computation

To determine discriminant validity, the study obtained a correlation matrix of all the indicators with the AVEs replacing the unit values along the diagonal. The results also indicate that the coefficients of the correlations in each of the columns in the correlation matrix are less than the values (square roots of the AVEs) in the leading diagonal, thus establishing discriminant validity (See Table 3.1).

Table 3. 2 Convergent Validity  $AVE = \left( \frac{\sum \lambda_i}{n} \right)^2$

.tcp	$\left( \frac{2.91}{4} \right)^2$	=	$0.7275^2$	=	0.529
.tpol	$\left( \frac{2.189}{3} \right)^2$	=	$0.7297^2$	=	0.532
.fta	$\left( \frac{2.194}{3} \right)^2$	=	$0.6313^2$	=	0.535
.bda	$\left( \frac{3.192}{5} \right)^2$	=	$0.798^2$	=	0.637
.trv	$\left( \frac{2.35}{3} \right)^2$	=	$0.783^2$	=	0.614

Source: Author's computation

The study employed convergent and divergent validity techniques to test for the validity of the instrument. The author pre-tested the instrument on a sample of 40 online respondents before its administration in the main study. The study then measured the responses from the pre-test and carried out exploratory and confirmatory factor analysis. The author used the results of the exploratory factor analysis to compute the convergent and divergent validities. While the results of the confirmatory factor analysis served the purpose of confirming the model fit and consistency of results with theory. Specifically, the Average Variance Extracted (AVE) served as the decision variable in the convergent validity and served as a critical component in the computation of the discriminant validity. The results indicate that the AVEs computed from the factor loadings are all greater than 0.5, the Cut-off for convergent validity (Cheung et al., 2023; Wei et al., 2020; Hair et al., 2009). The implication is that convergent validity is satisfied (See Table 1)

## Reliability of Research Instrument

Table 3.3 Residuals

	$e_1$	$e_2$	$e_3$	$e_4$	$\sum e_i$
.tcp	0.585	0.466	0.548	0.2758	1.875
.tpol	0.392	0.366	0.208	0.463	1.429
.fta	0.382	0.354	0.798	0.751	2.285
.bda	0.396	0.274	0.588	0.208	1.994
.trv	0.629	0.281	0.683	0.438	2.031

Source: Author's computation

Table 3.4 Composite Reliability

1.	.tcp	$\frac{2.91^2}{2.91^2 + 1.875} =$	$\frac{8.4681}{8.4681+1.875} =$	0.8187
2.	.tpol	$\frac{2.189^2}{2.182^2 + 1.479} =$	$\frac{4.7917}{4.7917+1.477} =$	0.764
3.	.fta	$\frac{2.833^2}{2.833^2 + 2.285} =$	$\frac{8.026}{8.026+2.285} =$	0.778
4.	.bda	$\frac{3.85^2}{3.85^2 + 1.994} =$	$\frac{14.8225}{14.8225+1.994} =$	0.881
5.	.trv	$\frac{2.877^2}{2.877^2 + 2.031} =$	$\frac{8.277}{8.277 + 2.031} =$	0.803

Source: Author's computation

The study used composite reliability to estimate the reliability of the questionnaire using the formula:  
Composite Reliability =  $\frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum e_i}$

Where:

.  $\lambda_i$  = Standardised factor loadings

.  $e_i$  =  $1 - [\lambda_i]^2$

All the computed values of the composite reliabilities are more than 0.5, the cut-off mark, for tax compliance (tcp), tax policy (tpol), field audit (fta), and back duty audit (bda), as well as tax revenue (trv), thus establishing composite reliability for all the constructs. The implication is that the research instrument is reliable and internally consistent (See Table 3.3 and table 3.4)

## Method of Data Analysis

Research analyzed the data using descriptive and inferential statistic. Descriptive statistics will include frequency tables, means, standard deviation and percentages while structural equation modelling will serve as the inferential statistic. SPSS and STATA served as the software for data analysis

## Model Specification

The study specifies the following models to achieve the influence of tax audit on tax compliance and hence, tax revenue,

$$.tcp = f(tpol, fta, \text{ and } bda) \quad \dots \quad (i)$$

Specifically, (i) yields:

$$.tcp = \beta_0 + \beta_1 tpol + \beta_2 fta + \beta_3 bda + e \quad \dots \quad (ii)$$

$$\text{Also } .trv = f(.tcp, tpol, fta, \text{ and } bda) \quad \dots \quad (iii)$$

$$.trv = \lambda_0 + \lambda_1 .tcp + \lambda_2 tpol + \lambda_3 fta + \lambda_4 bda + e \dots \dots \dots (ii)$$

Where:

.tcp = tax compliance (the mediating variable)

.trv = tax revenue

.tpol = tax policy

.fta = field tax audit

.bda = back duty

$\beta_0$  = fraction of the changes in tax compliance that the independent variables (tpol, fta and bda) do not explain

$\beta_i$  (i = 1-3) = fraction of the changes in tax compliance that is traceable to the independent variables (tpol, fta and bda). Thus,

$\beta_1$  = fraction of the variation in tax compliance that is traceable to the tax policy (tpol)

$\beta_2$  = fraction of the variation in tax compliance that is traceable to the field tax audit (fta)

$\beta_3$  = proportion of the variation in tax compliance that is traceable to the back duty (bda)

$\lambda_0$  = fraction of the fluctuations in tax revenue that the mediating and independent variables (tc, tpol, fta and bda) are not responsible

$\lambda_i$  (i = 1-4) = fraction of the variation in tax revenue that is traceable to the mediating and independent variables (tpol, fta and bda). Thus,

$\lambda_1$  = Fraction of the variation in tax revenue that is traceable to the tax compliance (tc)

$\lambda_2$  = Fraction of the variation in tax revenue that is traceable to the tax policy (tpol)

$\lambda_3$  = proportion of the variation in tax revenue that is traceable to the field tax audit (fta)

$\lambda_4$  = Fraction of the variation in tax revenue that is traceable to the back duty (bda)

.e = Stochastic error term (random error)

## Data presentation and Findings

This unit focuses on the performance of data using frequency tables and percentage data analysis



## Respondents' Demographic Data

Table 4.1 Demographic Characteristics of Respondents

S/N	Variable	Frequency	(%).
Gender:	Male	51	30.5
	Female	116	69.5
	<b>Total</b>	<b>167</b>	<b>100</b>
Age of SME	Less than one year	23	13.8
	1 -3 Years	11	6.6
	4-6 Years	25	15.0
	7 – 10 Years	108	64.7
	<b>Total</b>	<b>167</b>	<b>100</b>
Organisational Status:	Others	4	3.4
	Senior Staff	8	4.8
	Management	61	36.6
	Owners	94	56.3

Source: Author's Computation 2024

Table 4.1 presents the demographic data of the respondents. The result shows that 51 which (30.5%) of them are male while 116 (69.5%) of them are female, thus indicating that popularity of the respondents' popularity is female. In addition, the supply of the age of the respondents' SMEs indicates that 23 (13.8%) of the SMEs are less than one year, 11 (6.6%) of them are between 1 – 3 years, 25 (15.0%) of them are between 4 – 6 years while 108 (64.7%) of them are between 7 -10 years. The implication is that popularity of the respondents belong to SMEs that are between 7 – 10 years

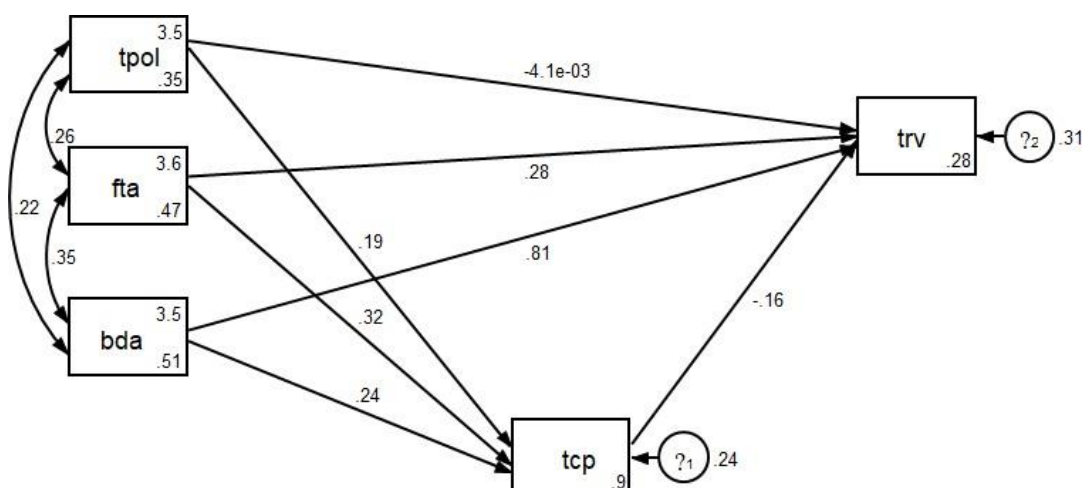


Figure 1.1 Test of Hypotheses

## Test of Hypotheses

This section presents the inferential tests for the significance of data for the tests of hypotheses. Specifically, it presents the results of the path diagram analysis of the structural equation model.

The results of the structural equation model of tax audit and tax compliance indicate that the coefficients of tax policy, field audit and back duty audit are 0.1881, 0.3221 and 0.2353 respectively thus indicating that all the relationships are positive. Based on the general model of tax audit and tax compliance;

$$.tcp = \beta_0 + \beta_1 tpol + \beta_2 fta + \beta_3 bda + e$$

The specific model of tax audit and tax compliance is:

$$.tcp = 0.1881 tpol + 0.3222 fta + 0.2353 bda + e \quad \dots \quad (i)$$

Equation (i) implies that a unit change in tax policy will result in an 18.81% variance in tax compliance, a unit change in field audit will result in a 32.22% change in tax policy while a unit change in back duty audit will result in 23.53% change in tax compliance. The results of the z-tests and the associated significant probabilities indicate that all the coefficients are significant, thus indicating that all the positive relationships are statistically significant. The implication is that tax policy, field audit and back duty audit all have statistically significant positive relationships with tax compliance (See Table 4.3.1).

The results of the structural equation model of tax audit and tax revenue with tax compliance as the mediating variable indicate that the coefficients of tax compliance, tax policy, field audit and back duty audit are 0.1574, 0.0041 0.2773 and 0.8143 respectively thus indicating that all the relationships are positive. Based on the general model of tax audit and tax compliance. Thus, the specific model of tax audit and tax compliance is:

$$.tcp = 0.1574 tcp + 0.0041 tpol + 0.2773 fta + 0.8143 bda + e \quad \dots \quad (i)$$

Equation (i) suggests that a variance of 18.81% in tax compliance will result from a unit change in tax policy, 32.22% from a unit change in the field audit, and 25.53% from a unit change in back duty audit. All of the coefficients are significant. According to the results of Z tests and the corresponding significant probability, suggesting that all of the positive correlations are statistically significant. The inference is that there are statistically substantial positive correlations between tax compliance and field audit, back duty audit, and tax policy. Furthermore, tax compliance moderates the connection between tax policy and tax revenue as well as that between back duty audit and tax revenue. However, while the moderation of the connection between tax policy and tax revenue is deflationary, that between back duty audit and tax revenue is inflationary. In other words, the moderating variable weakens the connection between tax policy and tax revenue while strengthening the connection between back duty audit and tax revenue (See Table 4.3.1).

The study performed four goodness of fit tests; the calculation level goodness of fit, the root mean square error RMSE, the Wald test and the Fit test. The results of the equation level goodness of fit test indicate that the fitted and forecast values of tax compliance are 0.43398 and 0.1937 correspondingly, subsequent in a residual value of 0.2403. In addition, the fitted and predicted values of tax revenue are 0.75697 and 0.4496 respectively, leaving a residual value of 0.3074. These resulted in an overall goodness of fit of 0.7302, thus indicating that variation in tax audit explains 73.02% of the variation in tax revenue (see Table 4.3.2). The value of the Root Mean Square Error is 0.2617 (See Table 4.3.2). This value indicates a good fit as it is not too far from 0. The results of the Wald test show that the regression coefficients are significantly different from 0. Thus, the model fits the data (See Table 4.3.3). Lastly, the fit statistics indicate that the computed Chi-square statistic for model vs saturated is 0.000. Thus, the model is not different from the saturated. However, with a computed Chi-square statistic and related significant probability of 249.211 ( $p < 0.01$ ), the baseline is significantly different from the saturated (See Table 4.3.4). All the goodness of fit tests show that the model suits the data

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## Empirical Findings

Four specific objectives were obtained by this study. The primary detailed objective investigated to figure out the degree to which tax policy affects tax revenue from SMEs in Nigeria. This main aim was achieved in the first null hypothesis “There is no significant connection between tax policy and tax revenue. Looking at the significant p value of .0020, the study accepted the null hypothesis, thus indicating that tax policy does not have any significant influence on tax revenue. The results also show that tax policy has a significant relationship with tax compliance. The results are consistent with Lisi (2015).

The next detailed objective investigated to figure out the degree to which field audit influences tax revenue. This objective was realised in the second null hypothesis “There is no significant connection between field audit and tax revenue in Nigeria”.

In line with the significant p value of .0007, the study did not accept the null hypothesis, thus showing that field audit has a statistically significant influence on tax revenue. The results also indicate that field audit has a statistically significant influence on tax compliance. The results are in line with Adelana (2022), Oladele *et al.* (2021), Enofe *et al.* (2018), Gebreyesus (2020), Mbotor (2019), Olaoye and Ekundayo (2019), Olaoye and Ogundipeb (2018) and Onuoha and Dada (2016), among others.

The 3rd specific objective pursued to figure out the degree to which back duty audit influences tax revenue. This objective was realised in the third null hypothesis “there is no significant connection between back duty audit and the tax revenue in Nigeria. Based on a significant value of ( $p < 0.01$ ), the study did not accept the null hypothesis, thus indicating that back duty audit has a statistically significant relationship with tax revenue.

Tax policy also has a statistically significant relationship with tax compliance. The results are in line with Oladele *et al.* (2021), Adelana (2022), Enofe *et al.* (2018), Gebreyesus (2020), Mbotor (2019), Olaoye and Ekundayo (2019), Olaoye and Ogundipeb (2018) and Onuoha and Dada (2016).

The fourth ideal objective sought to figure out the degree to which tax compliance influences tax revenue. This objective was realised in the fourth null hypothesis “there is no significant connection between tax compliance and the tax revenue in Nigeria. Based on a significant p value of 0.042, the study rejected the null hypothesis, thus indicating that tax compliance has a statistically significant relationship with tax revenue. The results are inconsistent with the tax compliance theory as well as with Night and Bananuka (2020) as well as Akpubi and Igbekoyi (2020).

The fifth main objective sought to figure out the degree to which tax compliance mediates the connection between tax audit and tax revenue. This objective was realised in the fourth null hypothesis “Tax compliance does not have any significant mediating influence on the connection between tax audit and the tax revenue in Nigeria. The results indicate that tax compliance moderated the connection between tax policy and tax revenue as well as moderated the connection between back duty audit and tax revenue. However, while the moderation of the connection between tax policy and tax revenue is downward, that between back duty audit and tax revenue is upwards. The results support Lisi’s (2015) argument that tax compliance can influence tax policy.

The study employed the Policing theory of tax compliance as its framework. Emphasis is placed on the repercussions for tax default, which seeks to dissuade potential defaulters. The main objective of tax audits in Nigeria is to identify taxable income or losses. And to ensure that the tax assessment submitted to the tax authority by the taxpayer agrees with the declared records. The purpose of SME tax audits is to determine the degree of compliance of SMEs with tax payments. Tax audits inform SMEs and other payrollers that someone is monitoring their tax behaviour and that they could face sanctions if their tax behaviour contravenes tax requirements.

The study sought to achieve five major objectives: Examine the connection between tax policy and tax compliance, observe the limit to which tax audit enhances tax revenue from SMEs in Nigeria, and examine the limit to which back duty tax audit influences tax revenue from SMEs in Nigeria.

Another is to examine how tax compliance influences tax revenue from SMEs in Nigeria and the degree to which tax compliance mediates between tax audit and tax revenue from SMEs in Nigeria. The study established that tax policy has a significant relationship with tax compliance. The study also indicates that field audits statistically influence tax compliance; back duty audit has a statistically significant relationship with tax revenue. Tax policy also has a statistically significant connection with tax compliance. Tax compliance has a moderate connection with tax policy and tax revenue as well as a moderated connection between back duty audit and tax revenue.

## CONCLUSION AND RECOMMENDATION

Regarding the problem definition and research findings, this study concludes as follows:

Tax policy has a beneficial connection with tax compliance. Field audits do have an objectively beneficial influence on tax compliance. Back duty audit has a statistically substantial connection with tax revenue. Back duty audit also has a statistically significant relationship with tax compliance. Tax compliance moderates the connection between tax policy and tax revenue as well as the connection between back duty audit and tax revenue.

The study provides useful insight for policymaking by drawing the attention of policymakers to the need to employ tax audits to increase tax compliance while reducing tax evasion. Theoretically, enhanced tax compliance must translate to increased tax revenue, thus implying that in the final analysis, tax audit will invariably lead to the enhancement of tax revenue.

The inability of central governments through their tax authorities to respond promptly to the challenges of tax evasion in sub-Saharan African countries and other third-world countries is mainly responsible for the high level of poverty in these regions. This is without prejudice to the high level of corruption that is also prevalent in these regions. Therefore, this study makes the following recommendations:

(i) Tax is a veritable means for the government to generate funds for government spending. However, people would rather evade or avoid tax because they see taxation as extortion. This demands that policymakers should use stringent measures in the administration of tax. Since tax audits can assist in revealing the degree to which payrollers are complying with adequate disclosure of income subject to taxes and compliance with payment of tax, policymakers should strategise on how to capitalise on tax audits to reduce the amount of tax evasion/avoidance and thus enhance tax revenue and adherence to tax

(ii) Since the results of this study show a statistically significant relationship between tax policy and tax compliance, policymakers should formulate tax policies such that the tax will be convenient to taxpayers. The government should not use taxes as punitive measures but as instruments of revenue generation. If taxes are higher than what the payers envisage, then it makes tax evasion becomes inevitable. In addition, the government should utilise payrollers' money judiciously to justify their continued loyalty through tax compliance. Misappropriation of taxes could justify tax evasion and thus, cause payrollers to evade taxes

(iii) Strategic managers and the owners of the SMEs should see the payment of tax as a responsibility and thus be committed to prompt payment of taxes to enable the government to fulfil its obligation to the firms and the general public. As one of the economic agents in every society apart from the household and the firm, the role of the government is to afford an enabling atmosphere for business to flourish and government can only perform this role if payrollers comply with tax payments.

(iv) Given that manual taxation is cumbersome and that some SME owners may not be used to electronic taxation, the need for owners and strategic managers of SMEs to be internet-compliant becomes sacrosanct. This is the only way taxation will not become a burden to them.

(v) Policymakers should do a lot of sensitization on the relevance of tax to government revenue. They should also inform on how increased revenue due to tax compliance will translate to economic wellbeing to every citizen through economic growth and development. Civic education in primary and secondary schools should

provide a medium for such sensitizations for the young and when they grow up, tax will not connote a negative phenomenon to them

As such, it is impossible to separate the findings of the study from the complex web of social norms and expectation that underlie it. The investigator ran into a few snags along the way including:

1. Limited Variable: The study focuses on specific variables including tax policy, field tax audits, as well as back duty tax audits. Other elements that might affect tax compliance and revenue, like taxpayer education, and the intricacy and effectiveness of the tax administration, were not explored.
2. External Factor: The research does not control for external considerations such as economic fluctuation, regulatory changes, or political instability, which can significantly impact tax compliance and revenue. These factors could confound the results and should be considered in future research
3. The application of self-report data in questionnaires may induce response bias, as participants may provide socially desired answers or under-reporting issues associated with tax compliance and evasion.

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