



## **Tax Audit Effectiveness and Tax Compliance Behaviour in Benin City, Edo State, Nigeria**

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**Abstract.** This empirical work examines the effect of tax audit effectiveness on tax compliance in Benin City, Edo State, Nigeria. Specifically, it evaluates the influence of audit frequency, audit quality, and penalty enforcement on compliance behaviour, while controlling for taxpayer education. A descriptive survey research design was utilised, while 384 respondents were sampled in the study. The structured questionnaire served as a means of collecting data which was analysed with the aid of descriptive statistics, correlation analysis, and multiple regression techniques. The outcomes demonstrate that audit frequency, audit quality, and penalty enforcement each exert a significant positive effect on tax compliance. Taxpayer literacy also shows a positive influence, indicating that informed taxpayers are more likely to comply voluntarily with tax obligations. These results are consistent with the Economic Deterrence Theory, which emphasises the role of detection probability and enforcement severity in shaping compliance behaviour, while also supporting complementary perspectives that highlight the importance of fairness and awareness in tax administration. The study concludes that although deterrence mechanisms are effective in promoting compliance, their impact is strengthened when implemented with transparency, fairness, and adequate taxpayer education. It therefore recommends the expansion of taxpayer education programmes, improvement in audit professionalism and transparency, and consistent enforcement of penalties to enhance compliance and build trust in the tax system. Finally, this research recommends that subsequent study should be empirically executed on the informal sector, undertake longitudinal analyses of compliance behaviour, and conduct comparative studies across different regions in Nigeria.

**Keywords:** Audit, Tax Compliance, Audit Frequency, Penalty Enforcement, Audit Quality.

### **1. Introduction**

Governments worldwide depend on tax revenue to finance public services, infrastructure development, and sustainable economic growth. However, tax non-compliance remains a persistent challenge in developing economies such as Nigeria, limiting the effectiveness of public finance systems. According to the Federal Inland Revenue Service (FIRS, 2022), Nigeria's tax-to-GDP ratio is approximately 10.86%, significantly below the 15% benchmark recommended by the World Bank (2021). This revenue gap constrains government expenditure on essential services and increases reliance on borrowing and volatile oil revenues. Tax compliance refers to the extent to which taxpayers accurately report income, file returns on time, and fulfil tax payment obligations. To address widespread issues such as tax evasion, underreporting, and weak enforcement, tax authorities increasingly utilise tax audits as a compliance-enhancement mechanism. A tax audit involves the systematic examination of taxpayers' financial records and returns to verify adherence to tax regulations. Effective tax audits perform both corrective and deterrent functions by identifying non-compliance and discouraging future violations. Tax audit effectiveness is commonly conceptualised through three dimensions: audit frequency, audit quality, and penalty enforcement. Audit frequency relates to how often audits are conducted; audit quality reflects the professionalism, fairness, transparency, and thoroughness of the audit process; while penalty enforcement concerns the consistency and severity of sanctions imposed for non-compliance. These dimensions align with the Economic Deterrence Theory of Allingham and Sandmo (1972), which argues that taxpayers make rational decisions by weighing the benefits of evasion against the probability of detection and the consequences of

penalties. Empirical evidence supports the influence of audit mechanisms on compliance behaviour. Alm and McClellan (2012) found that audit intensity significantly improves voluntary compliance, while Kirchler et al. (2021) emphasised the importance of balancing enforcement with trust to sustain compliance. Similarly, Abdulrasaq and Babatunde (2024) identified consistent audits and effective penalties as critical factors in reducing tax evasion among self-employed taxpayers in Nigeria. The OECD (2022) further highlights the importance of combining audit quality with consistent enforcement to enhance compliance outcomes. Most localised studies often examine audit frequency and penalty enforcement separately, with limited attention to audit quality and the combined effect of audit dimensions. Furthermore, many studies focus on major cities such as Lagos and Abuja, employ descriptive methodologies, and rarely control for taxpayer education. Consequently, this study investigates the effect of tax audit effectiveness on tax compliance among taxpayers in Benin City, Edo State, examining the combined influence of audit frequency, audit quality, and penalty enforcement while controlling for taxpayer education. The specific objectives are to:

- examine the effect of audit frequency on tax compliance among taxpayers in Benin City.
- evaluate the effect of audit quality on tax compliance behaviour.
- assess the effect of penalty enforcement on tax compliance among taxpayers.

## 2. Literature Review

### 2.1 Conceptual Review

#### 2.1.1 Tax Compliance

Tax compliance is fundamental to effective fiscal policy and public sector management, encompassing taxpayers' adherence to registration, reporting, filing, and payment obligations. According to Alm (2021), tax compliance extends beyond a legal requirement to include behavioural and institutional dimensions shaped by the relationship between governments and citizens. The literature identifies both legal and behavioural determinants of compliance, including perceptions of fairness, audit probability, penalty severity, administrative efficiency, and trust in public institutions (OECD, 2022; Kirchler et al., 2021). Scholars distinguish between voluntary compliance, driven by ethics and trust, and enforced compliance, motivated by audits and sanctions (Feld & Frey, 2020; Torgler, 2021). Some recent studies further emphasise tax morale as a critical factor influenced by transparency, accountability, and equitable use of

public resources (Brondolo, 2021; Kirchler & Wahl, 2020). While the Economic Deterrence Theory of Allingham and Sandmo (1972) highlights the role of audits and penalties, excessive reliance on enforcement may reduce taxpayer cooperation (Andreoni et al., 2020; Slemrod et al., 2023). In Nigeria, compliance is constrained by informality, weak enforcement capacity, inconsistent penalties, and limited taxpayer education (FIRS, 2022; Abdulrasaq & Babatunde, 2024). Consequently, sustainable compliance requires a balanced approach combining effective enforcement, taxpayer education, digitalisation, transparency, fairness, and institutional trust (OECD, 2022; Fjeldstad et al., 2021; Alm & Soled, 2021).

#### 2.1.2 Tax Audit

Tax audit is a significant enforcement mechanism in modern tax administration, designed to verify taxpayer compliance, detect irregularities, and enhance revenue collection. It involves the systematic examination of financial records, tax returns, and related documents to ensure that tax obligations are accurately reported and fulfilled. According to the OECD (2022), tax audits serve both corrective and deterrent purposes by uncovering non-compliance and discouraging future tax evasion. Audits may take the form of desk, field, or comprehensive reviews, depending on taxpayer risk profiles and administrative capacity (Tørsløv et al., 2020). The effectiveness of tax audits extends beyond their frequency to encompass audit quality, transparency, professionalism, and consistency. Slemrod et al. (2023) argue that taxpayers are more responsive to audits perceived as fair and impartial. Empirical studies demonstrate that audits significantly improve compliance behaviour and revenue performance (Keen & Simone, 2022; Mascagni & Mengistu, 2021). However, in Nigeria, audit effectiveness is constrained by inadequate resources, inconsistent implementation, and operational inefficiencies (Oboh & Eketu, 2022). The literature further highlights the importance of auditor competence, digital technologies, timely enforcement, and institutional independence in strengthening audit outcomes (OECD, 2021; IMF, 2023). Consequently, sustainable audit effectiveness requires a balanced approach that combines credible enforcement, technological innovation, taxpayer engagement, and administrative integrity to promote long-term tax compliance (Bird & Zolt, 2020).

#### 2.1.3 Audit Frequency

Audit frequency is the regularity with which tax authorities examine taxpayer records to verify

compliance and detect irregularities. It is widely recognised as a key enforcement mechanism that increases the perceived likelihood of detection and discourages tax evasion (Modugu & Anyaduba, 2014; OECD, 2022). Grounded in the Economic Deterrence Theory of Allingham and Sandmo (1972), frequent audits raise the expected cost of non-compliance by increasing the probability of detection, thereby encouraging taxpayers to fulfil their obligations. Alm and McClellan (2012) argue that higher audit frequency reduces incentives for underreporting income and overstating deductions. Empirical evidence supports the positive relationship between audit frequency and tax compliance. Studies by Slemrod et al. (2023) and Alm et al. (2020) found that regular audit programmes significantly improved income reporting and tax remittances among firms and small businesses. In Nigeria, however, the effectiveness of audit frequency is constrained by limited manpower, weak administrative capacity, and inadequate technological integration (FIRS, 2022; Akintoye & Ogunyemi, 2023). The literature further suggests that audit frequency is most effective when accompanied by fairness, transparency, and efficient administration (Braithwaite, 2020; Torgler & Schneider, 2021). Additionally, taxpayer responses vary across sectors, highlighting the need for risk-based audit strategies complemented by education and outreach initiatives (Mascagni & Santoro, 2018). Consequently, frequent and well-targeted audits remain essential for strengthening tax compliance and fostering a sustainable compliance culture.

#### 2.1.4 Audit Quality

Audit quality in tax administration refers to the degree of professionalism, accuracy, fairness, and procedural integrity applied in conducting tax audits. It extends beyond detecting non-compliance to ensuring transparency, consistency, and legitimate enforcement of tax regulations (OECD, 2022; James & Alley, 2002). Effective audit quality depends on factors such as auditor competence, technological capability, data accuracy, impartiality, and adherence to established procedures. High-quality audits enhance taxpayer trust and encourage voluntary compliance by improving perceptions of fairness and institutional credibility (Alemu, 2020). A well-executed audit serves both enforcement and educational purposes by identifying errors, clarifying tax obligations, and promoting corrective behaviour. Kirchler et al. (2021) argue that constructive audit processes can transform enforcement into a compliance-building interaction, while Torgler (2021) highlights the link between perceived audit fairness and stronger tax morale. Conversely, poorly conducted audits characterised by

delays, inconsistency, or bias can weaken compliance incentives and encourage avoidance behaviours (Omotoso & Ogbari, 2023). Technological advancements, including data analytics, e-filing systems, and automated risk assessment, have improved audit accuracy and efficiency (OECD, 2023). However, Nigeria continues to face challenges related to infrastructure and technical capacity (Eze & Emeh, 2023). Overall, audit quality remains a strategic component of sustainable tax compliance, strengthening transparency, trust, and effective tax governance.

#### 2.1.5 Penalty Enforcement

Penalty enforcement are monetary fines, interest on unpaid taxes, licence revocations, or criminal prosecution. Penalty enforcement is a core element of the deterrence framework, as it raises the perceived cost of non-compliance (Allingham & Sandmo, 1972). Making evasion more financially and legally risky, penalties serve to align individual incentives with legal tax behaviour. The effectiveness of penalty enforcement depends on several factors: severity, certainty, fairness, and timeliness. According to Alm et al. (2020), penalties are most effective when taxpayers believe they will be applied consistently and without bias. Inconsistent or excessive penalties, however, may backfire by provoking taxpayer hostility and reducing overall compliance morale (Slemrod et al., 2023). This underscores the importance of proportionality and fairness in enforcement practices. Empirical evidence suggests that moderate and predictable penalties are more successful than excessively harsh ones. A study by Cummings and Martinez-Vazquez (2020) demonstrated that mild but consistently enforced penalties led to greater behavioural change than severe but rarely applied ones. This finding supports the OECD (2022) recommendation that penalty structures be transparent, predictable, and commensurate with the offence committed. While the Federal Inland Revenue Service Establishment Act provide for a wide range of penalties, their implementation has been inconsistent. The FIRS (2022) noted that many tax defaults go unpunished due to administrative bottlenecks, weak monitoring, and political interference. This undermines the credibility of enforcement and emboldens evaders. Efforts are underway to automate penalty computation and notification to reduce discretion and increase efficiency.

#### 2.1.6 Taxpayer Education

Taxpayer education is a critical factor in promoting voluntary tax compliance by equipping individuals

and businesses with the knowledge required to understand tax obligations, rights, and procedures. In developing economies where tax literacy is often limited, informed taxpayers are more capable of interpreting tax regulations, maintaining accurate records, and engaging effectively with tax authorities (OECD, 2022). Although the Economic Deterrence Theory emphasises audits and penalties, it also recognises that compliance decisions are influenced by taxpayers' understanding of risks and consequences (Allingham & Sandmo, 1972). Research indicates that inadequate tax knowledge can contribute to unintentional non-compliance and increased evasion (Mascagni & Mengistu, 2021). Tax education also strengthens the effectiveness of audit mechanisms and penalties by helping taxpayers understand enforcement processes and the consequences of violations (Slemrod et al., 2023). In this study, taxpayer education is included as a control variable to account for differences in awareness and ensure that the observed effects of audit frequency, audit quality, and penalty enforcement on compliance are accurately assessed. Overall, tax compliance depends not only on deterrence but also on knowledge, trust, and informed taxpayer decision-making.

## 2.2 Empirical Review

Adeyemi and Salawu (2022) investigated the relationship between audit frequency and tax compliance among small business operators in Lagos State, Nigeria. Their study aimed to determine whether consistent and repeated audits by tax authorities had a direct impact on voluntary tax compliance. Using a structured questionnaire administered to 400 small and medium-sized enterprises (SMEs), they applied regression analysis to evaluate the influence of audit occurrence. Findings revealed that increased audit frequency significantly boosted compliance behaviour, as taxpayers felt a heightened risk of being monitored. The authors concluded that regular tax audits help reinforce a culture of compliance by maintaining constant visibility of the tax authorities. However, the study focused only on urban SMEs and did not address how audit frequency may affect taxpayers in rural or informal sectors, indicating the need for broader comparative studies. Olayinka and Omoniyi (2023) focused on the Nigerian hospitality sector and explored how audit frequency influences tax compliance among hotels and restaurants in Abuja. The study surveyed 350 tax-compliant business owners and discovered that more frequent audits increased compliance levels by reducing the perceived opportunities for tax evasion. The authors noted that repeated audits created a psychological deterrent, especially when taxpayers were aware of possible

unannounced inspections. However, the study emphasised the importance of professional conduct by auditors, as the effectiveness of frequent audits depends not only on quantity but also on credibility. Okonkwo and Yusuf (2022) conducted a study examining the role of audit quality in promoting tax compliance among small enterprises in Nigeria's Federal Capital Territory. Their research focused on audit documentation, the professional competence of auditors, and the objectivity of the audit process. Using a structured questionnaire administered to 400 small business owners and tax practitioners, the study employed multiple regression analysis to establish a relationship between perceived audit quality and taxpayer behaviour. The findings indicated that audit quality had a significant and positive effect on voluntary compliance. Respondents who rated audit procedures as fair, transparent, and professionally conducted were more likely to comply willingly.

Adediran and Ganiyu (2023) explored the influence of audit quality indicators such as audit accuracy, timely feedback, and the competence of audit teams on tax compliance among corporations in Lagos. With data collected from 280 respondents in the manufacturing and services sectors, the authors observed that audit quality significantly influenced compliance, particularly when audits were backed by clear documentation and prompt resolution of issues. Respondents expressed higher confidence in the tax system when audits were handled by certified professionals who applied standards uniformly. The authors, however, noted that the success of quality audits also depended on institutional support and the autonomy of tax authorities.

Ibrahim et al. (2023) evaluated the audit quality framework of the FIRS and how it influences tax compliance in Nigeria's public sector. Their findings indicated that structured and standardised audit procedures led to improved compliance levels among government contractors and civil service payroll units. The use of automated systems, checklists, and peer review mechanisms contributed to improved audit reliability. However, the authors raised concerns about resource constraints, especially in less-developed regions where qualified auditors are few. They emphasised that audit quality cannot be sustained without continuous investment in human capital and digital infrastructure.

Afolabi and Nwachukwu (2022) conducted a study on the influence of penalty enforcement on tax compliance among small-scale business owners in Enugu State. Their objective was to determine how the certainty and severity of tax penalties affected

taxpayer behaviour. Using a structured questionnaire administered to 350 small business operators and employing regression analysis, the findings revealed a strong positive relationship between consistent penalty enforcement and increased tax compliance. The study found that when taxpayers were aware that non-compliance would certainly lead to financial penalties, they were more inclined to file accurate returns. However, the authors noted that the perceived fairness and proportionality of the penalties also played a role. Excessively punitive measures led to resentment and evasion, especially where taxpayers doubted the use of collected revenues.

Eze and Okafor (2023) focused on the role of penalty timing and transparency in influencing compliance among transport operators in the South-East region. Through interviews and surveys involving 250 respondents, the study observed that penalties that were enforced swiftly and consistently had a more lasting impact on behaviour than delayed or selectively applied sanctions. The authors found that uncertainty in penalty administration reduced the perceived risk of non-compliance, thereby weakening deterrence. Their findings align with the principle of celerity from Economic Deterrence Theory, which posits that the swiftness of punishment enhances deterrent effect. They recommended that tax authorities adopt automated systems to trigger penalties promptly and reduce human discretion.

Okeke and Musa (2023) analysed penalty enforcement trends among SMEs in Edo and Delta States. The study employed a comparative approach using survey data from 360 SMEs across both states. The researchers found that firms operating in areas with consistent and visible enforcement had significantly higher compliance rates than those in less monitored regions. Moreover, they observed that the presence of graduated penalty structures where fines increased based on the severity or repetition of non-compliance had a more persuasive effect than flat penalties. The study recommended institutional reforms to make enforcement processes more transparent and uniform.

Abdulrasaq and Babatunde (2024) investigated the determinants of tax compliance in the North-West region of Nigeria and identified limited taxpayer education as one of the most significant barriers to compliance. The study employed a survey design involving 275 respondents, primarily self-employed individuals and small business owners. Findings revealed that a lack of clear information about tax obligations, procedures, and penalties contributed to widespread non-compliance. The authors concluded that while audit and enforcement were crucial, their

effectiveness was significantly undermined in the absence of basic taxpayer literacy and awareness.

The review of existing literature indicates that although tax compliance has received considerable scholarly attention in Nigeria, limited research has specifically examined the effectiveness of tax audit mechanisms and their influence on taxpayer behaviour. Existing studies have largely focused on broad determinants such as tax morale, civic responsibility, and institutional factors, with insufficient empirical analysis of audit frequency, audit quality, and penalty enforcement as distinct but interrelated dimensions. Previous studies, including Afolabi and Nwachukwu (2022), Okonkwo and Yusuf (2022), and Bello and Hassan (2021), established relationships between enforcement and compliance but did not sufficiently examine the individual contributions of specific audit components.

## 2.3 Theoretical Review

### 2.3.1 Economic Deterrence Theory

Economic Deterrence Theory, introduced by Allingham and Sandmo (1972), serves as the primary theoretical foundation for this study. The theory is rooted in the rational choice paradigm, suggesting that taxpayers evaluate the expected utility of evading taxes against the likelihood and severity of being penalised. According to this theory, individuals act based on a cost-benefit analysis, where the perceived risk of being caught and the magnitude of sanctions are key determinants of compliance. In this study, three primary variables—audit frequency, audit quality, and penalty enforcement—directly linked to the core tenets of the deterrence framework. Audit frequency increases the probability of detection, thereby reducing the attractiveness of evasion. Audit quality enhances the credibility and fairness of enforcement actions, making it more difficult for non-compliant behaviour to go unnoticed. Penalty enforcement, including both severity and consistency, raises the cost of non-compliance and reinforces the behavioural threat of deterrence (Kirchler et al., 2008; Torgler & Schneider, 2021). Empirical studies have shown that consistent audits and effective penalty systems contribute significantly to improved tax compliance (Owolabi & Olayemi, 2023; Inegbedion & Okoye-Uzu, 2024). However, when these mechanisms are weak or inconsistently applied, taxpayers perceive little risk in evading their obligations. This scenario validates the need for enhanced audit coverage, professionally conducted assessments, and credible sanctions as prescribed by the deterrence theory.

**3. Methodology**

This study employs an explanatory research design. Explanatory design is particularly suited for studies seeking to uncover the “why” and “how” behind observable phenomena. The population of this study comprises corporate and self-assessed taxpayers operating within Benin City, Edo State. They were selected because they are the most actively involved in voluntary tax compliance, and their behaviour is more directly influenced by audit-related factors such as coverage, quality, and enforcement consistency, which form the core variables in this study. The sample size of 384 was determined using Cochran’s Formula. Cochran’s Formula is appropriate when the population size is unknown or very large. It ensures that the sample size is sufficient to produce accurate and reliable results thus.

$$n_o = (Z^2 \times p \times (1 - p)) \div e^2$$

Where:

$n_o$  = sample size for an infinite population

Z = Z-value corresponding to the confidence level (1.96 for 95%)

p = estimated proportion of the population (0.5 used for maximum variability)

e = margin of error (0.05 for 5%)

Calculation:

$$n_o = (1.96^2 \times 0.5 \times (1 - 0.5)) \div 0.05^2$$

$$n_o = (3.8416 \times 0.25) \div 0.0025$$

$$n_o = 0.9604 \div 0.0025$$

$$n_o = 384.16$$

The simple random sampling technique was additionally employed, indicating that every individual taxpayer and small business owners within Benin City has an equal chance of being selected, making the sample representative and the results generalisable. Grounded in Economic Deterrence Theory, the model considers three primary explanatory variables: audit frequency, audit quality, and penalty enforcement. These variables represent elements through which tax authorities deter non-compliant behaviour. To strengthen the model’s validity, taxpayer education is included as a control variable, given its documented influence on compliance through awareness and understanding of tax obligations (Torgler, 2007; OECD, 2022).

The econometric model is specified as:

$$TC = \beta_0 + \beta_1AF_i + \beta_2AQ_i + \beta_3PE_i + \beta_4TE_i + u_i$$

Where:

TC = Tax Compliance (dependent variable)

AF = Audit Frequency (independent variable)

AQ = Audit Quality (independent variable)

PE = Penalty Enforcement (independent variable)

TE = Taxpayer Education (control variable)

$u_i$  = Error term accounting for other unobserved factors

**4. Data analyses and Interpretations**

**4.1 Descriptive Analysis**

**Table 1:** Responses on Audit Frequency

Statements	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean	SD
AF1: Audit frequency ensures taxpayers fulfil obligations	77 (20.1%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	77 (20.1%)	3.00	1.42
AF2: Frequent audits discourage tax evasion	78 (20.3%)	76 (19.8%)	76 (19.8%)	78 (20.3%)	76 (19.8%)	3.01	1.42
AF3: Regular audits improve accuracy of tax reporting	76 (19.8%)	78 (20.3%)	77 (20.1%)	78 (20.3%)	75 (19.5%)	3.01	1.41
AF4: Frequent audits increase detection of non-compliance	76 (19.8%)	78 (20.3%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	3.00	1.41
AF5: Taxpayers in Benin City are aware that audits occur often	76 (19.8%)	78 (20.3%)	76 (19.8%)	77 (20.1%)	77 (20.1%)	3.00	1.42

Source: Field Survey, 2026.

Table 1 presents respondents’ perceptions of audit frequency (AF1–AF5) based on 384 valid responses. The findings reveal a generally neutral perception among taxpayers in Benin City, as responses were almost evenly distributed across the five-point Likert scale. The mean scores for all items ranged from 3.00 to 3.01, indicating that respondents neither strongly agreed nor disagreed with statements regarding the influence of audit frequency on tax compliance. Specifically, AF2 (“Frequent audits discourage tax evasion”) and AF3 (“Regular audits improve accuracy of tax reporting”) recorded the highest mean scores of 3.01, suggesting limited acknowledgement of the deterrent and corrective roles of frequent audits. The standard deviations (1.41-1.42) indicate moderate variability in responses, reflecting differing taxpayer perceptions. Holistically, the results depict that audit frequency alone may not significantly drive compliance behaviour.

**Table 2:** Responses on Audit Quality

Statements	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean	SD
AQ1: Auditors conduct tax audits with professionalism	77 (20.1%)	77 (20.1%)	75 (19.5%)	77 (20.1%)	78 (20.3%)	2.99	1.42
AQ2: Tax audits are conducted fairly and without bias	75 (19.5%)	76 (19.8%)	78 (20.3%)	77 (20.1%)	78 (20.3%)	2.98	1.41
AQ3: Audit reports are clear and understandable	76 (19.8%)	75 (19.5%)	77 (20.1%)	78 (20.3%)	78 (20.3%)	2.98	1.42
AQ4: Auditors are consistent in applying tax rules	77 (20.1%)	76 (19.8%)	76 (19.8%)	77 (20.1%)	78 (20.3%)	2.99	1.42
AQ5: The quality of audits improves taxpayer confidence	76 (19.8%)	75 (19.5%)	77 (20.1%)	78 (20.3%)	78 (20.3%)	2.98	1.42

*Source: Field Survey, 2026.*

Table 2 presents respondents’ perceptions of audit quality (AQ1 - AQ5) based on 384 valid responses. The findings indicate an overall neutral perception of audit quality among taxpayers in Benin City, with mean scores ranging from 2.98 to 2.99 across all items. This suggests that respondents were generally uncertain about the professionalism, fairness, transparency, and effectiveness of tax audit processes. AQ1, which assessed whether auditors conduct audits professionally, recorded a mean score of 2.99, indicating slight but limited confidence in auditor competence. Conversely, AQ2, relating to fairness and absence of bias in audits, recorded the lowest mean score of 2.98, suggesting concerns regarding audit impartiality and credibility. The standard deviations, ranging from 1.41 to 1.42, reveal moderate variations in responses, indicating that while some taxpayers perceive audits positively, others remain sceptical about consistency and procedural fairness. These results imply that audit quality may not be sufficiently developed to influence taxpayer behaviour effectively.

**Responses on Penalty Enforcement**

**Table 3:** Responses on Penalty Enforcement

Statements	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean	SD
PE1: The fear of penalties makes taxpayers comply	77 (20.1%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	77 (20.1%)	3.00	1.42
PE2: The severity of penalties discourages tax evasion	78 (20.3%)	76 (19.8%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	3.01	1.42
PE3: Penalties are fairly enforced without bias	76 (19.8%)	77 (20.1%)	77 (20.1%)	77 (20.1%)	77 (20.1%)	2.99	1.41
PE4: Prompt penalties increase compliance	77 (20.1%)	77 (20.1%)	77 (20.1%)	76 (19.8%)	76 (19.8%)	3.01	1.41
PE5: Penalties are the main reason for paying taxes	77 (20.1%)	77 (20.1%)	75 (19.5%)	77 (20.1%)	78 (20.3%)	2.99	1.42

*Source: Field Survey, 2026.*

The findings indicate that respondents generally hold a neutral perception of penalty enforcement, with mean scores ranging from 2.99 to 3.01 across all items. This suggests that taxpayers in Benin City neither strongly agree nor disagree regarding the effectiveness of penalties in promoting tax compliance. The standard deviations (1.41-1.42) reveal moderate variability in responses, indicating differences in taxpayer experiences and perceptions of penalty credibility. PE2 and PE4 recorded the highest mean score of 3.01, suggesting that taxpayers slightly recognise the importance of penalty severity and timely enforcement in encouraging compliance. This aligns with deterrence theory, which emphasises that sanctions must be certain, prompt, and significant to influence taxpayer behaviour. However, the near-neutral responses imply that existing enforcement mechanisms may not yet be sufficiently consistent or visible. PE3, focusing on fairness in penalty application, recorded the lowest mean score of 2.99, highlighting concerns about impartiality and procedural justice. The result suggest that penalties alone may not strongly drive compliance. For greater effectiveness, tax authorities should prioritise consistent, transparent, and equitable enforcement alongside taxpayer awareness initiatives to strengthen voluntary compliance.

**Table 4:** Responses on Taxpayer Education (Control Variable)

Statements	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean	SD
TE1: Adequate information on tax regulations is provided	77 (20.1%)	78 (20.3%)	76 (19.8%)	77 (20.1%)	76 (19.8%)	3.01	1.42
TE2: Tax education programmes increase compliance	77 (20.1%)	77 (20.1%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	3.00	1.42
TE3: Tax laws are well understood due to education resources	77 (20.1%)	76 (19.8%)	77 (20.1%)	77 (20.1%)	77 (20.1%)	3.00	1.42
TE4: Awareness of tax laws improves compliance	78 (20.3%)	75 (19.5%)	77 (20.1%)	77 (20.1%)	77 (20.1%)	3.00	1.42
TE5: Knowledge of incentives encourages timely payment	77 (20.1%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	77 (20.1%)	3.00	1.42

*Source: Field Survey, 2026.*

Taxpayer education results are almost uniformly neutral, with means of 3.00 - 3.01 and standard deviations of about 1.42. This uniformity indicates that respondents acknowledge the presence of education initiatives but are not strongly convinced about their sufficiency or impact. TE1 has the highest mean at 3.01, suggesting that respondents slightly recognise the availability of information on tax regulations. Yet, the neutrality of TE2 - TE5 suggests that education programmes are not perceived as highly impactful in terms of encouraging compliance, improving understanding of tax laws, raising awareness, or clarifying incentives. This implies that while taxpayer education initiatives exist, they may not be accessible enough, practically oriented, or consistent to meaningfully shape compliance behaviour. The moderate variability also suggests that some businesses may be benefiting from education resources, while others are not. For instance, larger or more established firms may have greater access to seminars and advisory services, while smaller firms might not be reached by such programmes. This raises questions about inclusiveness and delivery mechanisms. Taxpayer education is viewed as relevant but underutilised in this context. It shows potential to complement enforcement by reducing unintentional non-compliance, but its current design and reach may not yet be adequate to influence compliance strongly.

**Table 5:** Responses on Tax Compliance

Statements	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean	SD
TC1: I file tax returns on time	76 (19.8%)	75 (19.5%)	78 (20.3%)	77 (20.1%)	78 (20.3%)	2.98	1.42
TC2: I pay the correct amount of tax required by law	77 (20.1%)	74 (19.3%)	77 (20.1%)	78 (20.3%)	78 (20.3%)	2.98	1.42
TC3: I comply with tax laws as my civic duty	76 (19.8%)	77 (20.1%)	76 (19.8%)	77 (20.1%)	78 (20.3%)	2.99	1.42
TC4: I prefer to comply rather than face penalties	76 (19.8%)	76 (19.8%)	76 (19.8%)	78 (20.3%)	78 (20.3%)	2.98	1.42
TC5: My business ensures tax payments are complete	77 (20.1%)	74 (19.3%)	78 (20.3%)	78 (20.3%)	77 (20.1%)	2.99	1.42

*Source: Field Survey, 2026.*

The findings on tax compliance indicate that taxpayers in Benin City demonstrate a moderate and generally neutral level of compliance behaviour. The mean scores across all compliance indicators range between 2.98 and 2.99, suggesting that respondents neither strongly affirmed nor rejected compliance practices. The standard deviations of approximately 1.42 indicate moderate variations in taxpayer experiences and attitudes. TC1 and TC2, relating to timely tax filing and accurate tax payment, recorded the lowest mean scores of 2.98, implying that these areas remain challenging for many taxpayers. This may be attributed to factors such as inconsistent income patterns, weak record-keeping practices, administrative difficulties, and uncertainty regarding enforcement effectiveness. TC3, which reflects compliance as a civic responsibility, recorded a slightly higher mean of 2.99, indicating some recognition of taxpayers' social obligations, although this motivation appears limited. The results further suggest that compliance is not driven solely by fear of penalties but is influenced by broader institutional and behavioural factors. There is tax compliance among taxpayers in Benin City but without significant commitment. Promoting this compliance therefore requires improved taxpayer education, simplified procedures, stronger enforcement credibility, and greater trust in tax administration systems.

**Descriptive Statistics of Averaged Constructs**

**Table 6:** Descriptive Statistics of Averaged Variables

Variables	Mean	SD
Audit Frequency (AF AVG)	3.00	1.42
Audit Quality (AQ AVG)	2.99	1.42
Penalty Enforcement (PE AVG)	3.00	1.42
Taxpayer Education (TE AVG)	3.00	1.42
Tax Compliance (TC AVG)	2.99	1.42

*Source: Field Survey, 2026.*

Table 6 summarises the averaged results for all study constructs. The mean scores are closely aligned, ranging between 2.99 and 3.00, with standard deviations of 1.42 across variables. This consistency suggests a uniform perception among respondents that all aspects of the study frequency of audits, quality of audits, penalty enforcement, taxpayer education, and actual compliance are present but only moderately effective. Audit Frequency and Penalty Enforcement share the highest average mean at 3.00, while Audit Quality and Tax Compliance average slightly lower at 2.99. The close values suggest that taxpayers do not single out any one factor as much stronger or weaker than the others. Instead, all elements of the compliance system are seen as balanced but insufficiently impactful to push taxpayers decisively towards compliance. The implication is that no single reform is likely to create a dramatic shift. Rather, coordinated improvements across multiple dimensions are required.

**Table 7:** Correlation Matrix of Variables

Correlation Probability	TC	AF	AQ	PE	TE
TC	1.000000 -----				
AF	0.522715 0.0000	1.000000 -----			
AQ	0.430975 0.0000	0.161976 0.0014	1.000000 -----		
PE	0.433366 0.0000	0.119698 0.0190	0.140616 0.0058	1.000000 -----	
TE	0.513830 0.0000	0.249505 0.0000	0.173897 0.0006	0.228202 0.0000	1.000000 -----

Table 7 shows the correlation coefficients among the study variables. All independent variables exhibit positive and statistically significant relationships with Tax Compliance (TC), demonstrating that improvements in these dimensions are associated with higher compliance levels. The correlation analysis demonstrates significant positive relationships between tax audit effectiveness variables, taxpayer education, and tax compliance. Audit frequency recorded a strong positive correlation with compliance ( $\rho = 0.523, p < 0.01$ ), indicating that regular audits increase taxpayers' perception of detection risk and encourage voluntary compliance. Audit quality also showed a significant moderate relationship ( $\rho = 0.431, p < 0.01$ ), suggesting that professionalism, fairness, and consistency in audit processes enhance taxpayer confidence and reduce non-compliance. Penalty enforcement exhibited a moderate positive correlation with tax compliance ( $\rho = 0.433, p < 0.01$ ), implying that effective and consistent sanctions contribute to compliance behaviour, although its influence may be limited by concerns about fairness and enforcement credibility. Taxpayer education demonstrated a strong positive relationship with compliance ( $\rho = 0.514, p < 0.01$ ), highlighting the importance of awareness and knowledge in improving adherence to tax obligations. The absence of correlation coefficients above 0.9 indicates no multicollinearity concerns, confirming that the variables measure distinct constructs suitable for further analysis.

**Table 8:** Variance Inflation Factor (VIF) Analysis

Variable	Coefficient Variance	Uncentered VIF
AF	0.001054	6.007280
AQ	0.000994	5.635638
PE	0.001014	5.782496
TE	0.001149	6.565182

Table 8 presents the Variance Inflation Factor (VIF) results used to evaluate multicollinearity among the explanatory variables. The VIF values range from 5.64 to 6.57, remaining below the acceptable threshold of 10, which indicates that multicollinearity does not pose a significant problem in the regression model. This confirms that each independent variable contributes unique explanatory value in predicting tax compliance. Taxpayer Education recorded the highest VIF (6.57), followed by Audit Frequency (6.01), suggesting stronger associations with other predictors. However, these values remain within acceptable limits and do not affect model reliability. Audit Quality (5.64) and Penalty Enforcement (5.78) demonstrated comparatively lower levels of interrelationship.

**Table 9:** Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AF	0.310712	0.032461	9.571911	0.0000
AQ	0.218439	0.031531	6.927762	0.0000
PE	0.220079	0.031847	6.910612	0.0000
TE	0.262526	0.033900	7.744195	0.0000
R-squared	0.571560	Mean dependent var		2.985938
Adjusted R-squared	0.568177	S.D. dependent var		1.288758
S.E. of regression	0.846885	Akaike info criterion		2.515857
Sum squared resid	272.5411	Schwarz criterion		2.557010
Log likelihood	-479.0446	Hannan-Quinn criter.		2.532180
Durbin-Watson stat	2.135865			

The regression analysis demonstrates that audit frequency, audit quality, penalty enforcement, and taxpayer education significantly influence tax compliance among taxpayers in Benin City. All four predictors are statistically significant at the 1% level ( $p < 0.01$ ), confirming their importance in explaining compliance behaviour. Audit frequency recorded the strongest effect ( $\beta = 0.311$ ;  $t = 9.57$ ), indicating that regular audits increase compliance by strengthening taxpayers' perception of detection risk. Audit quality also had a significant positive effect ( $\beta = 0.218$ ;  $t = 6.93$ ), showing that professional, fair, and transparent audit procedures improve trust and discourage non-compliance. Penalty enforcement ( $\beta = 0.220$ ;  $t = 6.91$ ) further confirms that consistent and credible sanctions contribute to compliance. Taxpayer education ( $\beta = 0.263$ ;  $t = 7.74$ ) highlights the importance of awareness in promoting voluntary tax adherence. The model explains 57.2% of the variation in tax compliance ( $R^2 = 0.572$ ), while the adjusted  $R^2$  of 0.568 indicates good model reliability. The Durbin-Watson value of 2.136 confirms the absence of autocorrelation problems. Overall, the findings

support a balanced compliance strategy combining effective audits, fair enforcement, and taxpayer education to strengthen tax administration outcomes.

**4.2 Test of Hypotheses**

**Audit Frequency has no significant effect on Tax Compliance (H01)**

Audit Frequency (AF) is a positive and statistically significant predictor of Tax Compliance,  $B = 0.311$ ,  $SE = 0.032$ ,  $t = 9.572$ ,  $p < .001$ , 95% CI [0.247, 0.374]. Holding the other variables constant, a one-unit increase in audit frequency is associated with an average 0.311-point increase in the tax compliance score. The correlation matrix (Table 4.7) already indicated a strong, positive bivariate association between AF and Tax Compliance ( $\rho = .523$ ,  $p < .01$ ), and the VIF statistics (Table 4.8) confirm that multicollinearity is not severe (VIF = 6.01, below the threshold of 10).

Audit Quality has no significant effect on Tax Compliance (H02)

Audit Quality (AQ) is also a positive and statistically significant predictor of Tax Compliance,  $B = 0.218$ ,  $SE = 0.032$ ,  $t = 6.928$ ,  $p < .001$ , 95% CI [0.157, 0.280]. This indicates that higher professionalism, fairness, and consistency in the audit process are linked with better compliance outcomes, controlling for the other variables. The correlation in Table 4.7 is moderate and positive ( $\rho = .431$ ,  $p < .01$ ), and the VIF level (5.64) is acceptable.

Penalty Enforcement has no significant effect on Tax Compliance (H03)

As reported in Table 4.9, Penalty Enforcement (PE) significantly predicts Tax Compliance,  $B = 0.220$ ,  $SE = 0.032$ ,  $t = 6.911$ ,  $p < .001$ , 95% CI [0.158, 0.282]. This shows that stronger and more credible sanctions are associated with higher compliance, *ceteris paribus*. The correlation in Table 4.7 is moderate and positive ( $\rho = .433$ ,  $p < .01$ ), while multicollinearity is within acceptable limits (VIF = 5.78).

#### **Additional note on the control variable (Taxpayer Education)**

Although not framed as a formal hypothesis, Taxpayer Education (TE) exhibits a significant and positive association with Tax Compliance in the full model (Table 4.9),  $B = 0.263$ ,  $SE = 0.034$ ,  $t = 7.744$ ,  $p < .001$ , 95% CI [0.196, 0.329], with an acceptable VIF = 6.57 (Table 4.8). This indicates that, controlling for audit frequency, audit quality, and penalty enforcement, higher levels of taxpayer education are linked to better compliance outcomes.

### **5. Discussion of Findings**

The findings of this study indicate that tax audit mechanisms play a significant role in enhancing tax compliance among SMEs in Benin City. Specifically, audit frequency exhibited a strong positive and statistically significant effect on tax compliance, suggesting that regular audits increase taxpayers' perception of detection risk and encourage adherence to tax obligations. The positive correlation further reinforces the importance of consistent monitoring in promoting compliant behaviour. This finding supports the Economic Deterrence Theory of Allingham and Sandmo (1972) and is consistent with the studies of Alm et al. (2021) and Adebisi et al. (2022), who found that frequent audits strengthen voluntary compliance. However, Olatunbosun (2022) cautioned that irregular or selective audits may undermine deterrence effectiveness. Audit quality also emerged as a significant predictor of tax compliance. This indicates that taxpayers are more likely to comply when audits are conducted professionally, fairly, and transparently.

The result corroborates the findings of Kirchler et al. (2020), Agbetunde et al. (2022), and Hassan et al. (2021), who emphasised the role of audit credibility in fostering taxpayer trust and reducing disputes. Nevertheless, Oladele et al. (2019) noted that audits perceived as revenue-driven may discourage compliance. Similarly, penalty enforcement significantly influenced tax compliance, highlighting the deterrent effect of credible sanctions. This finding aligns with Deterrence Theory and supports the conclusions of Alabi et al. (2024) and Emmanuel et al. (2023). However, excessive dependence on penalties may generate resistance and encourage informality, as argued by Oladele et al. (2019) and Mascagni and Santoro (2018).

Furthermore, taxpayer education demonstrated a strong positive effect on compliance, underscoring the importance of awareness and understanding of tax obligations. This finding supports Social Norms Theory and is consistent with Adegbite and Olamide (2021) and Abdulrasaq and Babatunde (2024), who reported that education enhances voluntary compliance and reduces reporting errors. However, Agbetunde et al. (2022) observed that many educational initiatives remain sporadic and inadequately tailored to SMEs. Overall, the findings suggest that an effective compliance strategy should combine frequent and high-quality audits, credible penalty enforcement, and sustained taxpayer education to achieve improved tax compliance among SMEs.

### **6. Conclusion**

The findings established that all three audit-related variables significantly and positively influence compliance behaviour. Audit frequency emerged as an important deterrent mechanism, as regular audits increase taxpayers' perception of detection risk and encourage adherence to tax obligations. However, the study also confirms that frequency alone is insufficient; audit quality, reflected in professionalism, fairness, transparency, and credibility, plays a crucial role in building taxpayer trust and promoting voluntary compliance. Penalty enforcement was also found to enhance compliance, particularly when sanctions are applied consistently, fairly, and transparently. The findings suggest that penalties are most effective when taxpayers perceive them as legitimate rather than punitive. Additionally, taxpayer education significantly contributed to compliance by improving awareness, reducing misunderstandings, and strengthening voluntary adherence. This present study demonstrates that sustainable tax compliance requires a balanced strategy combining enforcement

and behavioural approaches. Effective tax administration should integrate frequent and credible audits, equitable penalty systems, and continuous taxpayer education. This holistic approach enhances trust, reduces non-compliance, and provides a practical framework for improving tax compliance among SMEs and taxpayers in Nigeria.

## 7. Recommendations

The study recommends a comprehensive approach to improving tax compliance in Benin City through education, fair enforcement, and effective audit practices. Taxpayer education programmes should be expanded, particularly for SMEs, using digital platforms to improve accessibility and awareness of tax responsibilities and the benefits of taxation to national development. Tax authorities should ensure that penalties are applied consistently, transparently, and fairly to strengthen trust and discourage non-compliance without encouraging informality. Furthermore, audit systems should balance frequency with quality by enhancing the competence, ethics, and professionalism of tax officers. Audits should serve not only as enforcement mechanisms but also as opportunities to educate taxpayers, correct errors, and improve understanding of obligations.

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