Analysis of the Audit Report on Federal Inland Revenue Service (2018-2021)

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Summary

The Revenue Assurance Audit Report on the Federal Inland Revenue Service (FIRS) for 2018–2021, conducted by the Office of the Auditor-General for the Federation, reveals significant inefficiencies and lapses in tax administration, assessment, and compliance enforcement. Key findings include the absence of financial statements in taxpayer files, unverified capital allowance claims amounting to billions of naira, delayed or irregular tax audits, and the failure to recover additional tax liabilities. The report also highlights systemic weaknesses such as arbitrary waivers of penalties and interests, noncompliance with VAT filings, inadequate utilization of banking data for verification, and insufficient taxpayer education. Furthermore, gaps in the automation of tax processes and weak penalty enforcement for late returns contribute to revenue leakages, undermining Nigeria's fiscal sustainability. The findings underscore the urgent need for legislative intervention, enhanced enforcement, and the deployment of technology-driven solutions to strengthen tax collection and compliance monitoring.

While the audit report effectively identifies major weaknesses in FIRS operations, it has limitations, including restricted geographic coverage, lack of transparent documentation for tax waivers and incentives, and inconsistent enforcement of tax laws. Transparency challenges, such as the absence of proper justification for waivers, weak public disclosure of audit outcomes, and insufficient use of banking data, further erode accountability. The report presents actionable recommendations for the National Assembly, emphasizing the automation of tax processes, stricter enforcement of compliance measures, and improved collaboration between FIRS and other government agencies. However, legislative response remains inadequate, characterized by commendations rather than concrete actions. Despite discussions on tax reforms, including a proposed renaming of FIRS to Nigeria Revenue Service (NRS), no substantial efforts have been made to address the critical issues raised in the audit, reflecting a persistent gap between policy pronouncements and actual implementation.

The Major Findings of the Audit Report Report

The audit report on the Federal Inland Revenue Service (FIRS) for the period 2018 to 2021 uncovered various issues affecting revenue assessment, collection, remittance, and overall tax administration. The following are among the major findings:

1. Absence of Financial Statements in Taxpayer Files

- Taxpayer files often lacked required financial documents, such as audited accounts, tax computations, and capital allowance claims.
- **Example**: United Capital Asset Management and NPF Microfinance Bank did not submit audited accounts for multiple years, risking inaccurate tax assessments .

2. Unverified Capital Allowances

- Capital allowances amounting to billions were claimed without Certificates of Acceptance of Fixed Assets (CAFA), contrary to the Industrial Inspectorate Act.
- **Example**: ₦43.2 billion in capital allowances claimed at the Ikoyi LTO resulted in a potential revenue loss of ₦12.96 billion .

3. Delayed or Irregular Tax Audits

- Many taxpayers were not audited for years, leaving their self-assessed returns unchecked.
- **Example:** At Kano LTO, 35 out of 66 sampled taxpayers had not been audited between 2018 and 2021 .

4. Failure to Recover Additional Tax Assessments

- Additional tax liabilities totaling ₦66.6 billion, established through audits and reviews, lacked evidence of recovery.

Example: ₦52.1 billion of these liabilities were CIT and WHT, while ₦11.07 billion was VAT.

6. Arbitrary Waivers of Penalties and Interests

- Penalties and interest on overdue tax liabilities were waived without documented justifications.
- **Example:** Taxpayer files did not include reasons for granting waivers, which undermines transparency .

7. Poor Oversight of Taxpayer Compliance

- Weak enforcement of compliance measures allowed taxpayers to underreport income and overstate expenses.
- **Example:** Cases of overstated expenses were noted in taxpayer reviews at Ikoyi and Ikeja LTOs.

8. Inadequate Utilization of Bank Data

- Banking data required under Section 28 of the FIRS Act to verify taxpayer turnover was not utilized during audits.
- Example: Tax officials relied solely on documents provided by taxpayers, increasing the risk of underreported revenues.

9. Low Public Awareness and Taxpayer Education

- Insufficient taxpayer education resulted in widespread noncompliance and reliance on manual tax filing processes.
- Example: Taxpayers reported challenges with navigating TaxproMax for filing and payment.

10. Gaps in Automation of Tax Processes

- The TaxproMax system was not fully automated, limiting its ability to simplify taxpayer activities and enhance enforcement.

Example: Tax controllers cited delays in automating CAFA issuance, which remains a manual process.

11. Revenue Loss from Invalid Capital Allowance Claims

- Unverified capital allowances caused significant revenue losses for the government.
- **Example:** At Ikeja LTO, ₦45.1 billion in allowances claimed without CAFA resulted in a revenue loss of ₦13.5 billion.

12. Overreliance on Self-Assessed Returns

- Self-assessments submitted by taxpayers were not regularly reviewed to confirm their accuracy.
- **Example**: This resulted in understated revenues and overstated expenses across multiple offices.

13. Lack of Transparency in Tax Waivers and Incentives

- Many waivers and incentives granted to taxpayers were undocumented, eroding the revenue base.
- **Example:** The report did not clarify why substantial waivers were issued to companies with significant outstanding liabilities.

14. Inefficiencies in Certificate Issuance

- Delays in issuing CAFA hindered compliance, with companies claiming allowances without necessary documentation.

15. **Example:** Tax controllers cited delays from the Ministry of Trade and Industry in providing CAFA to taxpayers.15. Weak Penalty Enforcement for Late Returns

- Late VAT and CIT returns were not penalized consistently, allowing noncompliance to persist.

Example: Companies like Promasidor Nigeria Ltd filed only partial VAT returns, yet no late return penalties were enforced.

16. Non-Recovery of VAT Liabilities

- Billions in VAT liabilities identified during audits remained unrecovered due to weak follow-up mechanisms.
- **Example:** Additional VAT liabilities of ₦5.4 billion at Kano LTO lacked evidence of recovery.

17. Insufficient Data Sharing Among Agencies

- Lack of collaboration between FIRS and other government agencies limited taxpayer identification and registration.
- Example: Opportunities to broaden the tax base through integration with Corporate Affairs Commission (CAC) data were missed.

18. Informal Sector Tax Evasion

- The informal sector remained largely untaxed due to the absence of tailored strategies or incentives to encourage compliance.
- Example: The report noted a lack of measures to formalize informal businesses, such as infrastructure investments.

19. Revenue Leakages from Poor Tax Monitoring

- Irregular monitoring of tax compliance led to widespread revenue leakages.
- **Example:** At Enugu MTO, VAT liabilities identified in tax audits were left uncollected due to inadequate monitoring systems.

20. Delays in Issuing Tax Clearance Certificates (TCCs)

- Taxpayers faced delays in obtaining TCCs due to inefficiencies in processing tax returns.
- **Example:** Taxpayers cited frustration with having to visit offices for tasks that could be automated .

The Major Weaknesses of the Report

- **Limited Geographic Coverage:** The audit was conducted only in selected Large Tax Offices (LTOs) and Medium Tax Offices (MTOs), such as those in Lagos (Ikoyi and Ikeja), Kano, Port Harcourt, and Enugu . This restricted scope excluded many regions where revenue leakages might also be prevalent. For instance, there was no mention of tax audits in high-revenue areas such as Abuja or emerging economic hubs.
- **Inadequate Monitoring of VAT Returns**: Many taxpayers failed to file VAT returns consistently, with glaring omissions across the review period. For example, Guinness Nigeria Plc did not file VAT returns for March to June 2019 and November to December 2020. Similarly, Pfizer Specialties Limited did not file VAT returns for January to April 2021. Despite these lapses, there were no effective follow-ups or sanctions, reflecting weak enforcement and monitoring.
- **Failure to Recover Additional Assessments:** The audit uncovered over ₦66.6 billion in additional tax liabilities from self-assessments, desk reviews, and special audits between 2018 and 2021. However, evidence of recovery was absent. For instance, ₦52.1 billion of this was Company Income Tax (CIT) and Withholding Tax (WHT), but the report lacked proof that these funds were collected or steps taken to ensure compliance.
- **Insufficient Utilization of Bank Data:** FIRS failed to use available banking data to validate turnover and self-assessed returns filed by taxpayers. For example, Section 28 of the FIRS Act mandates banks to provide transaction reports for individuals and corporations exceeding ₦5 million and ₦10 million, respectively. However, this data was not integrated into tax audits, leaving auditors dependent on taxpayer-provided documents, which may be inaccurate or manipulated.
- **Low Automation and Technology Integration:** The FIRS TaxproMax system, introduced to automate tax administration, is still not fully utilized. Taxpayers reported difficulties in performing basic tasks like generating payment references and scheduling installment payments online . Additionally, management admitted delays in automating the Certificate of Acceptance for Fixed Assets (CAFA) process, further complicating tax compliance.
- **Delays in Tax Audits:** A significant number of taxpayers were not audited for the entire review period. For instance, out of 66 taxpayers sampled in Kano LTO, 35 had not been audited between 2018 and 2021, despite these companies claiming capital allowances worth ₦956.7 million without CAFA documentation . This indicates a systemic delay in executing critical compliance checks.
- **Unexplained Penalty Waivers:** The audit highlighted instances where penalties and interest on overdue tax liabilities were waived without justification. For example, taxpayers with large outstanding liabilities, including VAT and Education Development Tax (EDT), were granted waivers without documentation to explain these concessions . Such practices reduce transparency and compromise revenue collection.
- **Revenue Loss Due to Invalid Capital Allowance Claims:** Taxpayers claimed significant capital allowances without CAFA, resulting in substantial revenue loss. For example, 10 taxpayers at the Non-Oil Manufacturing LTO (Ikeja) claimed ₦45.1 billion in capital allowances without CAFA, leading to a potential revenue loss of ₦13.5 billion in CIT . This loophole reflects lax enforcement of tax regulations.
- **Insufficient Taxpayer Education:** The audit identified low taxpayer awareness as a critical issue. Many taxpayers expressed frustration over unclear guidelines, particularly around automated systems like TaxproMax.

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The Key Strengths of the Audit Report

- **Comprehensive Analysis of Revenue Assurance:** The report provided a detailed examination of the Federal Inland Revenue Service's (FIRS) performance in tax assessment, collection, and remittance from 2018 to 2021.
- **Adherence to International Standards:** The audit followed the International Standards of Supreme Audit Institutions (ISSAIs) on Performance Auditing, issued by INTOSAI.
- **Clear Identification of Key Weaknesses:** The report systematically identified critical issues in tax administration, such as weak enforcement, poor compliance monitoring, and inadequate use of automation.
- **Focus on High-Revenue Offices:** Despite overlooking other areas, the audit concentrated on high-revenue-generating offices, ensuring that significant systemic inefficiencies were addressed.
- **Detailed and Actionable Recommendations**: The report offered practical recommendations to address identified weaknesses, including enhancing automation, increasing taxpayer education, and strengthening compliance monitoring.
- **Emphasis on Taxpayer Challenge:** The audit captured feedback from taxpayers and FIRS staff, highlighting issues such as system inefficiencies and inadequate taxpayer support.
- **Identification of Revenue Leakages:** The report effectively quantified revenue losses due to noncompliance, unverified claims, and weak enforcement mechanisms.

The Transparency Issues in the Audit

- **Lack of Documentation for Financial Statements:** Taxpayer files frequently lacked audited financial statements, tax computations, and other essential documents.
- **Unjustified Waivers of Penalties and Interests:** Penalties and interest on overdue tax liabilities were waived without proper documentation or justification. This arbitrary practice erodes accountability and creates opportunities for favoritism and corruption.
- **Absence of Verification for Capital Allowance Claims:** Taxpayers claimed billions in capital allowances without providing Certificates of Acceptance for Fixed Assets (CAFA). The lack of verification for such claims results in significant revenue losses and undermines public confidence in tax administration.
- **Inconsistent Application of Tax Laws:** Taxpayers were subjected to inconsistent enforcement of tax laws, with compliant taxpayers being penalized while noncompliant ones went unaddressed. Inconsistencies create distrust in the tax system and discourage voluntary compliance.
- **Weak Public Disclosure of Audit Outcomes:** Findings from tax audits and assessments were not made publicly accessible. Limited public disclosure prevents citizens and stakeholders from holding tax authorities accountable for their actions.
- **Delays in Tax Audit and Investigation Reporting:** Tax audits were delayed or incomplete, and findings were not promptly communicated or acted upon. Delayed reporting undermines timely revenue collection and weakens trust in the integrity of the tax system.

Actionable Points for the National Assembly

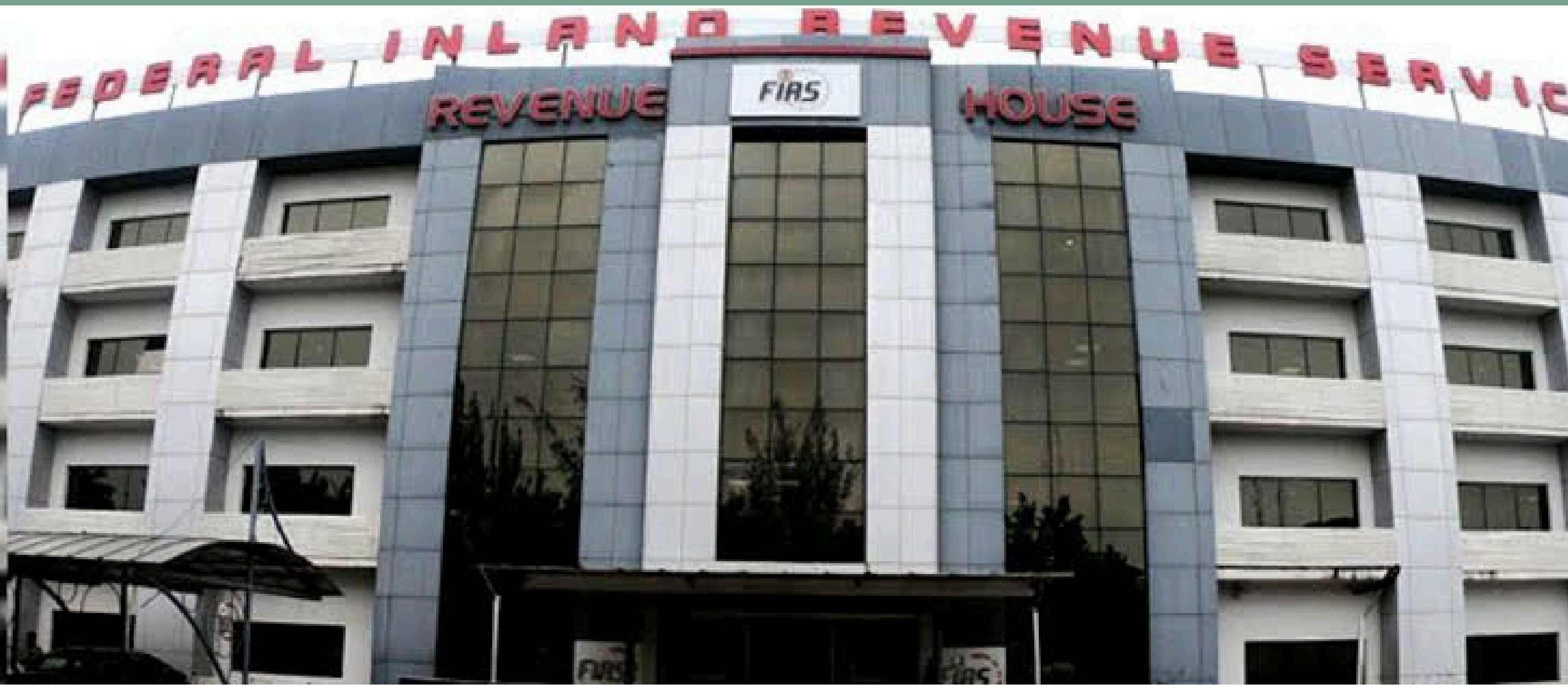
- **Automate Tax Processes** – Mandate full automation of FIRS systems, including TaxproMax, to streamline tax filing, payment, and auditing while reducing human interference and curbing evasion.
- **Enforce Compliance with CAFA** – Amend laws to make Certificate of Acceptance for Fixed Assets (CAFA) issuance mandatory and impose penalties to prevent revenue losses from unverified capital allowances.
- **Strengthen Tax Liability Recovery** – Establish a centralized system to track and recover additional tax liabilities, ensuring transparency and accountability in revenue collection.
- **Expand Audit Coverage** – Increase the frequency and geographical scope of tax audits to prevent noncompliance, especially in high-revenue and under-audited areas.
- **Enhance Taxpayer Awareness** – Allocate funds for public education and training programs on tax obligations and the use of digital platforms like TaxproMax to improve voluntary compliance.
- **Increase Transparency on Waivers & Penalties** – Require FIRS to publish all tax waivers and penalty reductions, including justification and beneficiaries, to prevent arbitrary exemptions.
- **Utilize Bank Data for Tax Verification** – Enforce compliance with Section 28 of the FIRS Act to ensure taxpayer transaction data from banks is used to verify self-assessments and detect underreporting.
- **Mandate Quarterly Reports to the National Assembly** – Require FIRS to submit regular updates on tax revenue performance, audit activities, and recovery efforts to enhance legislative oversight.
- **Improve Inter-Agency Collaboration** – Strengthen data-sharing agreements between FIRS, the Corporate Affairs Commission (CAC), Customs, and other agencies to broaden the tax base and improve compliance.

Actions Taken by the NASS so far

- **Finance Act, 2021:** Part IV of the Finance Act, 2021 took care of the following in the Federal Inland Revenue Service (Establishment) Act:
- Amendment of section 25 of the Federal Inland Revenue Service (Establishment) Act.
- Amendment of section 28 of the Federal Inland Revenue Service (Establishment) Act.
- Amendment of section 35 of the Federal Inland Revenue Service (Establishment) Act.
- Amendment of section 50 of the Federal Inland Revenue Service (Establishment) Act.
- Substitution for section 68 of the Federal Inland Revenue Service (Establishment) Act.

- **Empty Warnings:** The chairman, Sen. Ahmed Wadada, the committee has been examining the 2019 audit report since October. However, the heads of agencies have refused to defend the queries raised against them. The committee has resolved that any agency (FIRS inclusive) that refuses to defend its queries will be reported to the senate.
- **Commendations and Nothing More:** While presenting its 2024 budget to the House Committee on Finance, the FIRS chairman said they plan to restructure its tax system. However, the Chairman of the House Committee on Finance, James Faleke only commended the FIRS boss for tax collecting innovations, that's all.
- **The Tax Reform Bill:** Among the bills presented to the National Assembly:
- One of the reforms is seeking the renaming of the Federal Inland Revenue Service (FIRS), to the Nigeria Revenue Service (NRS). Entitled "The Nigeria Revenue Service (Establishment) Bill," according to President Tinubu, it seeks to repeal the Federal Inland Revenue Service (Establishment) Act, No. 13, 2007, and establishes the Nigeria Revenue Service, to assess, collect, and account for revenue accruable to the government of the federation.

Conclusion: Same Old Audit Report Neglect



It is our informed conclusion that the National Assembly has yet to take any substantive or corrective action that aligns with the findings and recommendations of the Revenue Assurance Audit Report (2018–2021). Despite the audit's exposure of systemic inefficiencies, revenue leakages, and governance failures within the Federal Inland Revenue Service (FIRS), legislative responses have been largely performative—characterized by ceremonial commendations for revenue targets, empty threats of accountability, and superficial engagements that fail to address the root causes of noncompliance and fiscal mismanagement.

Even the widely publicized Tax Reform Bill falls short of tackling the structural deficiencies highlighted in the audit. Rather than instituting tangible reforms to improve compliance enforcement, close tax loopholes, and enhance transparency in tax administration, the legislative discourse remains fixated on renaming FIRS without addressing operational weaknesses. The Finance Act of 2021, while significant, predates the audit and does not reflect its core revelations. This pattern of inaction underscores a troubling disconnect between oversight institutions and genuine fiscal governance reforms, allowing inefficiencies and revenue losses to persist unchecked. Without decisive interventions, the issues flagged in the report will continue to undermine Nigeria's tax system, eroding public trust and impeding sustainable economic development.