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## **Impact Assessment of Internal Control System on Revenue Generation of Internal Revenue Service (IRS), Akwa Ibom State**

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### **ABSTRACT**

*The study examined the impact of internal control system on revenue generation of internal revenue service of Akwa Ibom State. Cross-sectional review method employed revealed that with an efficiency in strategizing stringent internal control system the organization of internal revenue service can facilitates effective revenue collection and collation, promotes proficiency in documentation and reporting; strengthen job zeal and commitment of workforce, and encourages participation of taxpaying public in the payment and monitoring of tax administration. On the light of this promotional impact of internal control system, it is recommended that for concrete corporate growth and efficiency of the Akwa Ibom State Internal Revenue Service in term of revenue generation to be sustainable, there should be a re-strategization process/programme to outshoot mechanisms for effective control of guidelines and policies. The management of the Internal Revenue Service should incorporate stringent monitoring and evaluation system that can enshrine smooth flow of information and communication among the components units of the organization to ensure adequacy in financial reporting and documentation.*

**Keywords:** *Internal Revenue System, Internal Control, Revenue Generation*

### **INTRODUCTION**

The cardinal responsibility of government is to provide solution for the yearnings of citizens in terms of provision of efficient and effective basic social amenities that make life meaningful and worthwhile (Abiola and Asiweh, 2012). In every nation of the world, the citizens desire to have

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better healthcare, sufficient foods supply and adequate social infrastructures such as roads, better healthcare facilities, shelters and clean sources of water among others. To achieve these daunting tasks by the government, its (government) involves in ensuring an equitable distribution of income and seeking to maintain stability in the macro-economy at full employment and stable price (Aguolu, 2004).

Government developmental stride, according to Asimiyu and Kizito (2014), is a function of the government's ability to generate revenue internally to supplement the allocation from the central government (federation account in the case of Nigerian System). Basically, development of any society as symbolize by the tripod functional role of government is associated with fund; which serves as the utmost credential in the attainment of efficiency in the policy planning, execution and maintenance of necessary infrastructures and facilities. These funds are often derived from taxes generated from the tax payers (Tax-paying public) (Abiola and Asiweh, 2012).

The involvement of revenue utilized by government in the establishment of social infrastructures connotes different meaning to different persons but has similar derivative functions. For instance, Adams (2006) explains revenue as the fund required by the government to finance its activities. Similarly, it could be the grand total of money or income received from the source whether internally or externally of which expenses are incurred. On the basis of these two opinions on what contribute revenue; State's internally generated revenue implies the funds generated by States within Nigeria federation independent of their share of revenue from the federation account (Deloitte, 2016).

The efficiency in the management of State's internally generated revenue has the potency in the government's provision of clean water for the people; construction of good roads for easy movement of transportation; production of a well-equipped health centre in the community to reduce the death rate of the people; provision of free education in the community to reduce the level of illiteracy in the society as well as, encourages stability of electricity. But sadly however, it is a common place to see that most of the tax payers abscond from exercising their civil obligations on various bases. Several scholars highlighted the basic challenges that hampered collection of internally generated revenue

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in Nigeria to include: lack of adequate information on tax payers (Nigeria Governor's Forum, 2015); lack of cooperation from the tax payers because of the believe that on the part of the government, there is no adequate provision of public goods and services that citizens need as part of their benefit from their tax payment (Okafor, 2012); and violation of the principle of fairness and equity in taxation and tax practice administration (Nigerian Governor's Forum, 2015).

Other challenges include incompetence of tax inspector (Nigerian Governor's Forum, 2015) and complex tax laws and system (Illyas and Siddiqi, 2010). These challenges if must be properly managed, required a stringent control system that can guarantee efficiency in the management of internally generated revenue in Akwa Ibom State. Proficiency in the management of fund is a springboard to the achievement of desired social infrastructures and general societal development vis-à-vis, coordination of effective human welfare (Abiola and Asiwah, 2012). Nevertheless, funds management cannot be feasibly attainable without proper control system. Control as part of management principles and functions is bedrock of management because it regulates the human resource behaviour as well as enforce policy implementation (Abiola and Asiwah, 2012). This assist in the unitization of risk associated with the running of an organization; coordinate norms and moderate attitudinal conducts in an organizational environment.

The concept of control in the actualization of organizational development involves tracking, measuring, and correcting activities to ensure a compliance of actual development within the purview of the planning (Aguolu, 2004). Hightower (2008) explains control as a process of mitigating risk to the level that can be accepted by the management of the organization. In this perspective, internal aspect of an organization control is a program of activities established to catch and monitor a potential exposure that could result in a significant error, omission, misstatement, or a fraud.

Broadening on the Hightower's perspective, the internal control as a process as well as system is establish in an organization to guide operational efficiency and effectiveness; ensure reliable financial reporting and promotes compliance with laws and regulations. These cardinal responsibilities of internal control are instrumental in the

promotion of organization's strength and opportunities for the actualization of its set goals. In essence, it could be said that with an effective internal control system, management of an organization can access essential and accurate information necessary for effective decision making process as well as maintaining effective functioning state of the organization.

Deducting from the essentialities in the potentials of internal control as a process and the valuable potency of state revenue generating system in development, it is pertinent to ideally reasoned on what are the best possible ways internal revenue system of Akwa Ibom State can be effectively control for optimum desire development.

### **The Mechanisms of Internal Control System in Effecting Organization Goals**

The concept of control in every perspective means different thing to diverse scholars. Cambalikova and Misun (2017) in management perspective explain that controlling requires existence of plans, since planning provides the necessary performance standards or objectives. In other words, control as a concept is a management function responsible for effective step by step delivery of plans (Abiola and Asiweh, 2012). That is, control promote the setting of standards, generating measures for effective comparison in performance; classifying challenges; defining the remote causes of the challenges and enhancing chances for effective deployment of corrective measures that can guarantee sustainable efficiency and effectiveness in an organization. Anthony in Cambalikova and Misun (2017) referred to control as an act and a process of ensuring that organizational goals are efficiently and effectively met. This implies that control is the organization of rules and standard operating procedures derived from organizational culture to effect optimum attainment of goals through improved performance. Chambers and Rand (2010) maintained that an internal control system encompasses the policies, processes, tasks, behaviors and other aspects of a company that taken together to:

- i. Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's



- objectives. This includes the safeguarding of assets from inappropriate use of from loss and fraud, and ensuring that liabilities are identified and managed;
- ii. Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information within and outside the organization;
  - iii. Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business

Considering the position of Simon (2004), control entails information-based routines and procedures that are utilized to maintain or alter patterns in organizational activities. The implication is that effective control system assist in the organization development and maintenance of feasible patterns of behaviour in any organization.

In every organization that desires to maximize their resource base for more pronounce efficiency in organizational performance, there must be a classic atmosphere for effective internal control. This is because a good internal control system assists organization in operating its activities as well as achieving projected profits goals. On this note however, United State General Accounting office (1999) defined internal control as all of the policies and procedures management used to safeguard assets, ensuring the reliability and integrity of financial information, ensure compliance, promote efficient and effective operations and accomplishment of goals and services. In other words, it is a proficient measures employ by an organization to sustain the integrity of data and processed information that will ensure efficiency in meeting operational profitability targets, and transmit management policies throughout the life cycle of the organization.

An effective internal control system consist of five interrelated components namely control environment, risk assessment, control activities, information and communication and monitoring (Wang, 2010; Wardiwiyono, 2012). These intertwine components of the system function collectively for the promotion of

- Efficient reporting
  - Regulates procedures and conducts
  - Ensures verifiable information
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- Enhances authorization and documentation
- Encourages segregation of duties
- And improves stability and growth of cooperate proficiency.

From the foregoing, it is essentially deductive to asserts that internal control system proficient in it organization can spark maximum support to the revenue generation of the internal revenue service of Akwa Ibom State in diverse ways. Ideally, the system must have:

- Proficient designs and mechanisms to detect anomalies and coordinate swift and smooth reconfigurations of the fault detected area;
- Endowed mechanisms for programme evaluation and review process.
- The ability to test-run performance assessment to effectively fore-states the strength, weakness, opportunities and threat of the revenue collection process.
- Viable networking of different units codes that can efficiently transmit signals on the workings of individual units operation.
- Capacity to identify purposes of the service as well as to brainstorm on the activities of the organization.

### **The Potentials of Internal Control System: Theoretical Perspective**

Typified theory that models the positive impact of internal control system in curtailing the challenges facing revenue generation system and projects measures and mechanisms for an enhanced revenue mobilization system of the Internal Revenue Service of Akwa Ibom State is system theory.

The system theory as postulated by Von Bertalanffy (1958) stipulates that the whole is greater than the sum of its parts (Wainaina, 2011). The theory generalized that it is not enough to understand the part, but essentially important to understand the interrelatedness of the whole, which is the relationship among the parts. Mcshane and VonGlinow (2003) maintained that a system consist of many internal system that need to be continually aligned with one another. In other words, Internal Revenue Service as an organization of the State must coordinates it units in the process of mobilizing effective and efficient revenue generation in the State. This coordination of interdependency of different units ensures

smooth communication within the component units; promotes the spirit of reassessment of conducts and performance; enhance monitoring and evaluation; and resultant risk control management. When these are however achieved, the human resource-base are benefiting in terms of

- Improved job satisfaction;
- Improved trust between different cadres of management;
- Lesser stress in reporting and documentation;
- Enhanced organizational commitment;
- Reduced resistance to change;
- Generates team-spirit;

In other way round, the potentials of effective coordination and control of the units of the Internal Revenue Service of Akwa Ibom State to revenue generation and mobilization process are that:

- It enhances effectiveness and efficiency of revenue mobilization
- It leads to the existence of a optimized revenue mobilization
- It provides continuous feedbacks on programmes of the service
- It assists in the identification of potential successes and constraints to facilitates timely decision
- It promotes systematic management of activities.

## **CONCLUSION AND RECOMMENDATIONS**

The efficiency of Akwa Ibom State Internal Revenue Service depends greatly on the management proficiency of different units of the organization. This effectiveness of each unit is a function of internal control system that can lower resistant to change by the tax-paying public and tax inspector. This is given the fact that when the resistance to change is low within the internal and external environment of an organization, the change effort turn out to be productive.

Investigation on the potentials of internal control system to management proved positive to the reengineering of an organization human and material resources base. These benefits points to the fact that with effective internal control system, there could be drastic improvement in the revenue generation and mobilization base of the internal revenue service of Akwa Ibom State. Thus, it is a proficient tool for revenue management. In the light of the conceptual work done on this topic of

internal control system, the following recommendations are made.

1. For concrete corporate growth and efficiency of the Akwa Ibom State Internal Revenue Service in term of revenue generation, there should be a re-strategization process/programme to outshoot mechanisms for effective control of guidelines and policies.
2. The management of the organization- Internal Revenue Service should incorporate stringent monitoring and evaluation system that can enshrine smooth flow of information and communication among the components units of the organization to ensure adequacy in financial reporting and documentation.

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