



# Integrated Internal Audit Model for Effective Internal Auditing Performance in Nigerian Tax Administration

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## Authors' contributions

This work was carried out in collaboration between both authors. Author ZG design the study, performed the literature searches, wrote the protocol and first draft of the manuscript. Author MM managed the methodology, literature analysis and wrote the final draft of the manuscript. Both authors read and approved the final manuscript.

## Article Information

DOI: 10.9734/AJEBA/2018/42596

### Editor(s):

(1) Dr. Mehmet Akif Destek, Department of Economics, Faculty of Economics and Administrative Sciences, Gaziantep University, Turkey.

### Reviewers:

(1) Elżbieta Szczepankiewicz, Poznan University of Economics and Business, Poland.

(2) Jolanta Maria Ciak, WSB University, Poland.

Complete Peer review History: <http://www.sciencedomain.org/review-history/25438>

Original Research Article

Received 26<sup>th</sup> April 2018

Accepted 2<sup>nd</sup> July 2018

Published 7<sup>th</sup> July 2018

## ABSTRACT

This study aimed to develop a model that can improve the internal audit performance in tax administration. To achieve its objectives, the literature on internal audit performance models were reviewed and analyzed. Internal audit cannot perform efficiently and effectively without understanding the necessary needs of the auditors such as input, process and output that can determine the outcome impact of the auditing function. Therefore, one approach to improve internal audit effectiveness is to develop a good model that can explain the required components that would improve the performance of the auditing function. This study developed a model called 'Integrated Internal Audit Model' for effective internal audit performance. The model aimed to improve internal audit efficiency and effectiveness in tax administration in Nigeria.

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*Keywords: Internal audit; efficiency; effectiveness; model; Nigeria.*

## 1. INTRODUCTION

Effective internal audit in tax administration plays a substantial role in identifying the needs of the tax administration and strategies for improving tax revenue generation. Odia [1] argued that an internal audit is a significant tool for management, which is used to evaluate the internal process and ascertain the strategies required to improve performance. Effective operational process and internal control can be attained in an organization if its internal audit is efficient and effective. Eze [2] contended that effective internal audit would improve organizational internal control, resource allocation and utilization and shall contribute to achieve the organizational strategies that can increase performance toward achieving goals and objectives of the organization.

According to Institute of Internal Auditors [3], "internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization operation". That is, the major role of internal audit function in an organization is to assist in attaining organizational objectives by providing a disciplined and systematic approach to appraise performance and enhance the effectiveness of governance processes, internal operation and control, defect detect and risk management. The definition of IIA and the role of internal audit described above is the basis of which this study meant for internal audit by focusing on the inputs, process, output, and outcome in the model. In Nigeria, the major legal act or basis that is regulating the public sector auditing is the 1999 Nigerian Constitution sections 85 and 86, and the Audit Act of 1958 [2]. Similarly, in tax administration, Okauru [4] states that Nigerian Constitution, Audit Act of 1958, audit charter, and audit manual are the legal basis for internal audit performance in tax administration.

Generating adequate tax revenue through tax administration will be enhanced by the effective role of internal audit in identifying and analyzing the tax administration needs internally that could facilitate their internal process efficiency and resource utilization. In Nigeria, the issue of ineffective internal audit performance in tax administration is one of the challenges that are affecting the country's tax administration performance toward effective services for revenue generation. Okauru [4] argued that

among the fiscal operation and policy challenges of tax administration in Nigeria is the inefficiency of its internal audit to perform effectively, which are often affected by political interference and priorities misplacement.

In a developing country like Nigeria, lack of inefficiency of internal audit is obvious due to the fact that auditing institutions are not independent enough to perform their functions without political and social interference from the top government officials [2,1]. Operational fraud, inefficient process and lack of substantial output are among the factors hindering internal audit performance in many public institutions in Nigeria [5]. Several researchers have conducted different studies on internal audit effectiveness in public sector organizations around the globe (see for an instant, [6,7,8,9,10,11,12,13]). Hence, the studies identify different factors and build various models that are related to internal auditing performance.

However, none of the prior studies was carried out on tax administration internal audit, despite its significant role to improve the internal control and performance of a tax administration. Therefore, the objective of the current study is to review previous models and integrate them to form a comprehensive model that is capable of improving internal audit performance in tax administration in Nigeria. The model was based on four levels namely; internal audit inputs, processes, outputs, and outcomes efficiency and effectiveness.

## 2. LITERATURE REVIEW

Literature offered various models that aimed to enhance internal audit performance and thus to improved organizational performance. Among these models includes maturity model. The model was originally developed to enhance the development process of software but later was incorporated into the area of internal audit by Pitt [14]. The model has five levels which are the foundation, emerging, established, embedded, and leading. The model promotes a continual process of internal auditing development through evolutionary levels rather than revolutionary improvement. However, the model is not comprehensive enough to discuss the required internal audit inputs, process, output and outcomes that can increase the internal audit performance. This leads to another model of

internal auditing known as balanced scorecard model.

Balanced scorecard card was used to assess the internal audit department and auditors requirement and how to combine the two with organizational needs. Studies of Frigo [15] and Callaghan, Savage, and Mintz [16] are the typical examples of the studies that advocate this view in the literature. Later, [11] provided a four levels balance scorecard namely budget input, professional practice, staffing input, and stakeholders to measure the internal audit performance. In this model, Pitt tried to identify some of the staffing and budgeting components of inputs and practice required to perform an internal audit. However, the model lacks a clear explanation of the process required, and what kind of output is expected, although the model provides some of the required inputs of the internal audit department as well as auditors.

Prior to the studies of [15,16,14], Ridley and Chambers [17] provided a model of internal auditing known as input, process, output model. They proposed the model to evaluate internal audit performance at different capacity in an organization. In reality, the model was built based on some certain processes of the internal audit activities. The major concerned of the model is to determine the resources needed, activities involved and the anticipated result of the activities performed. According to [17], the essence of the model is to determine the planned input and actual input, the process involved and to forecast actual output and planned output. This model attempts to describe the input, process, and output of the internal audit required but does not mention the outcomes. In addition, the model does not comprehensively outline the required inputs, process and outputs categorically that can be considered to increase the performance of an internal auditing. Hence, this leads to a model known as program logic-based model of internal audit conceptualized by [14].

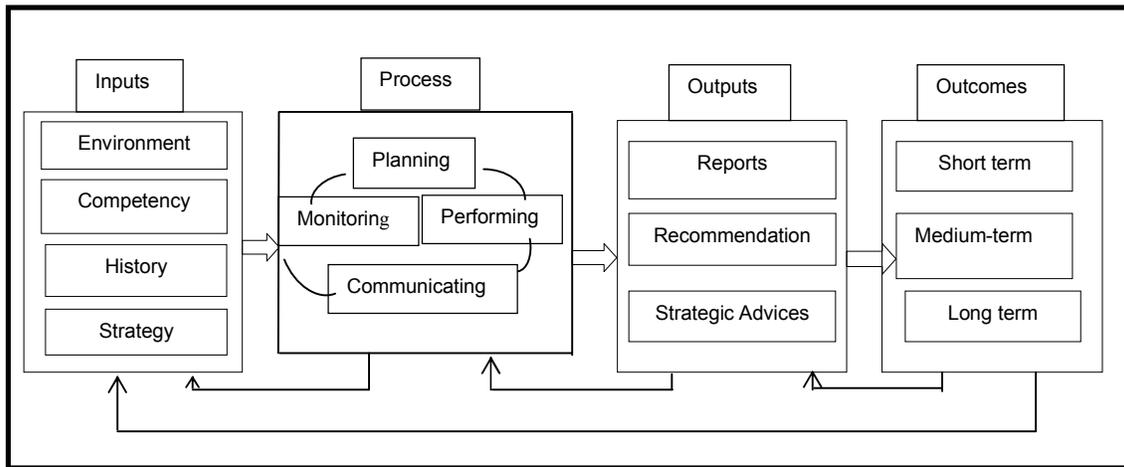
Program logic-based model has been incorporated into the internal audit field by [14] to determine the auditing department's needs in an organization that can facilitate its performance. The model was designed on four basic levels of input, activity, output, and outcome that can determine the need for the internal auditing efficiency in the organization. Pitt stated that the main objective of the model is to highlight some

key areas that are related to the performance of the internal audit and what is expected at each level of the function of internal auditing services. Pitt's model is more comprehensive than the previous models by clearly explaining the anticipated components at each level of the model.

However, from the literature of internal audit, other important variables were discussed as the essential components that can determine the internal audit performance other than those mentioned by [14]. In this regard, this study examines the variables from the literature and the prior models by integrating the model's components with the highlighted variables to form a new model called Integrated Internal Audit Model for tax administration.

This study used performance indicators (PI) theory to support the model development and in evaluating the performance of the internal audit. Performance indicators theory is widely used and most appropriate to measure the performance in public sector organization. According to James et al., [15], performance evaluation is a concept about auditing, measuring, reviewing and improving organizational performance efficiency that can lead to the accomplishment of goals and objectives of an organization. Kennerley and Neely [18] argued that the objective of performance measurement is to determine and establish the impact at each level of the performance within the different unit of functions in an organization.

Conversely, there is no universally accepted measure to evaluate the performance of an organization [14]. Nonetheless, the used of an economy, efficiency and effectiveness (3Es) concept are practised especially in public sector organization [19]. Economy deals with the required resources to be used at the first level, process and output are to be determined at the efficiency level in explaining how the required inputs were transformed and effectiveness is about outcome impact of the output [18]; [20]. In this regard, the performance of internal audit is evaluated based on this 3Es. Therefore, performance theory was used to guide the development of the Integrated Internal Audit Model for tax administration. In addition, to ensure adequate efficiency of the internal audit performance is achieved, the four levels of input, process, output, and outcome must be fully observed by internal auditing in tax administration.



**Fig. 1. Integrated internal audit model**  
 Source: Authors

**3. MATERIALS AND METHODS**

The methodology to develop the model in this study was based on critical review of the literature to develop the Integrated Internal Audit Model for effective internal audit performance. The model was based on [14] framework with modification in the components. The developed model differs from Pitts' by accommodating the new variables from the literature that are described as the determinants of the auditing performance as illustrated in Fig.1.

The Integrated Internal Audit Model shows that in order to understand the requirement of internal audit efficiency and effectiveness, it is necessary to acknowledge the required basic components of: (1) inputs from the perspective of internal auditor; (2) the processes required to transform the basic inputs to perform the internal audit function; (3) the required output i.e. the result of the process function after the transformation processes was accomplished; and (4) the outcome of the output i.e. the impacts and benefits derived from the output as a result of the internal auditors functions.

**4. RESULTS AND DISCUSSION**

The significant aspect of Integrated Internal Audit Model is how its levels and their components are interrelated with each other to deliver the required performance of the internal auditor. Therefore, it is very important to understand each level and its component and the role they play in improving the performance of internal auditor that can be capable of enhancing

organizational success. For instance, for an internal auditor to perform efficiently, there are four essential things required namely, environment, competency, history, and strategy.

In the first step, an internal auditor required laws that can specify his responsibility and how he is going about the auditing functions within the boundaries of laws and regulations. An organization should provide an enabling environment in terms of regulation, policies and working conditions that can allow the internal auditor to perform successfully. According to [2,21] and [22], internal audit environmental consideration for efficient and effective performance should include effective laws, policies, statues and working conditions that can warrant the internal audit functions in an organization. On this note, an internal audit would be better performed if the working environment is favourable with effective laws and regulations that can support the auditor's service.

The second input is competency. According to [23,24], for an internal auditor to be efficient, he must be competent enough by acquiring the adequate knowledge, skills, and qualification that can facilitate his performance and deliverance for duty. In addition, Seol and Sarkis [25] added that internal auditor's competency should include the behavioural and cognitive skills that can facilitate his performance on the job. Behavioural skills are the internal auditors' moral attitude and cognitive skills are the qualification that internal auditor attains to make him perform efficiently. It is, therefore expected that competent internal

auditor would perform efficiently and effectively [26,27,28,29].

The third required input element for efficient internal auditing is history. History of the internal audit in an organization is very important in determining and understanding the nature of its performance. The history of the human and material resources allocation and utilization is a key determinant factor for internal audit efficiency [22,2,30,31,32]. If for an instance, in the past, the number of the internal audit personnel is few (small number) and the organization is large, they would not meet the organization needs due to inadequate manpower. Similarly, if the material resources are inadequate or under-utilized, it would also negatively affect internal auditors' efficiency and effectiveness. It is necessary to ensure the auditing personnel is adequate and material resources are substantially enough to meet the requirement of the auditing function and both the materials are efficiently and effectively utilized [33].

The final input component is the strategy. A strategy is a means for instituting an organization's purpose and determining the degree of required input and defining the method that can outline the decisions and activities to be done [34]. According to [9,36,35], a strategy is a major input of internal audit that can describe the auditors' vision and valued proposition, type of work to be undertaken and how, risk management and resource planning, and it helps in articulating the auditors' key responsibilities. In addition, a strategy would facilitate the efficiency of internal audit by allowing them to select the right approaches and reinforcing it capabilities to strategize activities to accomplish auditing functions. These are the main four components of inputs required for efficient internal audit performance. The second level of this model is processed.

The process level of internal audit model in this study has four items namely planning, performing, communicating, and monitoring that is required for efficient auditing function. According to [14], planning is an avenue that can offer an opportunity for the internal auditor to design and arrange their activities at the beginning of every year by considering the organization's needs in terms of key priorities and objectives, strategic risk evaluation and resource management to achieve the performance improvement. Seol and Sarkis [25]

added that it is an essential activity that is required for an internal auditor to coordinate required inputs and analyzed them categorically to achieve auditing efficiency. After successful planning, then comes to the performing stage.

Performing is where the internal auditor is exhibiting his ability and capability by associating with the audit activities physically [37,14]. At this stage, it is expected that they perform their functions with commitments, impartiality and transparently [14,30,35]. Here, the internal auditors interact with people, process and system in their course of performing auditing functions.

Next stage is communicating. An internal auditor is required to have effective communicating skills that can enable them to communicate during the audit functions with their stakeholder, auditees and among themselves. Smith [38] argued that it is required for an internal auditor to be good at communicating and writing skills to overcome the global and organizational complexities and to facilitate his efficiency. He also stated that an internal auditor should be careful in selecting and using certain terminologies, voices, and gesture to avoid misunderstanding. Effective communication by internal audit would increase his efficiency performance [14,37,30]. The final component of the process level is monitoring.

Monitoring is a close supervision of the processes of the internal audit that can lead to success [14]. It is required to observe and ensure that the entire auditing processes have been followed and is in line with the organization objectives [37,14,22,35]. After the process level is accomplished, the anticipated result is known as output.

Integrated Internal Audit Model anticipates that the basic outputs required after transformation process level are audit report, audit recommendation, and strategic advice. An output of internal audit denotes the result of the processes performed in transforming the inputs into usable information in a form of a report, recommendation and strategic advice [29,14,10] and [17] to make a decision. In addition, internal audit outputs are the tangible result of auditors to the management that can guide the decision and explain an organizational state of affairs for improvement where necessary [17,14]. The final level of the model is outcomes.

Internal audit outcome is the impact that the output has on the management of the organization. An outcome is where the effectiveness of the auditing services is ascertained. In this study, outcomes are short-term, medium-term, and long-term outcomes. The short-term outcome is about the immediate impact of the auditing outputs, medium-term is how these outputs continuously impacting on the management decision whereas, the long-term outcomes are the long-lasting goals and objectives of the organization achieved by the auditing functions [14]. To be precise, an efficient and effective internal audit performance should consider the required input, process, output and outcome that can facilitate its functions.

## 5. CONCLUSION

The Integrated Internal Audit Model for effective auditing developed in this study can help to facilitate the efficiency and effectiveness of internal auditors' performance. If the model is adopted by the internal audit of tax administration in a developing country like Nigeria it would reduce the problems and challenges of inefficiency and ineffectiveness of the tax administration internal auditing. Due to the complexity of operating environment of tax administration, internal audit practice required to be restructured to improve its performance and hence facilitate in enhancing the tax administration's capabilities to generate adequate revenue to the government. Therefore, effective internal audit plays an essential role in enhancing internal control, providing consulting and assurance services, risk management, value for money and good governance.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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