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Enhancing Public Confidence in Auditing Report of Internal Revenue Services: A Discourse

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ABSTRACT

The potentials of auditing report in decision making and organizational policy formulation cannot be underestimated. Therefore to ensure the effectiveness of these reports, public confidence factors must be adequately considered. The primary aim of this study was to discuss possible measures for the enhancement of public confidence in auditing report of Internal Revenue Service: A case of Akwa Ibom State Internal Revenue Service. Cross-sectional approach was utilized to examine the secondary data. It was gathered that public confidence about the auditing report can be enhanced by reinforcing management of audit firms; allowing access to the easy assessment of audit quality from the viewpoints of third parties; enhancement of information regarding content of audit; ensuring absolute independence of audit firms; and improvisation of structural mechanisms to effectively outline or allow total access to auditing firms for accurate organizational performance and financial positions. Other measures are ensuring proficiency and reputation of the auditors in interpreting organizational changes and situation promote public confidence in auditing report and establishment of audit committee within the key stakeholders in the service. These will ensure effective monitoring role to assure the quality of auditing reporting and corporate accountability

Keywords: *Auditing Report, Public Confidence, Internal Revenue Service*

INTRODUCTION

The development of any nation is attached to the extent and its capacity to generate funds that can cater for the basic amenities requires by its citizenry (Brown and Caylor 2004; Brooks, 2011). In the developing world like Nigeria, the only viable sector that can generate revenue consistently for the development of other essential projects like road construction, building of health centres and establishment of schools among others is internal revenue

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generation section through taxation (Cassell, Drake and Dyer, 2014). Be that as it may, taxation in Nigeria has been considered as a complex policy especially by the taxpaying public due to numerous reasons. Among such reasons is the case of lack of public confidence on the policy and operational principles of the process. On this note therefore, Nigerian Governor's Forum (2015) postulates diverse measures in which the challenges associated with taxation in Nigeria can be curtailed. Some of these measures are generation of adequate and well-documented information on the tax payers and uplifting or upholding tenaciously the principle of fairness and equity in taxation and tax practice administration (Brooks, 2011). Nevertheless, those measures have potency to correct the system when effective auditing mechanisms are in place.

Basically, the duty of ensuring an efficient and effective tax administration is shouldered by the internal revenue service which has the mandate to control and administer the different taxes and laws made or to be made from time to time, by the National Assembly or other regulations made there under the Government of the Federation and to account for all taxes collected; adopts measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion; as well as adopt measures which include compliance and regulatory actions; introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance (Federal Inland Revenue Service Establishment Act, 2007 as amended). However, these responsibilities of the service as provided by the FIRS Act 2007 can be sustainable when it services are under effective scrutiny of the audit.

Auditing remains as the utmost structural process that determines the efficiency of organizational changes and performance. Aladipopo (2005) describes it as a process of subjecting organizational account to scrutiny. In other words, auditing serves as a planned organization or reasonable searching, screening, discovering and preventing misrepresentation of organizational account and performance (Brown and Caylor, 2004). These processes ensure functional credibility to the organizational financial statement; reduces the chances of tax inspectors to withhold material information from the shareholders; and provides holistic position of the organization financial conformity with applicable laws and regulations.

Ejoh and Ejom (2014) emphasize that auditing is an indispensable management process for achieving effective control in both public and private organizations. It serves as a control mechanisms to monitor and to direct, promote or restrain the various activities of an organization to ensure the actualization of the set organizational objectives. In essence, auditing is utilize to correct presumed deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable as are exposed in the external auditor's report.

The perception of the public about the systematic running of internal revenue service most times is argued as being under average (Adejo, 2011). This is contended as resulted from the inability of government to render transparent account of the taxes collected as revenue and the proceeds of the dividends to the public. Thus, motivated the questions of the potency of auditing report which should ordinarily serve as important infrastructure and a premise to ensure the correct understanding of the financial situation; coordinate appropriate disclosure by the government auditors, support appropriate and smooth economic activities; and as well, leads to sustainable growth of economy. Sadly, these services and functional roles expected of auditing report are non-emphatic in promoting the confidence of public, thus, encouraging their lackadaisical attitude/ deposition towards taxes payments and compliance (Brown and Caylor 2004). In the light of this issue, the interest of this research was motivated to cross-sectionally discuss the possible mechanisms that could be employed to enhance public confidence in auditing report of internal revenue service with the view of recommending measures for the actualization of the auditing functions of internal revenue service.

Conceptualization of Audit and Auditing Report in the Management of Internal Revenue Services

The term audit is derived from a Latin word *"audire"* meaning to hear (Brown and Caylor, 2004). Osasu and Okunbor (2011) opine that audit as a concept emanated from the fact that from the time past, the account of noble men were checked by them being read out to them by their steward. The steward had responsibility of scrutinizing and looking after the estate during the noble men's absence and this functional role of stewards assisted the evaluation and continuous effectiveness of the estate, thus originated the concept of audit. Coming from this historical perspective, audit could be described as the process where account of business organization or any organized entity can be scrutinized (Brooks, 2011). Alkhaddash, Al-Nawas and Ramadan (2013) explaine audit as a planned organized so that there is a reasonable expectation of detecting material misstatement in the entity's accounts resulting possibly from fraud or error or breach of regulation. In essence, audit attests to the trueness and fairness of the organizational performance based on the situation on ground. This role of audit to the assessment of organizational performance in relation to the organizational objectives and target formed what is known in contemporary as auditing.

Auditing as a process emanated from the demand for reliability of the published accounts of an organization tendered by the management as a performance scorecard to the stakeholders (Brooks, 2011). Udoh (2013) infers that auditing is an independent

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examination and investigation of evidence from which the financial statement has been prepared with the view to enabling the independent examiner to report whether in his opinion and according to the information obtained by him, the financial statement is properly drawn up and gives a true and fair view of what it supposed to show and if not, to report that he is not contented.

However, from the Udoh's perspective which is backed up by Okozie (2014), it could be deduced that the organizational objectives of auditing be it internal or external involved are set as follows:

i. Reviewing and appraising the effectiveness, adequacy and application of accounting, financial and other operating controls and promoting effective controls at reasonable cost.
ii. Determining the extent of compliance with management established policies, and plans and procedures.
iii. Ensuring organizational accountability to safeguard losses of any kind.
iv. Upholding management reliability in data development and organization.
v. Promoting evaluative appraisal of the quality of performance in carrying out assigned responsibilities.
vi. Proffering proactive recommendations for organization's operational improvement in terms of established internal control mechanisms.

However, when these highlighted objectives that underscores the concept of auditing are strategically placed in an internal revenue service organization, there are bound to be

i. Improvement in the financial management of the service such that will correspondingly results in the developmental welfare of the society.
ii. Reportage of quality financial statements.
iii. Organizational credibility and accountability.
iv. Understanding of the organization financial flow.
v. Enhanced base for re-strategization to ensure conformity of the organizational conduct with the generally accepted accounting principles, and applicable laws and regulations and evaluation of the soundness of internal control system of the service
vi. Moderate chances of any sharp practice within the system as well as close management of the risk.
vii. Drastic improvement in revenue mobilization base and general management of the service which at last result in the promotion of the public confidence in the organization of the internal revenue service vis-à-vis the auditing report.

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Modules for Enhancing Public Confidence in Auditing Report

The term confidence is coined from the Latin word confidentia from confido from con- meaning with and fido meaning trust (Cassell, Drake and Dyer, 2014). It is a noun that signifies full trust, belief in the powers, trustworthiness, or reliability of a person or thing. The concept has a common meaning of a certainty about handling something, such as work. Wesson (2005) defined confidence as having a firm trust in one's ability, having a sense of reliance or certainty. For instance, when the public are sure that the auditing report is in the right or best position for the audited organization, then they can be said to have confidence or certainty in that report. In essence, confidence can be taken as being a person's belief that a statement represents the best possible response and it describes a person's strength of belief about the accuracy or quality of a prediction/judgment or choice (Cassell, Drake and Dyer, 2014).

Situating the consideration of the public confidence on the management of internal revenue service and the auditing report of the service, it could be consented that a viable service among others must:

i. Collaborate and facilitate rapid exchange of information with relevant agencies or bodies on tax matters.
ii. Provide and maintain access to up to date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of government involves in the collection of revenue for the purpose of efficient, effective and correct tax administration including matters relating to waivers fraud or evasion.
iii. Sustain rigorous public awareness and enlightenment campaign on the state's tax administration.

However, these service reliability and certainty tend to be in conflict with public confidence especially as it has to do with the nature and kind of auditing report in the public domain (Cassell, Drake and Dyer, 2014). This position is strengthened by the assertion of Okafor (2012), who maintained that lack of cooperation from the tax payers is resulted from the believe that on the part of the government, there is no adequate provision of public goods and services that public needs as benefits of tax payment. In other words, the inconsistency of the public to fully comply with the tax policies of government may be attributed to the inconsistencies and unreliability of auditing reports (Cassell, Drake and Dyer, 2014). Therefore, to discourage this level of disagreement between the public and tax administration process, internal revenue service must adequately generate trust mechanisms that can improve it information reliability and credibility through an efficient and effective auditing reporting.

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Nevertheless, there are various mechanisms that can be utilized to enhance public trust on the auditing report of internal revenue service (Brooks, 2011). Some of these modules are:

i. Reinforcing management of audit firms; that is regulations and standards governing audit firms should be stringent to check the accounting and corporate fraud.
ii. Assessing audit quality from the view paints of their parties
iii. Enhancement of information regarding content of audit; this encompasses the disclosure of audits firm information to the management and the public to assess the sustainability and qualification of the firm in reporting a reliable account of the service to the public.
iv. Accuracy in information sharing. This will promote easy detection and monitoring of auditing firm activities in ensuring adequate screening of internal revenue service financial statement.
v. Ensuring absolute independence of audit firms. According to Advisory Council on the System of Accounting and Auditing (2016), the independence of audit firm will promote the exercise of appropriate professional skepticism and secure the quality and confidence in audit and in turn, improve the effectiveness of assessing audit quality from the viewpoints of independent "third parties" such as regulatory authorities and stakeholders (tax payers). This will encourage high quality and transparent auditing report that is highly credible and reliable for public trust.
vi. The employed auditing firm should specialize in the area of revenue generation and mobilization as well as possess requisite years of effective service experience. Geiger and Raghunandan (2002) suggested that auditors with longer years of experience are more likely to be independent, and are more consistent with reportage. This longer years of experience is associated with higher quality of reported earnings, thus implies that auditors with higher audit quality are more likely to resist client management pressures than those with lesser years of experience (lower quality) (Krishnan, 2003).
vii. The internal revenue service management must improvise structural mechanisms to effectively outline or allow total access to auditing firms for accurate organizational performance and financial positions.
viii. Proficiency and reputation of the auditors in interpreting organizational changes and situation promote public confidence in auditing report. DeAngelo in Al-khaddash Al-Nawas and Ramadan (2013) posited that because external stakeholders such a tax payers and regulators are audited performance and financial statement information in their decision making and they are unable to directly observe audit quality and determine, whether the reported information is an unbiase

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indicator of firm's financial performance, auditor reputation serves as an important proxy for the quality and accuracy of client financial statements. Al-khaddash, Al-Nawas and Ramadan (2013) identified the most important factors affecting audit quality and auditing report to include the reputation of auditing firm/office, auditing fees, the size of audit firm, and the proficiency of auditor.

ix. Establishment of audit committee within the key stakeholders in the service will ensure effective monitoring role to assure the quality of auditing reporting and corporate accountability (Carcello and Neal, 2000).

Theoretical Framework for Testing the Confidence of Accounting Reports

The philosophical base guiding the test of public confidence on auditing reports of internal revenue service is reliability theory promulgated by Gavrilov and Gavrilova (2001). Reliability theory describes the probability of a system completing its expected functions during an interval of time (Cassell, Drake and Dyer, 2014). According to the reliability theory, system of reporting is reliable when it is consistent and accurate in eliciting persistent but similar information as required at every given time. According to Gavrilov and Gavrilova (2001), the determination of the "weakness" of any report is primarily judgmental. Upon the formulation of the process of reports reliability estimates, comparison with data from the organization's past performance or other firm may provide a more solid basis for judgment of the impact of the auditing report, thus influencing the enhancement of public confidence on the reports. In essence, the application of this theory ensue from the basis that the more consistent the reported information is at every given time of verification in line with the performance scorecard of the organization, the practicable it is to remarkably influence the confidence of the public about the organization's auditing report. On the other hand, if the auditing report has been consistently associated with positive effect of the organizational performance and the setting of challenges goals, the expenditure of maximal effort and persistence to achieve those goals, its most likely to enhance public confidence (Cassell, Drake and Dyer, 2014).

CONCLUSION AND RECOMMENDATIONS

Development and enhancement of public confidence to the auditing reports of internal revenue service is fundamental to the improvement of revenue generating base of the organization as well as its mobilization performance. Many measures have been advocated to enhance the reliability and credibility of the auditing reports and as well, promote accountability and transparency of the auditing processes. The utilization and stringent application of these modules can strengthened functional credibility and reliability of the performance of auditing reports; facilitates ability of the internal revenue service to render appropriate services as outlined in its establishment Act which in return, promote the auditing report consistency to at attract public confidence.

The important implication of this study was to cross examine different measures to enhance audit effectiveness, improve auditing efficiency and on a long run, enhance public confidence on the auditing reports of internal revenue service. It is against this backdrop that the following were recommended:

1. That the management of Internal Revenue Service should ensure that adequate information of the service and that of the auditing firm employed are in the public domain for easy accessibility, evaluation and test of reliability. This will enhance public confidence that the IRS and the auditing firm have no secrecy and do not encourage fraud in their reportage.
2. The IRS should routinely detail the stakeholders on it process and activities in line with organizational standard, as well as routinely present it performance appraisal. However, in the course of routine detailing of the process and procedure and performance of the organization, fraud and evasions and misrepresentation of financial and organizational performance are nipped on the bud. Thus, promoting the confidence of the public on the auditing reports.

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