THE IMPACT OF EFFECTIVE CONTROL SYSTEM ON REVENUE MOBILIZATION IN THE PUBLIC SECTOR: CASE OF GHANA REVENUE AUTHORITY

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ABSTRACT

The study sought to closely evaluate the impact effective internal controls have on revenue mobilization using Ghana Revenue Authority (GRA), the institution mandated for collection of all forms of Tax revenue as a case study. A sample size of 80 from each 3 divisions of GRA namely Customs, Domestic tax and Support Services divisions were used .Random sampling technique was used to select participants for the study. Data collection was also done through primarily by administering questionnaires, others through secondary sources and analyzed using the SPSS software.

Results from the studies indicated a direct relationship between internal controls and level of revenue mobilization within the organization under review. This was evident from responses from participants in the study as well as a test confirmation from the variance analysis between the budgeted revenue and actual collections made and correlation analysis between efficiency of control system and achieving revenue targets.

Findings from the study will help management of Ghana revenue authority to evaluate if the internal controls instituted have been successful and positively impacted on revenue mobilization or otherwise.

Future researches can consider the impact internal control has on achieving the objective of rendering quality service to the public.

Keywords: Public Sector, Internal Control, Revenue Mobilization

INTRODUCTION

According to statement of accounting standards [1], internal control is the combined plan, method and procedures which can safeguard the firm's assets promote operational efficiency and encourage adherence to prescribed policies."

According to [2],Internal control in public sector organizations should be understood within the context of the specific characteristics of these organizations, i.e. their focus on meeting social or political objectives; their use of public funds; the importance of the budget cycle; the complexity of their performance (that calls for a balance between traditional values like legality, integrity and transparency and modern, managerial values like efficiency and effectiveness); and the correspondingly broad scope of their public accountability. [3] Postulates that internal control system consists of policies and procedures designed to provide management with reasonable assurance that the entity achieves its goals and objectives. According to [4] internal control helps entities achieve important objectives, sustain and improve performance.

According to [5], governance in the public sector deserves the same attention as governance in the private Sector. While unethical behavior in the Private sector impacts the shareholders of a company, unethical behavior in the public Sector impacts all taxpayers and citizens.

Internal control has become one of the effective tools being used within the public sector to seal leakages and wastage of public resources. Realizing the need for effective introduction, implementation, monitoring and evaluation of internal controls, various bodies such as the International Organization of Supreme Audit Institutions (INTOSAI) and The Committee of Sponsoring Organizations of the Treadway Commission (COSO) have provided Guidelines for Internal Control in the Public Sector.

Revenue mobilization by various state institutions serves as a significant percentage of internally generated fund to fund government projects and other expenditures. Levies by District Assemblies, Tolls by transport agencies, and fees by utility companies, service fees charged by public institutions and most importantly statutory taxes by revenue agencies are some of the means of generating revenue by the public sector. Although Ghana Revenue Authority (GRA) continuously makes strides in revenue mobilization, it is unable to meet its target in some cases. This could be linked to both internal and external factors such as corruption, collusion, administrative errors, policy failures etc.

Although much efforts are being made by the public institutions to meet their targets each year, internal control mechanisms put in place to achieve such targets need to be scrutinized for their effectiveness and efficiency since such targets are sometimes not met.

STUDY AREA AND PROFILE

The study is based in Ghana, West Africa. The Ghana Revenue Authority of <u>Ghana</u> is the <u>Government of Ghana</u>'s agency responsible overall oversight of the entire taxation agency in the country. The Authority was established in 2009 as a merger of the <u>Internal Revenue Service</u>

(IRS), <u>Customs, Excise and Preventive Service</u> (CEPS), <u>Value Added Tax Service</u> (VATS), and the <u>Revenue Agencies Governing Board</u> (RAGB) Secretariat.

METHODS AND APPROACHES

The study population of the study was made up of workers of Ghana Revenue drawn from the three divisions. Hence the population of the study was three hundred (300) members being staff at the head office.

In order to successfully complete the research work, two basic types of sources of data for the research work were used, that is the primary and secondary sources.

The primary source of data, data was collected through the use of questionnaires and it include close-ended questions and they bordered on framework of the Ghana Revenue Authority members which is categorized by revenue mobilization and the internal control measures .The secondary data used comprised text books, journals, magazine and reports related to Internal Controls activities and revenue mobilization activities of institutions. This helped in giving a broad perspective on performance related to Internal Revenue and Revenue Mobilization activities in Ghana and other countries.

The questionnaire design bordered on the main objectives of the study which are solely based on Internal Controls and Revenue Mobilization at the Ghana Revenue Authority. The questionnaire was self-administered to all the respondents.

The sample size to be used for the study was seventy (80) and this would be drawn from the various sample profile but only 70 questionnaires were retrieved and processed.

The stratified sampling method was used to select respondent for this study. The respondents for the questionnaires were categorized into their respective divisions to form the total sample size for the study. Management and all other level of staff have integral roles in implementation of internal controls. The studies therefore focused on key actors in the internal control process. In determining the people to be selected from each division, the simple random sampling method was used.

The quantitative data collected through the use of questionnaires were presented by means of tables through the use of Statistical Package for Social Scientist (SPSS).

Pearson bivariate test was used to test correlations between set of data gathered during field survey. Pearson's correlation coefficient is a statistical measure of the strength of a linear relationship between paired data. In a sample it is denoted by r and is by design constrained as follows $-1 \le r \le 1$

Furthermore:

• Positive values denote positive linear correlation;

• Negative values denote negative linear correlation;

• A value of 0 denotes no linear correlation;

• The closer the value is to 1 or –1, the stronger the linear correlation

RESULTS

**Revenue Mobilization Performance of GRA**

The study sought to evaluate the revenue mobilization and performance trend of GRA within a nine years period to ascertain reasons for variations in targets and actual.

Table 1.1 Tax Revenue Actual and Target Growth Analysis

YEAR	ACTUAL GH¢,M	TARGET GH¢,M	DEV (%)	TARGET GROWTH OVER PR. YR ACTUAL (%)
2005	2,057.60	2,215.45	(7.1)	31.4
2006	2,370.82	2,505.17	(5.4)	21.8
2007	3,040.26	3,000.00	1.3	26.5
2008	3,743.77	3,582.95	4.5	17.9
2009	4,628.20	4,705.70	(1.6)	25.7
2010	5,951.45	5,916.05	0.6	27.8
2011	8,718.53	7,544.63	15.6	26.8
2012	11,728.13	11,442.67	2.5	31.2
2013	13,161.19	15,609.52	(15.7)	32.9
2014		18,650.43	-	41.7

Source: GRA 2014 Midyear report

Fig 1.1 Target – Actual Relationship (GH¢
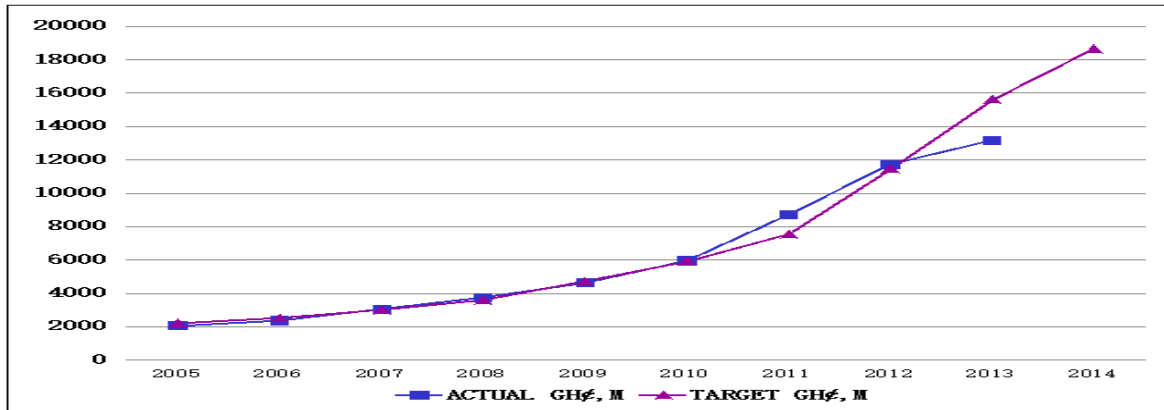
It is worth noting that, from data available as captured in Table 1.1 negative deviations from targets have been quite insignificant. In exception of 2013 fiscal year which experienced 15.7% negative deviation, previous years which experienced negative deviations from set targets fell below 10%.

Challenges Affecting Revenue

Management Ghana Revenue Authority in its 2014 half year report presentation noted, the first six months of the fiscal year 2014 was challenged with the factors summarized below which have the tendency to negatively affect performance of the remaining months of the year.

- Non implementation of VAT on Financial Services and Real Estates.
- Delay in the implementation of the petroleum excise rate.
- Shortfall in target volume of imports.
- Shortfall in production of excisable products.
- Depreciation of the Cedi against the major currencies.
- High interest rates.
- Declining world Market price of Gold which is negatively affecting gold production in the country.
- Freeze on wages and salaries and recruitment.
- Erratic electricity supply.
- High cost of doing businesses resulting from high utilities and fuel cost.

CORELLATION ANALYSIS

The study also sought to establish the relationship between the five components and also determine the relationship efficient controls have on revenue targets. Pearson's two tailed bivariate correlation analysis was used which revealed results in the following tables.

Effectiveness Internal Controls of Ghana Revenue Authority

The COSO Integrated Framework sets forth the requirements for an effective system of internal control. An effective system provides reasonable assurance regarding achievement of an entity's objectives. An effective system of internal control reduces, to an acceptable level, the risk of not achieving an entity objective and may relate to one, two, or all three categories of objectives. It further noted amongst others that, Components are interdependent with a multitude of interrelationships and linkages among them, particularly the manner in which principles interact within and across components. Based on the findings of the study, a firm conclusion can be drawn that Ghana Revenue Authority has an effective and functioning internal control system. Results from the correlation analysis as shown in Table 1.2 reveals a linear relationship between all five components with significant correlations at 0.01 between some components as shown in the table below.

Table 1.2 Relationship between the five components of internal control in G.R.A

Correlations

		CONTROL ENVIRONMENT	RISK ASSESSMENT	CONTROL ACTIVITIES	INFORMATION AND COMMUNICATION	MONITORING
CONTROL ENVIRONMENT	Pearson Correlation	1	.756**	.951**	.	.
	Sig. (2-tailed)		.000	.000	.000	.000
	N	350	350	350	210	210
RISK ASSESSMENT	Pearson Correlation	.756**	1	.748**	.	.
	Sig. (2-tailed)	.000		.000	.000	.000
	N	350	350	350	210	210
CONTROL ACTIVITIES	Pearson Correlation	.951**	.748**	1	.	.
	Sig. (2-tailed)	.000	.000		.000	.000
	N	350	350	350	210	210
INFORMATION AND COMMUNICATION	Pearson Correlation	.	.	.	1	.847**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	210	210	210	210	210
MONITORING	Pearson Correlation	.		.	.847**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	210	210	210	210	210

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey 2015

Revenue targets according to twenty two (22) respondents who constituted 31.4% of the sample size strongly agreed has been achieved in the past five years. Five (5) being 7.1% agreed and three (3) not sure. However, a 36 majority of respondents representing 51.4% disagreed and a further four (4), 5.7% also strongly disagreed.

Data gathered from the survey analyzed descriptively showed thirty six (36) respondents, 51.4% strongly agree efficiency of internal controls in GRA contributed to the achievement of targets. Three (3) persons, 4.3% not sure however twenty four (24), 34.3% respondents disagreed and seven (7) being 10% strongly disagree with this assertion. This statistically represented a mean value of 2.51 and 1.61 standard deviation which shows a variation in responses.

Results also showed forty nine (49) respondents, being 70% of respondents who indicated that there is an increase in actual revenue mobilized each year as a result of improvement in internal controls. This assertion was supported by fifteen (15) persons, 21.4% who also agreed and three (3), 4.3% not sure. However, three (3) persons representing 4.3% also disagreed with this assertion. A mean value of 1.43 and a standard deviation of 0.77 were generated.

Finally, yearly revenue targets are set by the Ministry of Finance which is captured in the national budget as part of budgeted revenue. Fifty (53) of the respondents representing 75.7% strongly agree that such targets are realistic and based on past trends of actual revenue. Twelve (12) persons, 17.1% also agree whiles two (2) respondents, 4.3% not sure. This however was strongly rejected by three (3) persons. This translated in a mean value of 1.40 and a standard deviation of 0.91.

A Pearson's r data analysis revealed a moderate positive correlation=.035 between revenue target trends and internal controls from field data gathered as shown in Table1.3

Table: 1.3 Relationship between Efficiency of Internal controls and Achieving Revenue Targets

Correlations

		Revenue targets of GRA has been achieved in the past five years.	Efficiency of internal controls put in place have contributed to achieving targets set.
Revenue targets of GRA has been achieved in the past five years.	Pearson Correlation	1	.035
	Sig. (2-tailed)		.776
	N	70	70
Efficiency of internal controls put in place have contributed to achieving targets set.	Pearson Correlation	.035	1
	Sig. (2-tailed)	.776	
	N	70	70

Source: Field Survey, 2015

DISCUSSIONS

Most public institutions in developing countries like Ghana continue to receive government subventions to support their operations. Internally generated funds from these institutions are often misappropriated thereby putting undue pressure on government budget for funding. Revenue is the backbone of every government and the need to seal revenue leakages in government institutions such as municipal and district assemblies, utility companies and statutory revenue agencies is paramount.

Internal control system therefore forms an integral component of entity's efforts to attaining its goals and objectives of revenue mobilization. Findings from the study have established internal controls impact positively on revenue mobilization in Ghana Revenue Authority. This impact however is minimal as evident from findings in the study. This therefore indicates that, the propensity to meet revenue mobilization target is largely as a result of other factors aside internal controls. Some of these factors identified during the study include introduction of new taxes, broadening of tax net and other revenue policy decisions. Internal controls serve as checks and balances in revenue mobilization. They ensure consistent mobilization trends by preventing fraud and leakages that can result in retrogression in mobilization trends.

Some shortfalls in G.R.A's internal control system identified were as follows:

- Duties and fines received at some entry points into the country where with less proximity to banks is a threat to custody of assets.
- Transactions made by the institution by way of tax payments received are often done in cash. This provides room for collusion and misappropriation.

- Monitoring of field taskforce is low therefore providing grounds for some officials to collude with tax payers to evade tax payment.
- Most paper records are displayed in the open in most offices exposing them to easy access to manipulation by unauthorized people

To address some of these shortfalls, Ghana Revenue Authority must consider an electronic tax payment system to reduce human interface in its operations. The electronic direct payment system will provide a platform for tax payers across the nation. This will enable them directly pay taxes electronically to a central system instead of the current cash payment at various branches.

Penalties for compromising the internal control system for personal gains must be reviewed and made severe enough to serve as a deterrent.

Task-force mandated to do tax recovery on behalf of the institution need strict supervision to reduce the current cases of collusion between debtors and officials of the task force.

During the study period, the GRA suffered some alleged misappropriation scandals which made it difficult for the researcher to be allowed access to top management to respond to questionnaires. Management being key stakeholders in the internal control system was unwilling to cooperate and offer information perceived to be confidential. Some staffs were unwilling to provide information that will place the organization in a bad light and get being victimized.

Some public institutions have the mandate of rendering essential services to the public. Future researches can consider the impact internal control has on achieving the objective of rendering quality service to the public.

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