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**INTERNAL AUDIT IN THE ASSESSMENT
OF MANAGEMENT CONTROL
IN TAX ADMINISTRATION UNITS**

Doctoral thesis summary

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Introduction

Republic of Poland, as a member state of the European Union, undertook to ensure efficiency, transparency and openness of public finance sector entities, better use of public funds, including funds coming from the European Union budget. These actions are also to be aimed at the effectiveness of collecting, spending public funds and managing the entrusted property.

Apart from the tasks mentioned above, tax administration units are obliged to implement the challenges resulting from their specific activity. These challenges include, first of all, limiting the phenomenon of the grey zone and aggressive tax optimization. It should be noted that Poland is one of the countries where the share of the grey zone in the economy is higher than the average for the Member States of the European Union¹. Such a level constitutes a threat to the country's further stable economic development and the balance of public finances. Therefore, there is a need to eliminate or at least minimize this threat with the participation of tax administration units.

The tool, aimed at improving the effectiveness and efficiency of the functioning of public finance sector units, including tax administration, is internal audit. The role and functioning of internal audit is defined by the provisions of the Public Finance Act, indicating that internal audit is an independent and objective activity aimed at supporting the head of the unit in achieving goals and tasks.

Internal audit in the field of public finance is also intended to protect effectively the financial interests of the Member States and the budget of the European Union. Internal audit is also an important tool to provide the Head of Unit with assurance that the management control system functions effectively. In order for the internal auditor's assessment to be reliable and useful to the head of unit, it is essential to create the conditions under which the auditor can act objectively, independently and free from conflicts of interest. The achievement of added value by public finance entities through internal audit depends on the fulfilment of certain criteria relating to the operating conditions.

¹ Action by tax and customs authorities to reduce the grey economy Information on the results of the audit carried out by the Supreme Chamber of Control, Warsaw, 2017, p. 6.

A significant impact on the situation of public finances in Poland, among other things, are the effectiveness and efficiency of the functioning of tax administration units.

The report of the Supreme Chamber of Control from 2016 shows that the effectiveness of these units is limited. This means that the tax administration units, i.e. tax control offices and tax offices previously in operation, did not sufficiently carry out activities related to: detecting and preventing tax fraud, as well as preventing tax evasion by business entities. In order to increase the effectiveness of tax administration units by effectively combating the grey market in the economy and sealing the tax system, on 1st March 2017 was established the National Tax Administration. It constitutes a new, unified structure, including tax administration chambers, tax offices and customs and tax offices.

The mission of the National Tax Administration is to ensure stable, effective and sustainable public finances and high quality of services provided. The primary objective of the tax administration units is to raise revenues while maximizing the level of voluntary fulfilment of public duties and ensuring the proper quality of services to the taxpayer. The units of the National Tax Administration aim at efficient implementation of the imposed tasks and emerging challenges, alternatively defined as the directions of action: collection of tax and non-tax dues, providing support to the taxpayer in meeting tax and customs obligations, as well as ensuring financial security of the Republic of Poland and protection of the customs territory of the European Union. Activities coordinated by the National Tax Administration and the Ministry of Finance are aimed at improving tax collection and reducing the so-called grey zone.

The subject of internal audit assessment is management control, which is the entirety of actions taken to ensure that the goals and tasks set are achieved in a manner consistent with the law, effective, economical and timely. Its objective in the unit is to ensure, among other things, effectiveness and efficiency of operation. The elements of management control are the system of setting objectives and tasks in the unit and the system of monitoring the degree of their implementation with the use of appropriately selected measures. These components constitute an important source of information on the effectiveness and efficiency of functioning of public finance sector units, including tax administration.

According to the Public Finance Act², internal audit is an independent and objective activity aimed at supporting the head of the unit in achieving goals and tasks through systematic

² Act of 27 August 2009 on public finance (Journal of Laws of 2017, item 2077)

evaluation of management control and advisory activities. This evaluation concerns in particular the adequacy, effectiveness and efficiency of management control in the entity.

As stated in the Standards of the Professional Practice of Internal Audit³, internal audit is an independent, objective and advisory activity, the aim of which is to create value and improve the operational activity of the organization. Internal audit helps the organization to achieve its goals through systematic and a disciplined approach to assessing and improving management effectiveness.

Internal audit, together with the change of legal regulations, has been transformed: from compliance audit to performance audit (*performance audit, value for money audit*).

Therefore, it is justified to look for ways to improve the effectiveness and efficiency of tax administration units. It is important to demonstrate the impact of management control mechanisms on the level of achievement of objectives and tasks in these units. Internal audit is an essential tool in this respect.

Internal audit is an independent and objective activity, the aim of which is to support the head of the unit in achieving its objectives and tasks, through systematic evaluation of management control. For ensuring adequate and effective functioning of the unit and effective management control is the responsibility of the head of the unit. The responsibility of the head of the unit includes, in particular, the following aspects: compliance with the law and internal procedures, efficiency and effectiveness of operations, reliability of reporting, protection of resources, compliance with and promotion of ethical conduct, efficiency and effectiveness of information flow and risk management.

The premise for this hearing is to present internal audit as a tool that, using appropriate audit techniques and methods, determines the extent to which, and the way in which, management control prevents, detects and improves it, also contributes to the improvement of the functioning of tax administration units. This concerns in particular the scope of collection of the allocation of public funds, as well as the management of property in these units.

³ Communication of the Minister of Development and Finance of 12 December 2016 on internal audit standards for public finance sector entities (Journal of Laws of the Ministry of Regional Development and Finance of 2016, item 28)

Dissertation Hypothesis

For the purpose of the hearing, the hypothesis was formulated that internal audit is an effective tool for assessing management control as well as providing added value to tax administrations. Internal audit also plays an important role in supporting the efficient operation of tax administration units.

Overarching goals and specific goals

In order to prove the hypothesis, the overriding goal was set to demonstrate the importance of internal audit in the assessment of the functioning of management control in tax administration units.

In order to achieve the goals of the overarching work, attention was focused on the following issues:

- showing the essence and origin of internal audit and its role in tax administration units,
- presenting the essence of management control as a management tool, which is necessary to ensure that the goals of the tax administration unit are achieved,
- presentation of audit methods and techniques applicable to the implementation of management control and internal audit,
- defining the scope and degree of measurement of management effectiveness and efficiency in tax administration units.

The subject of the research

The subjects of the research are the following tax administration units: tax administration chambers, tax offices and customs and tax offices.

Research methods

The following research methods were used: critical analysis of literature, analysis of normative acts, case studies and researches.

Structure of the dissertation

The dissertation consists of four chapters.

The first chapter covers issues relating to the importance of management control in order to ensure the achievement of the goals of tax administration units. This chapter discusses the essence of fiscal policy, which can be defined as all activities of the state consisting in the use of fiscal instruments, such as taxes and other public levies, expenditures, public deficit, influencing the state budget to achieve specific fiscal and non-fiscal goals.

Achieving the complex state strategy goals throughout the public administration requires effective management and coordination. The key to success is to understand the environment and its needs and to set objectives properly. Particular attention was paid to the guidelines of the report prepared by the Organization for Economic Cooperation and Development (OECD), which presented information on how to reform the Polish administration, including the tax administration, in order to make it more effective and efficient in achieving the goals set for it. Management control is a tool that constitutes the whole set of actions taken to ensure that the objectives and tasks of the entity are achieved in a lawful, effective, economical and timely manner.

Both audit and audit activities carried out by tax administration units are of vital importance in ensuring effective and efficient performance of the tasks of the National Tax Administration. These tasks are carried out separately, independently of internal audit.

Issues, concerning internal audit functioning in public sector entities, are discussed in chapter two.

The main purpose of internal audit is to bring added value and improve the functioning of the entity, through systematic and systematic audit of the following assessing risk management, control and organizational governance processes in an orderly manner. Internal audit supports the head of the unit in achieving the following objectives and the tasks of the entity providing reasonable assurance of adequacy, effectiveness and effectiveness of management control and through advisory activities. In addition, internal audit systematically and in a structured manner evaluates the processes of organizational governance, risk management and control and contributes to their improvement, this helping the organization to achieve its goals.

The third chapter discusses issues related to the results of the measurement of the achievement of tax administration goals and tasks, as well as the mission and strategic goals to ensure the effectiveness and efficiency of tax administration units.

Appropriate planning of activities is necessary in order to effectively and efficiently carry out the tasks of the National Treasury Administration. Effective implementation of directions of operation and development by tax administration units should ensure the formation of a stable and effective tax administration, opened to the needs of citizens.

Actions coordinated by the National Tax Administration and the Ministry of Finance aim at improving tax collection and reducing the "grey zone" of the economy. Particular attention is paid to issues related to supervision, the aim of which should be to support units in the implementation of tasks entrusted to them and effective achievement of goals not only by supervised entities, but also by supervising entities.

The fourth chapter presents practical solutions concerning the determinants of the effectiveness and efficiency of internal audit, including the professional preparation of the auditor (education), his experience in a appropriate trade, methods of audit and techniques used in the performance of audit tasks, as well as, for example, the operational and organizational independence of the internal auditor in the entity.

The quality of the internal audit contributes to the unit's added value. The audit report should set out the clear results of the assessment carried out, as well as recommendations or conclusions for improvement. In order to add value, the internal auditor should put in place internal quality assurance procedures to monitor performance and results. The final part of the chapter includes an assessment of the functioning of internal audit in tax administration units.

The theoretical part of the dissertation is based on the available literature in the field of public finance, tax law.

The empirical layer uses literature on the subject matter of the work, as well as source materials of the National Tax Administration. Both in the theoretical part and in the empirical part, the legal regulations were used in force in 2018.

Results of the research

Internal audit is an instrument that supports the head of unit in achieving goals and tasks. The hypothesis is that internal audit is an effective tool for assessing management control as well as adding value to tax administrations. This hypothesis has been proven because on the basis of the conducted research it can be concluded that the implementation of audit tasks allows to formulate specific conclusions which contribute to the achievement of added value for the individual and thus to increased efficiency and effectiveness its activities. Activities undertaken by the auditor, i.e. advisory activities and assessment of management control support the broadly understood compliance with the law and management of the entity. Therefore, the effectiveness and efficiency of internal audit contributes to ensuring the effectiveness and efficiency of the entity's operations. Implementation of audit tasks in the scope of the developed annual plans is aimed at achieving efficiency and effectiveness. In this way, internal audit supports the efficient operation of tax administration units.

The overriding goals of the dissertation has been achieved by demonstrating both the importance of internal audit in the assessment of the functioning of management control in tax administration units, as well as the results of the measurement of the effectiveness and efficiency of management in these units. Internal audit primarily aims to bring added value and improve the functioning of the unit through systematic and orderly evaluation of risk management, control and organizational governance processes. Internal audit supports the head of the unit in achieving the objectives and tasks of the unit by providing reasonable assurance on the adequacy, effectiveness and efficiency of management control and through advisory activities.

Thanks to the tasks performed by the internal auditor, the head of the unit obtains a goal and independent assessment of the adequacy, effectiveness and efficiency of the management control system and the effectiveness of these systems. Moreover, advisory activities, including issuing recommendations, are aimed at improving the functioning of the unit. The implementation of effective and efficient internal audit in tax administration units contributes to the achievement of goals and tasks by these units.

The detailed goals of the dissertation were achieved by showing the essence and origin of internal audit and its role in tax administration units. The essence of management control was presented as a management tool necessary to ensure that the goals in the tax administration

unit will be achieved. By identifying the basic problems observed in tax administration units, attention was drawn to the important factors influencing the level of measurement of management effectiveness and efficiency in these units. First of all, it was pointed out the need to conduct ongoing monitoring of the level of task execution, as well as to conduct effective and efficient supervision exercised by superior units over subordinate units.

Such supervision should not only focus on ensuring compliance with the provisions of law by subordinated or supervised units. The aim of supervision should also be to support these units in the implementation of tasks entrusted to them and effective implementation of objectives. Supervision should be exercised in a systemic manner, and should not be limited to interventions carried out as ad hoc basis following the occurrence of irregularities. The effectiveness and efficiency of the activities of subordinate or supervised entities should be assessed using both power and no powerful supervision tools.

The cell designated to coordinate supervisory activities should be responsible for ensuring the effective exchange of information. It is therefore necessary to establish procedures for mandatory circulation of information between organizational units responsible for particular areas of supervision (e.g. the area of financial and substantive supervision). Procedures should define the most important aspects of cooperation between such units.

A desirable solution is a cyclical, formalized assessment of subsidiaries and supervised entities based on all information on their functioning held by the supervisory authority (including the results of inspections, reports).

A report on the activities carried out may be an important source of information about the supervised entity. However, the provisions of law do not clearly define the scope of information that should be provided to the supervisory authority.

In addition, the necessary management control mechanisms need to be implemented through the introduction of, for example, harmonized procedures, rules of procedure. Ensuring the respecting the certain principles should be a point of reference for the responsibility for the achievement of specific goals and tasks of the entity's authorized staff.

Management control mechanisms should function effectively, including effective risk mitigation at the lowest costs.

In tax administration units these mechanisms should be unified and adjusted to the organizational structure. They are essential for effective and efficient implementation of objectives and tasks.

Individual objectives were achieved through the use of research methods, such as critical analysis of literature, analysis of normative acts, case studies and surveys. Surveys carried out in tax administration units concerned the implementation of audit tasks, and in particular the assessment of the functioning of management control, including supervision, which are the basic tools for the implementation of goals by tax administration units.

As a result of the conducted research, conclusions were formulated concerning, among others, the need to introduce organizational and behavioral changes in the area of internal audit.

Taking into account ensuring and increasing the effectiveness and efficiency of internal audit, it is recommended to implement in tax administration units the necessary management control mechanisms, as well as the implementation of effective and efficient supervision over the implementation of tasks by subordinate units.

There is a need to unify and update internal normative acts, which subordinate units are obliged to comply with. Updating procedures should be done on the basis of applications submitted by subordinate units, as well as on the basis of the results of internal audit.

The conducted research indicates the need to focus the tasks performed by the internal auditor on issues aimed at reducing the number of inconsistent and unclear interpretations of tax law provisions. These tasks should also concern issues related to the reduction of operating costs of these units. This applies first of all to entities whose costs exceed the amount of revenues.

A solution has been proposed in the form of abandoning the principle of "imposed" measures (indicators). The head of a unit should be able to make objective, independent decisions concerning the achievement of goals by this unit. This also applies to activities related to risk identification, monitoring the performance of tasks and making assessments as part of risk management.

The next conclusion is the recommendation to centralize the audit unit by placement it within the organizational structure of the parent entity. This will ensure the elimination

of the illusory independence of internal audit. Such a solution will also enable a higher level of objectivity in the work of the internal auditor.

It is therefore advisable to introduce regulations ensuring that the internal auditor is assigned the rank of an independent public auditor. The proposed changes would significantly increase the efficiency and effectiveness of the audit activities, thus would increase the effectiveness of the operation of tax administration units.

The research results need to define unequivocally the notion of added value in Polish legal regulations. It is also necessary to define in legal regulations the quality criteria, the fulfilment of which will determine the achievement of unmeasurable added value by an individual. These criteria should be adjusted to the size and scope of activity of particular units.

In the developed issues, special attention has been paid to ensure that both organizational independence and operational independence of the internal audit are reflected in the results obtained and in reliable, accurate planning of tasks resulting carried out from the risk analysis. At the same time, illusory independence has a negative impact on the accuracy of the internal auditor's selection of tasks to be performed. Failure by the internal auditor to perform the audit task, which is caused by the will imposed by the head of the unit, has a direct impact on the effectiveness and efficiency of internal audit.

Striving to eliminate illusory independence will have an impact on obtaining positive results in the form of: planning areas, implementation of audit tasks, as well as ensuring real and measurable added value by the internal auditor.

Dissertation achievements include the results of the analysis of issues related to the functioning of management control, including supervision and the measurement of management, effectiveness and efficiency in the tax administration units.

Implementation of internal audit should focus on systematic evaluation of the entity's activities in order to ensure effectiveness in achieving the goals and proposing changes to improve or improve the entity's efficiency.

Advice should help to identify weaknesses in the efficiency of the unit in the management system and implementation of appropriate solutions. For effectiveness

the cooperation between auditors and control units in the context of adding value to the unit is crucial for the effectiveness of internal audit.

The research has shown that the conclusions and recommendations of the self-assessment questionnaires require ongoing and systematic implementation.

According to the author, further research should be focused on the implementation of a uniform system for documenting the effectiveness of tasks by tax administration units, e.g. in the form of a results measurement card. The unit should also take care of an adequate functioning, protection and control of the resources of the subordinate units, including IT systems.

The results of the dissertation indicate the need to carry out further internal audit studies in the evaluation of the functioning of management control in order to provide real and measurable added value.

Therefore, the role of the internal auditor is to pay special attention to the problems existing not only in the public finance sector units, including tax administration units, but also entrepreneurs, concerning the issues of consistency of the balance sheet law with the tax law, as well as the application of simplifications in the tax law.

Organizing an efficient tax system responsible for the assessment, collection and control of public levies and ensuring financial security is one of the tasks of the Minister of Finance. The consolidation carried out in 2017 is primarily a reaction to the problems observed resulting from: duplication of certain tasks related to, among others, the process of collecting tax revenues and customs duties, dispersion of the scope of responsibility for the implementation of tasks, lack of consistency of databases in functioning information systems, insufficiently developed channels of communication between individual tax administration units. The new organizational structure and an appropriate approach to the implementation of objectives and tasks with the support of internal audit contribute to increasing the effectiveness and efficiency of the activities of tax administration units.

The effectiveness and efficiency of internal audit depends on the location of the audit unit in the organizational structure of the unit, as well as on the subordination of the internal auditor to the head of the unit. This is directly related to illusory independence. The organizational and operational independence of the internal auditor is a prerequisite for the internal auditor to achieve effectiveness by adding value.

The conducted research shows that the direct reason for the lack of real and measurable effects of internal audit is the inclusion in the binding provisions of law of the mandatory subordination of the internal auditor to the head of the unit. According to the author, incorrect legal solutions result in the existence of illusory independence. The achievement of added value depends on the proposed amendment to the law. Therefore, in order to ensure an increase in the effectiveness and efficiency of internal audit by achieving real and measurable added value, it is required to change the provisions of law in this respect.

Chowdhury Alauddin