

# **Injecting Fiscal Discipline in the Mobilization and Utilization of Resource for Sustainable Development: the role of the Internal Auditor**

# INTRODUCTION

- ▶ Resource mobilization has time and again proved to be a path towards the sustainable development of the economy of a nation and that is why it is considered by most nations as an effective approach towards the development and progress of a nation.
- ▶ Government at different levels have the responsibility of mobilizing resources in order to meet the needs of the citizenry in terms of providing public goods and services, as well as ensuring the wellbeing of their citizens

# INTRODUCTION

- ▶ Every country has economic resources within its territory known as domestic resources. But often they might not be available for collective use. The percentage of resources used when compared to the potential is often very low.
- ▶ For a country to grow, identification and mobilization of its resources is necessary. It should be available for easy use and for central and state level planning.

# WHAT IS CALLING FOR OUR ATTENTION ?

Developing countries like Ghana are endowed with all kinds of natural resources which include Gold, Bauxite, Petroleum etc.

But from our research on the usage of natural resources in our country, we found that the resources are depleting every day. For example:

- ✓ Forest and arable land is being depleted due to urbanization and illegal deforestation.
- ✓ Water resources are being contaminated and are drying up due to illegal mining

## FISCAL DISCIPLINE IN RESOURCE MOBILIZATION AND UTILIZATION

- ▶ Fiscal discipline refers to the ability of government to balance revenues and expenditures. When fiscal discipline is not maintained, expenditures exceed revenues which create fiscal deficit (i.e. public financial needs). Resource mobilization is therefore needed to raise funds for more developments.
- ▶ Resource mobilization can lead to improved development only if they are translated into productive and beneficial public expenditure. For this reason, both sides of the fiscal equation—revenue and expenditure—need to be examined together.

# BACKGROUND – WHAT’S THE REVENUE MOBILIZATION CAPACITY NOW?

- ▶ Revenue Mobilization is central to Government’s ability to prosecute the developmental agenda of the State. Development experts and multilateral development finance institutions such as the World Bank and the International Monetary Fund (IMF) have consistently supported developing countries to better mobilize domestic revenue. According to research, when countries achieve a 16.5% tax-to-GDP ratio, they move to higher levels of the growth. Sadly, about a third of countries in emerging markets have tax-to-GDP ratios below 16.5%.
- ▶ Ghana’s tax-to-GDP ratio in 2021 was 14.7% below the threshold.. According to the IMF Fiscal Monitor revealed that Ghana’s tax revenue to GDP will hit 16.5% this year.
- ▶ Due to such low government income, the government has been running burgeoning budget deficits. Ghana’s current deficit, according to the 2022 Budget Statement, is 12.1%.
- ▶ With such low revenue to GDP ratio, the country is challenged in delivering on the country’s development agenda – low levels of investment in education, health, public infrastructure, housing, and social safety net.

# WHAT IS THE COST OF FINANCING THE SUSTAINABLE DEVELOPMENT GOALS?

- ▶ According to estimates from the United Nations, the world will require global investment of between \$5 trillion to \$7 trillion per year until 2030 for the Sustainable Development Goals to be achieved; \$3.3 trillion to \$4.5 trillion per year in developing regions (including Africa), mainly for basic infrastructure, food security, climate change mitigation and adaptation, health and education
- ▶ Specifically, to the African continent, the investment gap for achieving the SDGs is estimated at between **\$200bn and \$1.2trillion per annum.**
- ▶ The Government of Ghana and the National Development Planning Commission (NDPC) estimate that Ghana needs annual investment of US\$54 billion to achieve the sustainable Development Goals. Currently just about US\$9billion is being invested – leaving annual deficit of US\$45billion.

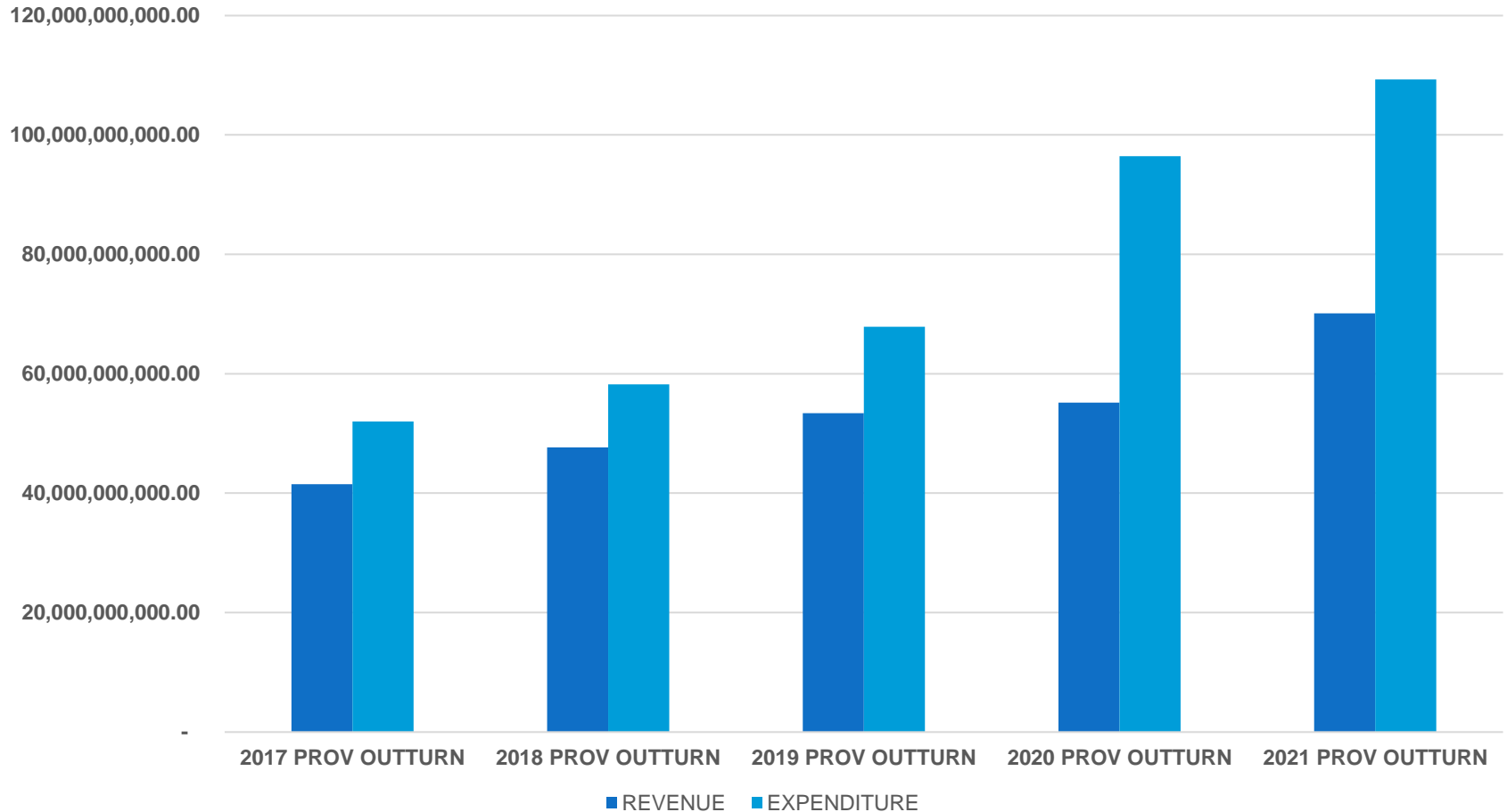
# ECONOMIC CLASSIFICATION OF CENTRAL GOV'T REVENUE & EXPENDITURE - 2017 TO 2021

	REVENUE	EXPENDITURE	DEFICIT
<b>2017 PROV OUTTURN</b>	41,497,894,312.78	51,985,948,597.15	- 10,488,054,284.37
<b>2018 PROV OUTTURN</b>	47,636,732,966.97	58,196,960,204.75	- 10,560,227,237.78
<b>2019 PROV OUTTURN</b>	53,379,610,096.85	67,856,108,798.49	- 14,476,498,701.63
<b>2020 PROV OUTTURN</b>	55,138,214,396.08	96,410,209,252.55	- 41,271,994,856.47
<b>2021 PROV OUTTURN</b>	70,096,526,873.35	109,275,888,610.96	- 39,179,361,737.61

Source: Ministry of Finance and Economic Planning



# Economic Classification of Central Gov't Revenue and Expenditure



## DOES GOVERNMENT HAVE THE CAPACITY TO MOBILIZE THE NEEDED RESOURCES TO ACHIEVE THE SUSTAINABLE DEVELOPMENT GOAL ?

- ▶ As far as the financing needs of the sustainable development goals are concerned, no developing country has the capacity to mobilize the needed revenue to finance the Sustainable Development Goals, and Ghana is no exception. The financing gap for achieving the sustainable development Goals globally is in the trillions of dollars.
- ▶ This notwithstanding however, based on the current revenue losses and mismanagement of public funds, the Government has the capacity to increase its annual investments for sustainable development goals from the current average \$9billion by 50% to more about \$13.5billion, per my conservative estimates, by sealing revenue leakages and efficient management of public funds.

# A FRAMEWORK FOR REVENUE FOR DEVELOPMENT

**In a very broad sense, injecting financial and fiscal discipline entails the following:**

## **Domestic Resource Mobilization**

- Improve taxation capacity
- Improve expenditure efficiency.
- Curb illicit financial flows.

## **Domestic Private & Financial Sectors**

- Improve the business enabling environment, including through a good public investment program.
- Develop financial institutions and markets.
- Improve financial inclusion.

## **External Private & Financial Sectors**

- Draw the best development impact from FDI.
- Ensure the effective use of borrowing from international capital markets, which is an increasing source of financing for developing countries.
- Leverage additional private sectors of financing for infrastructure
- Resource mobilization.

# FISCAL DISCIPLINE

Fiscal discipline is defined as the ability of a government to sustain smooth monetary operation and long-standing fiscal condition. It is a benchmark for tax devolution.

A balance between the Government revenue and expenditure in an economy is known as fiscal discipline. It is important to maintain this balance, else the expenditures may exceed the government receipts.

Fiscal discipline, improved revenue generation, rational allocation and efficient use of resources must be imbibed by every tier of government to return the economy to the path of sustainable growth and development.

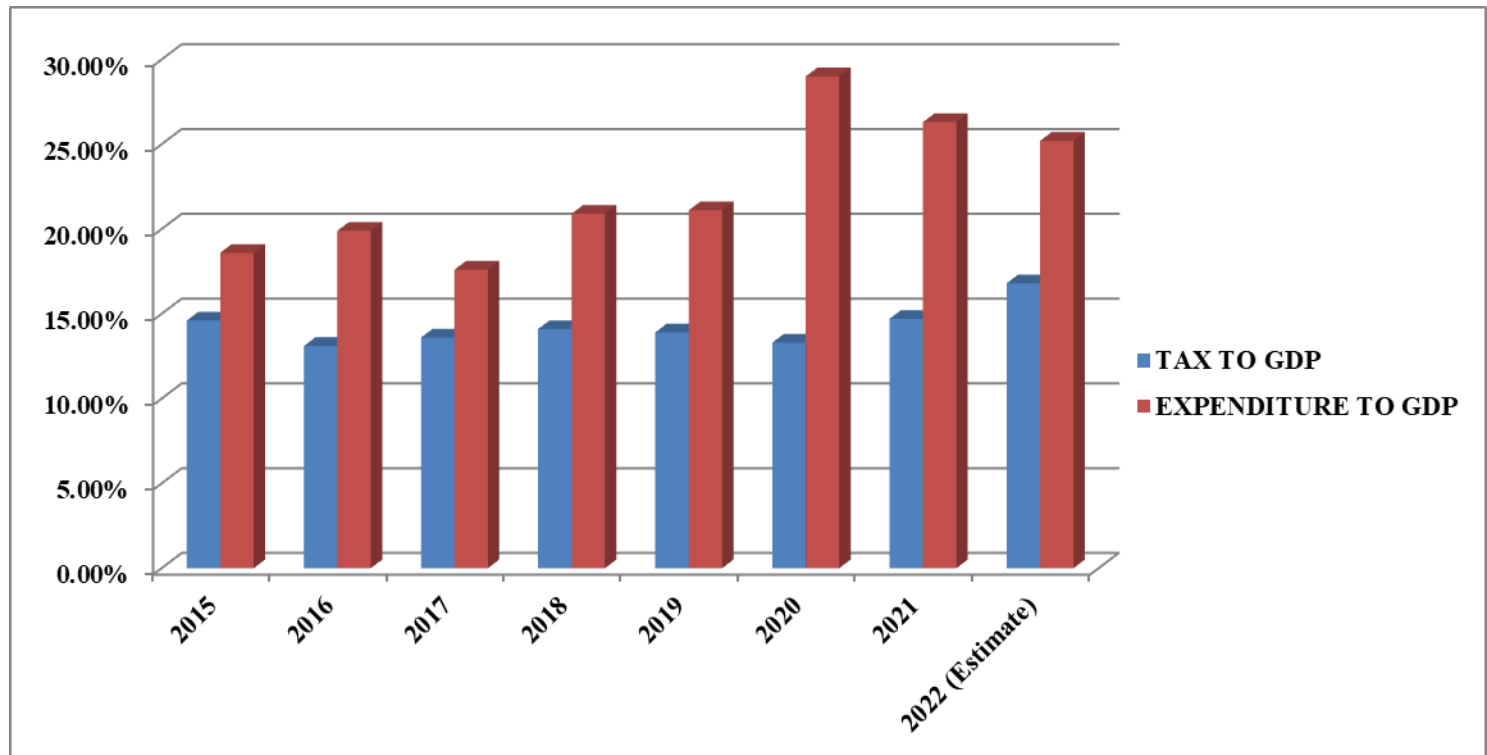
In a very narrow sense, injecting financial and fiscal discipline entails the following:

- ▶ Efficient and effectivel management of the tax revenue
- ▶ Improving expenditure efficiency
- ▶ Curbing illicit Financial flows
- ▶ Limiting SOEs preferential access to financing (in case it exists )
- ▶ Monitoring and managing the fiscal burden and potential fiscal risk of SOEs

# IMPROVING TAX REVENUE

	TAX TO GDP	EXPENDITURE TO GDP
<b>2015</b>	14.60%	18.60%
<b>2016</b>	13.10%	19.90%
<b>2017</b>	13.60%	17.60%
<b>2018</b>	14.10%	20.90%
<b>2019</b>	13.90%	21.10%
<b>2020</b>	13.30%	29.00%
<b>2021</b>	14.70%	26.30%
<b>2022 (Estmate)</b>	16.50%	25.20%

# TAX AND EXPENDITURE TO GDP



# ECONOMIC CLASSIFICATION OF CENTRAL GOV'T REVENUE & EXPENDITURE – 2017 TO 2021

	REVENUE	TAX REVENUE	TAX %
2017 PROV OUTTURN	41,497,894,312.78	32,227,583,993	77.66
2018 PROV OUTTURN	47,636,732,966.97	37,784,185,991	79.32
2019 PROV OUTTURN	53,379,610,096.85	45,639,400,381	85.50
2020 PROV OUTTURN	55,138,214,396.08	44,447,772,184	80.61
2021 PROV OUTTURN	70,096,526,873.35	56,533,098,540	80.65
Source: Ministry of Finance and Economic Planning			
<a href="https://mofep.gov.gh/index.php/fiscal-data">https://mofep.gov.gh/index.php/fiscal-data</a>			

# IMPROVING TAX REVENUE

- ▶ Taxation provides governments with the funds needed to invest in development including in relieving poverty and deliver public goods and services

## Improving Revenue base through Taxation

- ▶ **Expanding the Tax Base**
- ▶ **Encouraging Tax Compliance**
- ▶ **Improving Tax Administration**
- ▶ **Supporting International Tax Cooperation**



# EXPANDING THE TAX BASE

## 1. SHRINKING THE INFORMAL ECONOMY

- 8.2% of working population pay tax
- 80-85% are employed in the informal sector
- 2 out of 70% pay tax
- Accelerating the growth of firms in the informal sector
- Improving governance
- Tax intelligence software

## 2. TAXING PROPERTY

- Best form of taxation – contributing to social equity – progression
- Difficult to avoid due to high visibility and immobility of land & building.

## 3. TRADITIONAL HEADS

- Very close to the people.
- Close relationship to be established by the Tax authority.
- Level of tax compliance will improve.
- Town hall meetings should be encouraged.

# TAX EXEMPTION

Eliminating exemptions that forego revenue to little useful end—these are often still substantial and can amount to several points of GDP. Tax exemptions to most multinational companies due to Ghana's trade policy to attract foreign investments must be reviewed. The Ministry of Finance has to intensify its oversight to limit the use of special permits which exempt imports from Customs duties and VAT, total exemptions stood at :

<b>2012-2016</b>	<b>Gh¢ 4.56 billion</b>
2017	Gh¢ 2.26 billion
2018	Gh¢ 2.25 billion
2019	Gh¢ 2.43 billion
2020	Gh¢ 1.7 billion

- Parliament has passed the Tax Exemptions Bill, 2022, to regulate the application of tax exemptions and other exemptions and to provide for related matters.

# IMPROVING TAX REVENUE ADMINISTRATION

## 1. Building Efficient and fair tax

- The rich should pay more.
- Capital and resource consumption should be taxed more.
- A flat value added tax is regressive and burdens the poor.

## 2. Public Campaigns

- The need to pay tax
- Examples of Public assets.
- Transparency and accountability

## 3. Recruitment

- Core of professionals.
- Transparency and no discrimination.
- Sense of responsibility, integrity and commitment to the public.

## 4. Suitable Training

- Newly staff
  - Existing staff
- Regulations and Procedures

# ENCOURAGING TAX COMPLIANCE

## Citizens are more likely to comply with tax laws

- if they accept the state as legitimate and credible and are to some extent both willing to support it and afraid of what happens to them if they don't.
- Mobilizing tax for domestic revenue therefore, depends in large part upon how different political groups perceived proposed changes.
- Government fulfillment of promises made to taxpayers will encourage tax compliance which will in turn increase domestic revenue

# SUPPORTING INTERNATIONAL TAX COOPERATION

Using free zones that offer tax holidays not only shrink the tax base but also complicate tax administration and are a major source of revenue loss and leakage from the taxed economy. They should be abolished, if possible in an internationally coordinated way. Because investment decisions depend on a host of factors that often carry more weight than tax incentives, these countries need to improve the business climate while keeping the tax considerations as neutral as possible for investors.

In the context of international economic relations, there should be an increased stimulus to finalize bilateral tax treaties; protect the interests of national revenue from the operation of transfer pricing mechanisms, tax havens and other tax shelters; and secure tax revenue from income attributable to the new and innovative financial instruments, while avoiding harmful tax competition.

Furthermore, laws against manipulative transfer pricing should be introduced and the necessary technical capacities must be created.

# EXPENDITURE CONTROL

- ▶ Fiscal rules, medium-term budget plans, and annual budgets are meaningless if expenditure cannot be controlled during execution.
- ▶ A lack of effective expenditure controls not only threatens macroeconomic stability and fiscal discipline, but can also call into question the integrity of the public financial management system and undermine trust in a government's stewardship of public resources.
- ▶ The objective of expenditure control is to ensure that public resources are spent as intended, within authorized limits, and following sound financial management principles.
- ▶ A distinguishing feature of a government's budget, unlike the budget of a typical business entity, is that it is funded primarily via compulsory taxation of citizens and authorized via an act of Parliament.

# EXPENDITURE TO GDP

<b>EXPENDITURE TO GDP</b>	
<b>2015</b>	18.60%
<b>2016</b>	19.90%
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<b>2021</b>	26.30%
<b>2022 (Estimate)</b>	25.20%

# STATE REVENUE LOSSES & MISMANAGEMENT OF PUBLIC FUNDS

- ▶ In Ghana, the means through which the state loses money can be classified into four main categories;
- ▶ **Inefficient State-owned Enterprises (SOE):** According to State Interest and Governance Authority (SIGA) and the Ministry of Finance, 50% of State-owned Enterprises (SOEs) made losses to the tune of GH¢5.3 billion (US\$0.71 billion) in the fiscal year of 2020 alone.
- ▶ **Infractions & Irregularities at State Institutions:** The latest Auditor General's report shows that the country Ghana has lost about GHS12.8 billion ( US\$1.7 billion) – attributed to infractions and irregularities such as **contract irregularities, tax irregularities, procurement irregularities, payroll irregularities, cash irregularities, challenges retrieving loans from debtors among others.**



# STATE REVENUE LOSSES & MISMANAGEMENT OF PUBLIC FUNDS

- ▶ **Corruption:** In 2021, Ghana Integrity of Public Service Survey revealed that Ghana loses GHC 5billion (about US\$0.70billion) to bribes paid to public officials.
- ▶ **Illicit Financial Outflows:** The Africa Centre for Energy Policy (ACEP) estimates that about US\$1.4billion is lost to illicit financial flow in the extractives sector alone.

# Other areas of expenditure losses

- ▶ contract irregularities,
- ▶ tax irregularities,
- ▶ procurement irregularities,
- ▶ payroll irregularities,
- ▶ cash irregularities,
- ▶ challenges retrieving loans from debtors among others.
- ▶ Elections costs etc.

# ILLICIT FINANCIAL FLOWS (IFFS).

Money illegally earned, transferred, or used that crosses borders”.

IFFs involve illegal movement of money or capital from one country to another that are illegal earned, transferred, and/or utilised to, among other things evade tax.

- ▶ Curbing illicit financial flows (IFFs) can help mobilize capital to finance the achievement of the Sustainable Development Goals and other national priorities. According to UNCTAD’s Economic Development in Africa Report 2020 IFFs contribute to \$88.6 billion of capital flight per year in Africa.
- ▶ A report of the high-level panel on IFFs estimated Africa’s loss on IFFs at more than \$1 trillion over the last 50 years, a sum nearly equivalent to all the official development assistance the continent received during the same period.
- ▶ A report from Global Financial Integrity in 2015 revealed that Ghana lost \$3.2 billion through trade mispricing for both imports and exports.
- ▶ Currently, there is no full data on how much Ghana losses through IFFs. The Ghana Statistical Service has initiated a process in the export and import sector over the last 21 years(2000-2021)

# Some examples of illicit financial flows include:

- ▶ A drug cartel using trade-based money laundering techniques to mix legal money from the sale of used cars with illegal money from drug sales;
- ▶ An importer using trade misinvoicing to evade customs duties, value-added tax, or income taxes;
- ▶ A corrupt public official using an anonymous shell company to transfer dirty money to a bank account in the United States;
- ▶ Under invoicing exports of extractive commodities, particularly gold, is an important source of capital flight from Africa. To curb IFFs, countries should collect more and better trade data, close loopholes in tax treaties and strengthen regulatory frameworks.

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING RESOURCE MOBILIZATION?

- ▶ The United Nations Conference on Trade and Development (UNCTAD) identifies;
- ▶ **Tax irregularities** (*tax evasion, tax avoidance, misinvoicing, etc*):
- ▶ Tax revenue is an important source of financing for the Government. For a developing country like Ghana, where only about 8.2% (according to the finance minister) of the working population pays income tax, corporate tax revenue is extremely important and contributes a significant share of Government's total revenue. These tax irregularities occur in both State-owned Enterprises and private enterprises.
- ▶ It is because of this that, the role of Internal Auditors in both public and private enterprises in making sure that tax regulations are complied with and companies are paying their fair share in taxes is critically important to the revenue mobilization agenda of the country

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION?

- ▶ **Corruption :**
- ▶ In tackling institutional corruption, Internal Auditing department is critically the first line of defense and expected to raise red flags to management and the directors for swift appropriate action to be taken.
- ▶ Internal auditors play a dynamic roll against find out the discrepancies of anti-corruption by adopting the audits techniques and follow to the complaints standards
- ▶ Internal controls design, implementation and monitoring to prevent and detect collusion, fraud etc.

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION?

## Transfer Pricing:

- ▶ The Internal audit of “tax” transfer pricing involves a review of the company’s transfer pricing framework. This includes policies, process/systems, accountability, people and monitoring relevant to setting the arm’s length prices through to recording the international related party dealing in the system.(IPSAS 20 & 1AS 24)
- ▶ The internal Auditor’s role is to review and investigate to ascertain whether a company is compliant with applicable transfer pricing regulations.( Transfer Pricing Regulations, 2020 (LI 2412)

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION?

- ▶ **Illicit flows from other criminal activities:**
- ▶ At high level, Government needs to put in place effective policy frameworks to tackle illicit financial flow. But at the company level, illicit financial flow occurs because internal compliance team is compromised
- ▶ An internal Auditor (IA), whether public or private sector, has a role in curbing the losses the State suffers through periodic monitoring and reviews of all foreign exchange transactions.
- ▶ The internal Auditor must report periodical to management and the board on significant risk exposures and control issues
- ▶ For a private sector IAs, the role is to ensure that the firms cut losses while, at the same time, boosting profits and ensuring tax compliance standards are strictly adhered to. As the companies become more profitable, they pay more in corporate taxes and help Government's revenue mobilization agenda.



# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION AND FISCAL DISCIPLINE?

## ▶ **Improving Public expenditure**

- ▶ Excessive and unplanned public expenditure create burden on the people of a state. So, any increase in public expenditure should be carefully monitored and controlled in order to lower the public burden.
- ▶ The role of internal Auditor on expenditure control system is to ensure that the level and allocation of government expenditure reflect the will of the legislature as voted for in the budget.
- ▶ Internal control on expenditure should also reflect sound financial management principles, ensuring that public resources are utilized efficiently, incurred obligations are cleared in a timely manner, abuse/misappropriation of public money is prevented, and private actors compete on a level playing field for government contracts. That's the work of the internal auditor.

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION AND FISCAL DISCIPLINE?

## ▶ Revenue Receipts

The Internal Auditor's role concerning audit of receipts of the Governments, require it to satisfy itself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue, and are being duly observed in practice.

The focus of internal audit is generally on system deficiencies and weaknesses, with individual cases of system failures.

# WHY THE ROLE OF INTERNAL AUDITORS IS KEY TO ENHANCING REVENUE MOBILIZATION AND FISCAL DISCIPLINE?

## Other roles of internal Auditor

- ▶ Develop a combination of risk- and compliance-based audit initiatives by integrating Enterprise Risk Management (ERM):
- ▶ increase skill sets (increasing the role of IT and subject matter professionals and leverage resources):
- ▶ Focus on fraud, including the hotline's actions, the control environment, and risk assessments.
- ▶ Create a role of advisor for efforts like rationality and ERM:
- ▶ Develop a continuous audit competence and have an impact on continuous monitoring.
- ▶ Internal Auditor is considered the first line in the corporate governance and ethics fortress.

# Tools for Internal Auditor

Auditors use tools such as financial audits, performance audits and investigative and advisory services to fulfill each of these roles

The empowering legislation that provides the mandated authorities under which the Internal Audit Unit operates includes:

- ▶ The Public Financial Management Act, 2016 Act 921
- ▶ The Internal Audit Agency Act, 2003 Act 658 (IAA)
- ▶ Internal Standards for the professional practice of internal auditing
- ▶ International Financial Reporting Standard (IFRS)
- ▶ International Public Sector Accounting Standards (IPSAS)
- ▶ Internal Audit Charter, 2018
- ▶ Security Industry Act, 2016 (Act 929)
- ▶ Anti-Money Laundering Act, 2008 (Act 749)
- ▶ The 1992 Constitution – Act. 183
- ▶ Companies Act, 2019 (Act 992)
- ▶ Transfer Pricing Regulation, 2020, (LI 2412)

# Conclusion

- ▶ The role of Internal Auditors is critical to the Mobilization and Utilization of resources for sustainable development. In summary it includes :
- ▶ monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws.
- ▶ Working in partnership with management, internal auditors provide the board, the audit committee, and assurance that risks are mitigated and controls are effective.
- ▶ Internal auditors make recommendations for enhancing processes, policies, and procedures.