

# CAG and ACC can team up to crack down on swindlers

*Says the Comptroller and Auditor General (CAG) of Bangladesh*

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A common platform comprising the Office of Comptroller and Auditor General (OCAG) of Bangladesh and the Anti-Corruption Commission (ACC) is on the cards to apprehend the financial wrong-doers and punish them, said the country's top auditor.

However, there is a legal issue since the ACC is a prosecuting body, while the OCAG is not, Mohammad Muslim Chowdhury, the Comptroller and Auditor General (CAG) of Bangladesh, told The Daily Star in an interview recently.

"Audit findings are a work in progress until finalisation of the audit report, so if the ACC carries out prosecution on that basis, the move may face legal challenges."

But if the OCAG can make audit reports up-to-date, things will not be that much late and the ACC will be able to take actions on the basis of the reports. The ACC is already doing that, he said.

The OCAG has completed the audit for fiscal 2017-18.

The top auditor feels that the faster the audit report is produced the higher the impact of audit on all stakeholders.

"It will take time. It will not happen this year. But we will try next year to analyse the transactions of the first six months during the second half with the help of iBAS data and perform audit in the same year."

The iBAS is the Integrated Budget and Accounting System and Chowdhury was engaged in a supervisory role during the development and implementation of the programme.

The system is a fully automated web-based platform, which captures and processes all government transactions as soon as they take place.

The iBAS+, which is its updated version, is working as an excellent electronic platform for automated budget control, online pay bill submission, report generation and employee database, including that of pensioners.

Balances for general provident fund are now maintained centrally.

The CAG has supervisory role on the country's accounting and payment systems and is collaborating with the finance division for improving the infrastructure.

"When it comes to payment and accounting systems, our target is to gradually stop people from visiting government accounts offices for payments. The culture has already started."

Thanks to recent changes in the country, pensioners are receiving monthly pension through electronic fund transfer (EFT), a payment system that directly credits amount to the client's chosen bank account.

Payments related to social safety net and pay and allowances of government employees are also disbursed through the EFT.

"These are big positive signs for improvement of public services. In the future, contractors or suppliers will also receive their claims online instead of manual cheques."

Audits are also benefiting from consolidated as well as individual voucher level information on expenditure, revenue reported in iBAS++.

Now, sensitivity and materiality are clearly identified for risk analysis at the audit planning stage using iBAS data without visiting the offices physically before field audit.

It will help detect critical audit areas in advance and reduce the cost of audit.

"I have put thrust on this issue since I joined as the CAG."

Bangladesh is gradually moving away from traditional approach and zeroing in on high-impact auditing with a view to ensuring value for taxpayers' money, he said.

"Audit is changing. We are moving towards a more focused and risk-based approach."

The CAG is a constitutional body and entrusted with the duty to provide independent assurance over whether taxpayers' money has been spent in the best interest of the citizens and applicable rules are complied.

He reports the findings to the parliament through the President.

The reports are discussed in the public accounts committee



Mohammad Muslim Chowdhury

(PAC) and the public undertaking committee (PUC) of the parliament. The committees examine witnesses and makes recommendations to take corrective and preventative actions.

"If the PAC and PUC work effectively, checks and balances can be ensured. It is also critically important that the recommendations made by the PAC and PUC are complied with by the government."

There has been a rise in instances of unnecessary procurement -- with no any link to the need.

"There is no dearth of laws and regulations. There is a lack of checks and balances. Time has come to ask questions on whether a procurement was necessary."

Taxpayers are not paying taxes for unnecessary expenditure -- they are giving taxes for a return.

"Constitutionally and by spirit, this is taxpayers' money and should be spent for the benefit of the public."

The country's 12th CAG pioneered public sector financial management reform. He was awarded Jonproshashon Podok for his contribution to the improvement of public service delivery.

A highly accomplished person with an illustrious career in the civil service spanning 33 years, Chowdhury has had an in-depth and broad-based knowledge and experience on matters of public financial management, administration and governance.

He was a member of the Bangladesh Civil Service (Audit and Accounts Cadre) 1984 batch. Prior to assuming the office of the CAG in July 2018, he was the finance secretary.

According to Chowdhury, there

are question on whether the OCAG is conducting the audits with skilled personnel, in a proper way and in a timely manner.

"There is also governance issue on whether the institutional capacity of these committees is strong enough to work effectively."

Under Chowdhury, the audit directorates have been re-organised; their numbers have been increased to 17 from 10 to properly align audit assignments with various areas of public expenditure such as education, health, agriculture etc.

There has been an unfortunate practice of delaying sanction of pension of an employee if their last work stations are not audited, he said.

"We have made it clear to the government (the finance division) that sanctioning of pension has

nothing to do with audit pendency."

Audit must be performed based on significance and national importance, and not as a customary routine work to add an unnecessary layer to pension sanctioning process, said Chowdhury, who holds a Master of Science degree in finance and accounting from the University of Birmingham in the UK.

Although there is no complete database, there are about 8 lakh unsettled audit observations as of 2015 and at least half of them are not serious financial irregularities in nature and are more of technical or general observations, the top auditor said.

Huge amount of time and other resources are spent in pursuing these observations every day. Ultimately, the cost is higher than the benefit. Secondly, people who were responsible for the general irregularities couldn't be traced now.

"In no way it is helping in improvement of public service delivery. So, it is better to drop them off instead of pursuing them. I have planned to shelve the general audit observations as of 2015," Chowdhury said.

Now, the OCAG will scrutinise this particular group of observations. If they are found to be really serious they would be included in the future audit reports as old observations.

"If not, we will hand them over to the ministries and tell them to take corrective measures about them. As a result, there will not be huge volumes of backlogs in the future and more attention could be given to fresh audit to address contemporary crucial issues."

For performance audit, a higher level auditing that looks at economy, efficiency and effectiveness, skilled people have to be developed.

"The OCAG will carry out performance audit selectively like it did in the past."

Financial audit is also yet to be covered effectively by the OCAG. Countries like Bangladesh are not able to run audits like those in developed countries by embracing best international practices because every nation has different levels of absorptive capacity, Chowdhury said.

# Can the tobacco tax structure cut back tobacco use and raise government revenue?



NASIRUDDIN AHMED

Bangladesh is one of the largest tobacco consumers in the world with 37.8 million adults aged 15 years and above -- who are about 35.3 per cent of the country's population -- consuming tobacco products, according to the Global Adult Tobacco Survey (GATS) 2017.

Although the overall prevalence of tobacco use declined by 18.5 per cent from 2009 to 2107, the consumption of cigarettes and smokeless tobacco (SLT) remains very high.

The economic cost of tobacco use was estimated at Tk 30,570 crore (\$3.6 billion), which was about 1.4 per cent of Bangladesh's GDP in 2018.

A tobacco tax structure matters because how tobacco taxes are structured has implication for protecting public health and enhancing government revenue.

Increases in tobacco taxes that result in significant increases in prices are highly effective in reducing tobacco use, particularly among the youth and the poor.

At the same time, increasing tobacco taxes can bring in new revenues to finance health and development efforts.

In Bangladesh, the government has developed a complex tax structure of tobacco products, which is characterised by multi-tiered ad valorem tax system, low tax base and large variations in prices and taxes within and across different tobacco products.

These factors have contributed to the affordability of tobacco products in Bangladesh.

**TOBACCO PRICES AND TAXES**  
Available evidence shows that tobacco prices and taxes are much lower in Bangladesh compared with several

developing countries.

Different tax rates for different tobacco products provide incentives for tax avoidance as manufacturers can alter their pricing or production decisions in order to avoid higher tax liabilities that can lead to revenue loss for the government.

**PRODUCT SUBSTITUTION**  
Large price gaps between brands create opportunities for consumers to switch to cheaper brands in response to increased taxes.

In Bangladesh, the differential tax treatment has led to product substitution from the medium tier to the low tier of cigarette.

The market share of the low tier is more than 67 per cent in fiscal 2019-20 while that of medium tier is 14 per cent in the same period.

The effect of the product substitution is evident from the fact that the revenue share of the low tier of cigarette is about 44 per cent in fiscal 2019-20 while that of medium is 17 per cent.

The overwhelming share (more than 67 per cent) of low tier of cigarettes in the market leads to loss of government revenue as the low-priced tier yields lower revenue (about 44 per cent in fiscal 2019-20).

**INFORMALITY AND HETEROGENEITY OF SLT PRODUCTS**

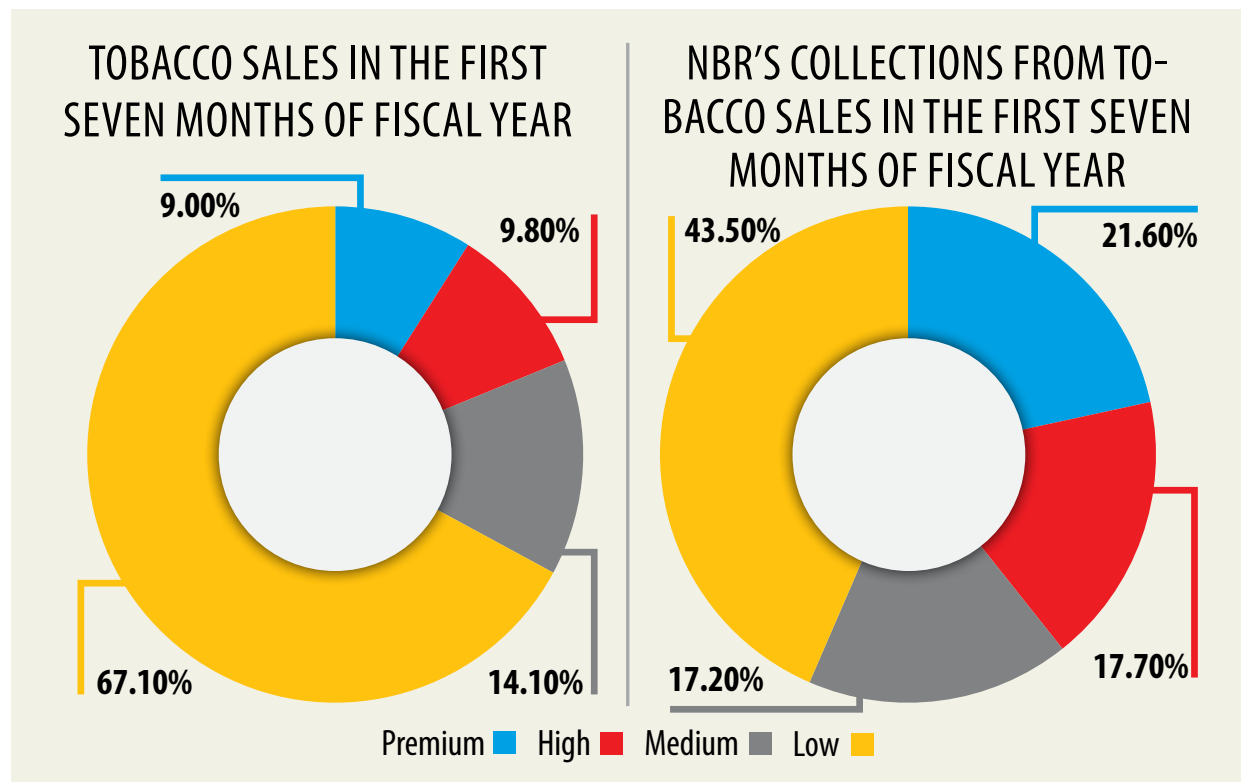
In Bangladesh, 22 million (20.6 per cent) adult people use SLT products, of whom 16.2 per cent are men and 24.8 per cent are women, according to GATS 2017.

SLT is an area of growing concern for public health and it contributes to only 0.22 per cent of the NBR tobacco revenue.

However, there exists challenges of regulating SLT products because of heterogeneity of such products, which are often manufactured in small and unlicensed units, with tax evasion and illicit trade being common.

Therefore, SLT manufacturing units need to be formalised by bringing them under the registration process.

**SPECIFIC VS AD VALOREM TAXES**  
• With respect to the impact on tobacco product prices, ad



## BANGLADESH'S TOBACCO TAX STRUCTURE IN FISCAL 2019-20

Tobacco Products	Category	Tax base	Price	VAT (%)	SD (%)	HDS (%)
Cigarette (10 sticks)	Low	Maximum retail price (MRP)	Tk 37+	15	55	1
	Medium		Tk 63+	15	65	1
	High		Tk 93+	15	65	1
Biri (sticks)	Without filter (25 sticks)	Maximum retail price (MRP)	Tk 123+	15	65	1
	With filter (20 sticks)		Tk 14	15	30	1
SLT (pouch of 10 gram)	Zarda	Maximum retail price (MRP)	Tk 17	15	40	1
	Gul		Tk 30	15	50	1
			Tk 15	15	50	1

SOURCE: NBR

valorem taxes result in greater price differentials between high and low-priced products than in the case for a single specific tax.

Ad valorem tax creates more opportunities for users to switch down to cheaper brands in response to tax increase resulting in reduction in revenue.

• In terms of revenue, specific tax is likely to generate more stable and predictable revenue than ad valorem tax.

• Specific excise taxes tend to be easier to administer than ad valorem tax.

• Empirical evidence from different countries show that specific taxes are more effective than ad valorem taxes in reducing tobacco use and raising tax revenue.

**POLICY IMPLICATIONS**

The results of a recent study suggest that the overall consumption of smoking tobacco products does respond significantly to price changes.

The poor households are found to be more responsive to the changes in the prices of cigarettes and biris than the rich households.

By raising prices, cigarette tax increase would prevent cigarette smoking initiation, promote cessation, lower consumption among the continuing smokers, and reduce the death, disease, and economic costs of smoking.

Thus the simulation result of the study supports that a policy intervention of reducing the existing four price tiers of cigarettes to two and introducing a specific tax component for all tiers would serve the dual purpose of reducing tobacco consumption and enhancing government revenue.

Therefore, using the tobacco tax structure by phasing out of the tiers of tobacco products and introducing a specific tax component for all tobacco products would serve the dual purpose of reducing tobacco use and enhancing government revenue.

Measures may also be taken to formalise SLT manufacturing units by bringing them under the registration process.

The writer is the former chairman of the National Board of Revenue