

Towards Self Reliance



ANNUAL 2016-17 REPORT



Government of
Khyber Pakhtunkhwa



APPRECIATION

By

POLICY MAKING COUNCIL

"The Council lauded the progress made during the year 2017, relating to Institutional Development: especially establishment of Directorates and Collectorates, framing Rules and Regulations, Planning and Budgeting, and sustained growth of revenue by achieving the set targets."

"The Chief Minister appreciated the efforts made so far by the Director General and his team for making the Authority forward looking, more sustainable and vibrant revenue generating institution for Khyber Pakhtunkhwa."

CHIEF MINISTER

August 2017

VISION

- We facilitate tax payers and strive to make khyber Pakhtunkhwa self-reliant.

- To contribute substantially to provincial own receipts through improved tax administration and voluntary tax compliance

MISSION

VALUES

- Integrity
- Transparency
- Fairness
- *esprit de corps*

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KPRA: Goals and Objectives



KPRA Approach & Methodology

Quality & Efficient Service

- Settle tax affairs promptly and accurately
- Encourage compliance
- Consistent and impartial in dealings
- Keep client affairs confidential
- Provide the basis for decision taken

Fair & Just

- Provide services of high ethical standards
- Encourage whistle-blowing of suspect dealings
- Provide same service level to all stakeholders
- Allow taxpayers to exercise their rights for re-examination of tax affairs and resort to objection & appeal procedures

Assist & Communicate Clearly

- Provide forms, returns and brochures
- Courteous in our dealings
- Give relevant information and assistance online and at our tax facilitation centres
- Listen to suggestions & improve service where possible
- Accessible in order to upgrade the quality of service

Raising Standards & Being Accountable

- Excellent standards in our operational services (Response time & quality)
- Publish these standards and review with a view to raise level of service to stakeholders
- Accountable to stakeholders

MESSAGE OF THE CHIEF MINISTER

Khyber Pakhtunkhwa has an overwhelming fiscal dependence on federal transfers that it receives in the form of shares from the federal divisible pool and through straight transfers. The Provincial Own Source Revenue (OSR) has a narrow base, nevertheless not professionally fathomed. The 18th constitutional amendment provided an opportunity in shape of transfer of the Sales Tax on Services to the provinces. Keeping in view the reform agenda of our Government, the province tax regime was expanded through enactment of Khyber Pakhtunkhwa Finance Act, 2013, and establishment of Khyber Pakhtunkhwa Revenue Authority (KPRA) there under, in the very first year of the Government.



KPRA is thus the focus of our tax reforms to explore and tap the potential of revenue generation for the province. The transition team, headed by Director General KPRA, is performing up to our expectations, which is very much apparent through recent institutional development efforts, resulting in establishing sustainable and vibrant organization, fully equipped for tax administration in the province. More effective OSR mobilization will give the province fiscal space to expand provision of public services. Given the present pace and mode of cross cutting institutional reforms, I hope that fully functional and capable KPRA, will play a key role in raising Khyber Pakhtunkhwa as a prosperous and developed province.

Pervez Khattak

Chief Minister, Khyber Pakhtunkhwa
Chairman, Policy Making Council, KPRA

MESSAGE OF THE MINISTER

It is my privilege to place, on behalf of Policy Council of KPRA, the first ever Annual Report for the year 2016-17 before the Provincial Assembly as required under Section 103 of the Khyber Pakhtunkhwa Finance Act, 2013, which provides:



“the Authority shall, within three months of the close of a financial year, submit to the Government an annual report. The Government shall, within two months of receiving the report from the Authority, give notice for laying the report in the Provincial Assembly of the Khyber Pakhtunkhwa, and shall lay the report before the Assembly in its first available session”.

The Authority, established by the present Government, has completed its four (04) years of operation and has contributed Rs. 35 billion to the provincial exchequer, enabling the present government to invest in social development and public welfare.

I recognize that expected level of performance is rarely achieved without the guidance and leadership provided by a sound governance structure. Consequently, during the year under review, the Policy Making Council worked diligently to discharge its stewardship functions and provided oversight to the Authority by establishing a cohesive and well defined Corporate Governance Framework which conforms to the international best practices in the tax administration.

Throughout the years, it has been my privilege to work with the Authority, and extended all my support to make it one of the most successful tax administration organizations of the province.

Mian Jamshed ud Din Kakakhel

Minister Excise, Taxation & Narcotics Control Department/
Member Policy Making Council

STATEMENT OF THE DIRECTOR GENERAL

I feel honored in presenting the first ever Annual Report of Khyber Pakhtunkhwa Revenue Authority for 2016-17 and first half of 2017-18. Since the establishment of KPRA in 2013, the organization was never fully operationalized due to many reasons, including frequent turnover of top management. Nevertheless, this nascent organization successfully achieved the revenue targets despite meager human resources and other constraints. The institutional development, legal framework, strategies formulation and team building were finally completed during the year, 2017. Two policy Making Council meetings were held in April, 2017 and August, 2017 wherein, major decisions were taken which laid a sound foundation for this important revenue collection organization.



We believe that with the support of our stakeholders, the Authority will be in a position, not only to win laurels but also set new standards of organizational efficiency, and promotion of voluntary compliance of sales tax laws in the province. Our aim is to stimulate the service providers and continue to assist them in meeting their tax obligations conveniently and without any hassle.

I take this opportunity to thank Chairman and members of the Policy Making Council for extending their full support; and KPRA team who worked beyond the call of duty for transforming KPRA into an efficient, forward looking and modern public-sector Revenue Authority. I am confident that the Authority will achieve its intended objectives in coming few years, which would realize our vision of a self-reliant Khyber Pakhtunkhwa, *In-sha-Allah*.

Muhammad Tahir Orakzai

Director General, KPRA

Secretary, Policy Making Council

EXECUTIVE SUMMARY

Khyber Pakhtunkhwa Revenue Authority (KPRA), as a corporate entity, was established under the Khyber Pakhtunkhwa Finance Act, 2013, with the mandate to administer and collect Sales Tax on Services. KPRA is governed, with relative autonomy, and placed under the Excise and Taxation Department to have an interface with the Government.

The Council acts as the Policy Making body chaired by the Honourable Chief Minister, Khyber Pakhtunkhwa, and comprising of three (03) Cabinet Ministers for Finance, Law and Excise and Taxation, the Chief Secretary, Secretaries of the Finance, Law, Excise, Taxation and Narcotics Control departments and four representatives nominated by the Government from the private sector.

Annual Report of the Authority is mandatory under Article-103 of the Act *ibid*, which is to be compiled annually and presented to the Provincial Assembly. However, this report is the first Annual Report since 2013. This document details the broad overview of KPRA in terms of its structure, functions, targets, performance and achievements for the FY 2016-17 and first half of 2017-18.

The tax system in Khyber Pakhtunkhwa reflects a narrow base and fragmented revenue administrations through various departments namely: Revenue & Estate and Excise and Taxation etc. KPRA has emerged as the largest tax collection Authority of Khyber Pakhtunkhwa contributing, 31.63% to the total Provincial Own Receipts and 56.42% to the total Provincial Tax Receipts for the year, 2016-17. KPRA was envisioned to enhance fiscal space for social development in the province. The Authority has generated total revenue of Rs. 35 billion since its inception.

KPRA has faced several challenges since its beginning including frequent changes in the top management. Nevertheless, it has generated significant revenue through expanding the tax base for services, informed compliance and introducing automated systems and processes. However, the delayed operationalization negatively impacted the desired goals of tapping of the potential revenue.

Notwithstanding the above, the year 2017 proved to be productive in terms of not only achieving the revenue targets set by the Provincial Government; but also progressed on institutional development in its true spirit. The Authority was able to frame necessary byelaws under the Finance Act, 2013, devised organizational structure aligned with strategic goals and objectives. Besides, successfully completed the recruitment process by employing capable human resource.

KPRA also developed various strategies including a comprehensive communication strategy for enhanced emphasis on informed compliance. The transition team of the Authority successfully managed the technical assistance of multiple development partners in governance reforms.

KPRA being a nascent tax administration organization developed systems and procedures to ensure efficiency and transparency in its operations. Besides, an efficient financial management system is in place ensuring preparation of financial statements of the accounts, statement of revenue receipts, its reconciliation with the Accountant General, Khyber Pakhtunkhwa; and regular conduct of external and internal audit, managing risks, and continuous monitoring of internal processes in order to build confidence of the taxpayers and achieve the strategic goals of KPRA.

The history of Sales Tax in Pakistan began with the **Government of India Act, 1935**, where in the same was in the provincial domain. Subsequently, it was transferred to the Federal Government under the **General Sales Tax Act, 1948**. The Government of Pakistan started enforcement of sales tax under **Sales Tax Act, 1951**, which provided for a limited base but subsequently the tax base was broadened through a **Presidential Order of Taxation of Sales and Purchase in 1960** thus incorporating import, export and manufacturing of commodities, and extending several incentives. The **Sales Tax Act 1951** was amended in 1981. In order to introduce the **Value Added Tax (VAT)**, the Sales Tax Act of 1951 was repealed by the **Sales Tax Act, 1990**.

The **Sales Tax on Services was introduced in the year 2000** in the provinces, which enabled all the Provincial Governments to promulgate respective ordinances. However, the tax was collected by the Federal Government due to lack of capacity in the provinces. Eventually in light of the demand of the provinces, the **18th Constitutional Amendments 2010** transferred the Sales Tax on Services to the provinces.

This necessitated provincial legislation for Sales Tax on Services and establishment of tax collecting entities in the provinces.

Taking the lead, Sindh province legislated the Sindh Sales Tax on Services Act, 2011; followed by Punjab enacting the Punjab Sales Tax on Services 2012. The Government of Khyber Pakhtunkhwa introduced levy of Sales Tax on Services through Khyber Pakhtunkhwa Finance Act, 2013.

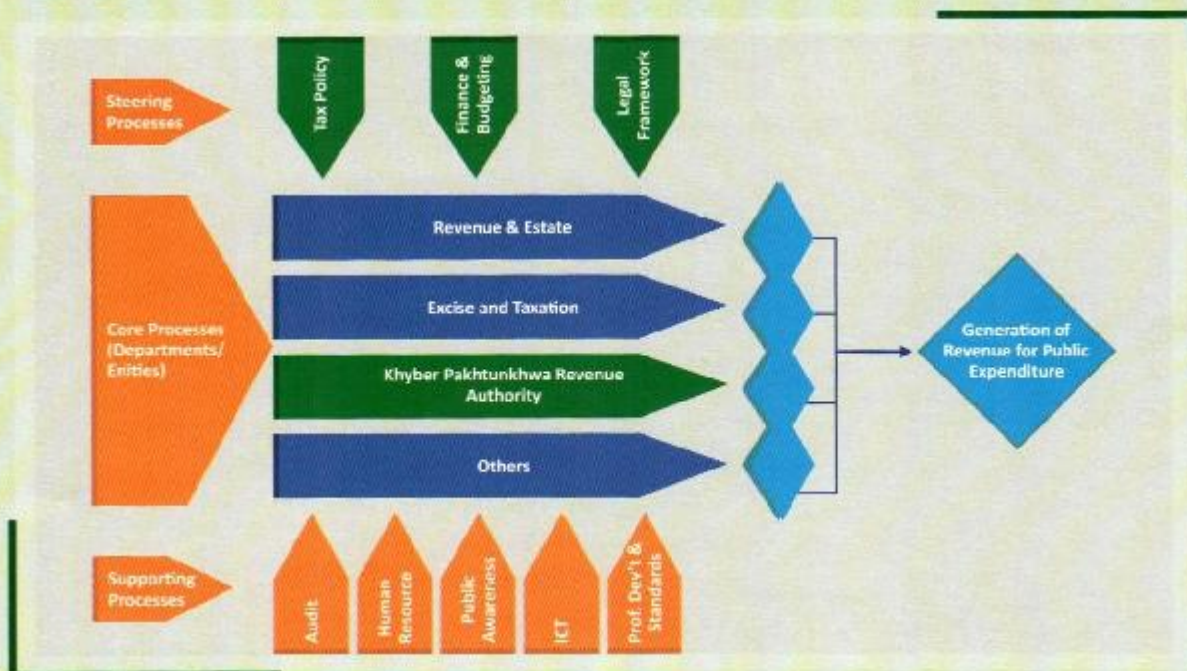


Figure 1: Provincial Revenue Organizations for Tax Collection

The tax system in Khyber Pakhtunkhwa reflects a narrow base and fragmented revenue administration through various departments namely: Revenue & Estate, Excise and Taxation, Local Government and Mines & Minerals etc. KPRA has emerged as the largest Tax Collection Authority of Khyber Pakhtunkhwa, contributing 31.63% to the total Provincial Own Receipts and 56.42% to the total Provincial Tax Receipts for the year, 2016-17.

In an effort to strengthen the provincial revenue administration, especially for the Sales Tax on Services, the provincial government established KPRA under Khyber Pakhtunkhwa Finance Act, 2013, as part of the governance reforms.

KPRA is mandated for imposition, levy, collection and administration of tax on services provided, supplied, rendered, initiated, originated, executed, received, delivered or consumed in the Province of Khyber Pakhtunkhwa.¹

¹Khyber Pakhtunkhwa Finance Act, 2013.

The provincial tax receipts are largely depending on revenue from Sales Tax on Services as reflected in the table below:

Year	Tax Revenue	Target (millions)	%age Contribution
2016-17 ²	Total Provincial Tax Receipts	18,204	100
	Other than Sales Tax on Services	8,204	45
	Sales Tax on Services (KPRA)	10,000	55
2017-18	Total Provincial Tax Receipts	22,306	100
	Other than Sales Tax on Services	8,653	39
	Sales Tax on Services (KPRA)	13,653	61

In the year 2016-17, out of total tax revenue targets of Rs. 18,204 million, out of which Rs. 10,000 million i.e. 55% of the target was given to KPRA on account of Sales Tax on Services. Similarly, in the year 2017-18, the target has further been increased from Rs. 10,000 million to Rs. 13,653 million which is 61% of the total tax revenue.

KPRA encountered multiple challenges and impediments in legal, administrative and organizational performance during its initial period. Khyber Pakhtunkhwa Finance Act, 2013, provided for several Directorates, Collectorates and Appellate Tribunal, yet these were not operationalised due to frequent posting/transfers of the top management. Additionally, organization remained in firefighting mode and decisions were made on ad-hoc basis. Lack of specialised human resource, absence of rules and regulations under the said Act seriously hampered KPRA performance.

The above-mentioned bottlenecks triggered the need for comprehensive institutional reforms. Institutional development initiatives were made in the current year 2017 which includes but not limited to:

- organizational development;
- drafting of Rules and Regulations;
- organization structure aligned with organization goals and objectives;
- strategic human resource planning & recruitment;
- strategies formulation;
- financial management systems: Budgeting, Audit & Internal Control etc.;
- broadening of tax base; and
- engagement of Development Partners to support reforms.

²<http://www.financekpp.gov.pk/attachments/article/338/Annual-Budget-Statement-2017-18.pdf>

The present government has focused on this nascent Authority, in order to be the trendsetter/ role model, and better equipped to fully exploit the potential of Own Source Tax Revenue in the province.

KPRA is, therefore, emerging as a transparent, efficient and robust tax management Authority with an aim to adopt modern effective tax administration methods, information technology systems and policies to consolidate assessments, improve processes, organize registration of tax payers, widen the tax base, and make departmental operations more efficient including enforcement, or reduction or remission in duty, penalty or tax, in accordance with the relevant fiscal law.

The Figure-2 Shows the organizational structure of KPRA approved by the Council in its 4th meeting.

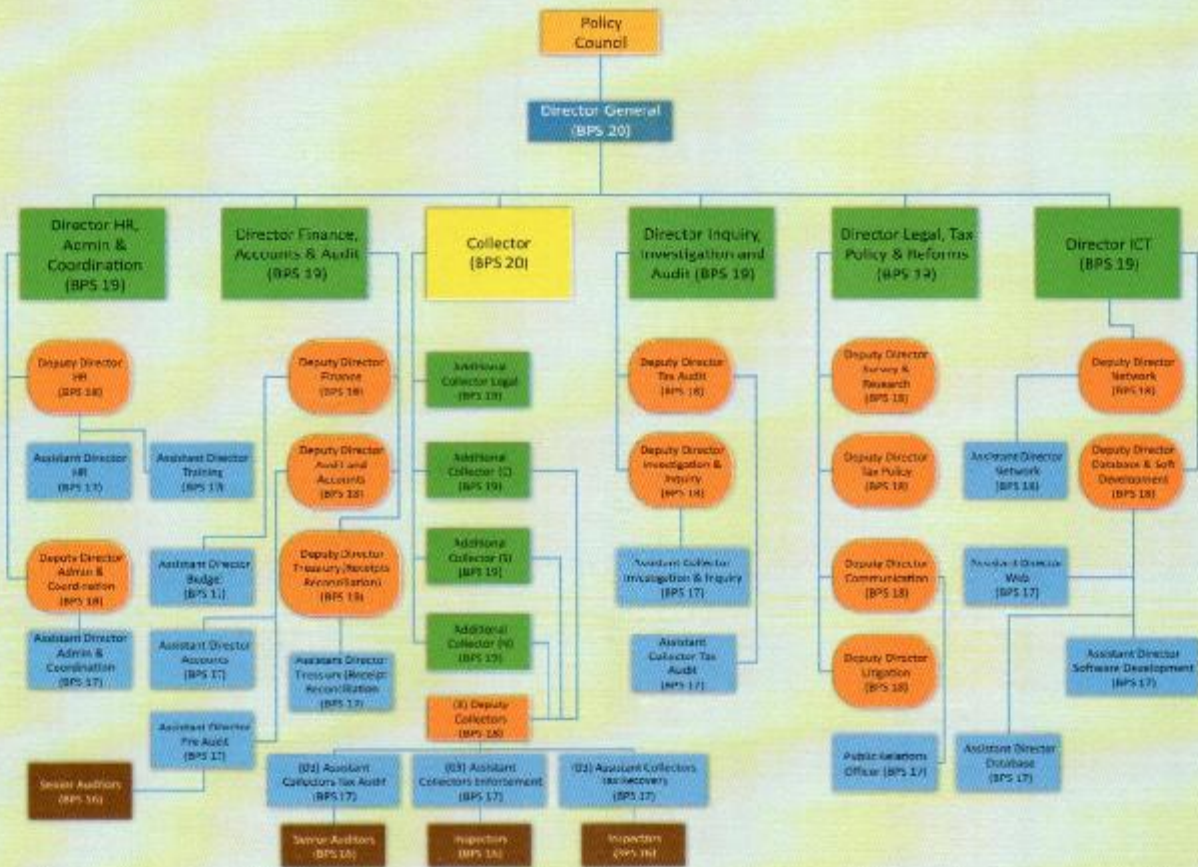


Figure 2: Organization Structure

Khyber Pakhtunkhwa Revenue Authority (KPRA), as corporate entity, was established under the Khyber Pakhtunkhwa Finance Act, 2013, with the mandate to administer and collect Sales Tax on Services. KPRA is governed, with relative autonomy, and placed under the Excise and Taxation Department to have an interface with the Government.

The **Council** is chaired by the Honourable Chief Minister, Khyber Pakhtunkhwa, and comprising of three (03) Cabinet Ministers for Finance, Law and Excise and Taxation, Chief Secretary, Secretaries of the Finance, Law, Excise, Taxation and Narcotics Control departments and four representatives nominated by the Government from the private sector.

The Council is a **policy making body** for the Authority which formulates policy guidelines pertaining to tax administration, planning, reforms, budget and any other matter referred to it. The policies formulated by the Council are binding upon the Authority.

The **Director General KPRA** acts as **Secretary to the Council** and is responsible to implement all the decisions of the Council through the respective Directors and Collectors of the Authority and submit a progress report to the Council in this behalf.

The **Authority** comprises of Director General and not less than three Directors who are appointed by the Government. Presently the Authority is comprised of one Director General and five Directors. The Director General acts as Chief Executive of the Authority. Figure-3 visually sums up the Governance Framework of the Authority.



Figure 3 KPRA Governance Framework

The Collectorate of Sales Tax on Services headed by a Collector acts as **operational wing** of the Authority with its headquarter at Peshawar and two regional offices at Bannu and Abbottabad.

Appellate Fora

Collector (Appeals) functions as an appellate court and taxpayers may file appeals against the decisions taken by the respective **Collectorates**.

Taxpayer as well as KPRA, if aggrieved with the decision of the Collector (Appeals), can recourse to the **Appellate Tribunal**.

Taxpayer as well as KPRA, if aggrieved with the decision of the Appellate Tribunal, can prefer a reference to the **High Court** if a question of law is involved in the case.

Figure-4 visually summed up the Appellate Fora.



Figure 4: KPRA Appellate Fora

Performance Overview of KPRA

Initially eleven (11) service sectors were included in Schedule-II of Khyber Pakhtunkhwa Finance Act 2013. During the period from 2014-15 to 2016-17 the tax base has been broadened by adding more sectors in Schedule-II. The total taxable sectors in the year 2017-18 reached to ninety one (91). On August 6, 2013, KPRA started its journey by registering seven (07) persons which number raised to three hundred and eight (308) at end of June, 2014 and by December 2017, 1160 registered taxpayers have regularly filed their monthly returns.

In the first year of its establishment in 2013-14, KPRA was able to collect Rs. 6.02 billion against the target of Rs. 6.0 billion. During the next financial year i.e. 2014-15 the target was raised to Rs. 12 billion (100% increase) without any empirical evidence and altogether ignoring the capacity of nascent organization. Resultantly, the organization was able to collect Rs. 6.2 billion. Again, in the financial year 2015-16, a target of Rs. 14 billion was fixed. However, the target was revised to Rs. 8.0 billion against which a total collection of Rs. 7.2 billion could be managed.

During the year 2016-17, the Government of Khyber Pakhtunkhwa set the target of Rs. 10 billion, which represented an increase of 25% over the previous year's target. KPRA collected revenue of Rs. 10.27 billion which include Rs. 1.4 billion as recovery from a Court case.

Year Wise Revenue Collected

(Rs. in Billion)



Figure 5: Year wise revenue collected

Service Sectors Wise Revenue Collection

The following table shows a comparative analysis of revenue generated and the %age growth in revenue collection from service sectors during the years 2015-16 & 2016-17.

Names	Collection		%age Growth in Collection
	2015-16	2016-17	
Telecom	4,272,816,290	4,433,784,163	4%
Oil and Gas	1,384,206,776	1,439,051,174	4%
Withholding Agents	309,982,322	636,478,017	105%
Banks	402,483,208	497,244,911	24%
Other Services	271,685,352	433,900,427	62%
Contractors	63,207,820	325,228,412	416%
Security Services	111,783,188	175,766,497	58%
Hotel and Restaurant	165,661,332	162,708,990	-2%
Overseas Manpower Exporter	68,129,142	132,421,316	94%
Insurance	68,516,622	69,363,287	1%
Internet Services by PTCL	-	1,646,659,834	
Others	150,756,809	246,931,517	64%
Total	7,269,228,861	10,206,538,545	40%

KPRA vis-a-vis FBR

Pre-2013, FBR collected taxes on services and distributed among the provinces accordingly. Post 2013, the tax collection on services has experienced a steady growth. KPRA collected **Rs. 29.5 billion** in just four (04) years, in comparison with overall tax collection of **Rs. 22.8 billion** made by FBR during twelve (12) years i.e. 2001 to 2013 as seen in graph.



The increase in revenue collection by KPRA justifies the decision of transferring the sales tax on services collection to the provinces.

Strengthening Legal framework

KPRA takes pride in strengthening its legal framework by drafting KPRA Act, 2017 and making Rules and Regulations under Khyber Pakhtunkhwa Finance Act, 2013. The list of rules and regulations framed in the year 2017 is as under:

S. No.	Description
Rules	
1	Khyber Pakhtunkhwa Delegation of Enforcement Powers Rules, 2017
2	Khyber Pakhtunkhwa Policy Making Council of the Authority Business Rules, 2017
3	KPRA Directors (Terms and Conditions) Service Rules, 2017
4	Khyber Pakhtunkhwa Sales Tax on Services (Recovery) Rules, 2017
5	Khyber Pakhtunkhwa Sales Tax on Services (Audit) Rules, 2017
Regulations	
1	KPRA Employees (Appointment, Promotion and Transfer) Regulation, 2017
2	Amendment in KPRA Employees (Appointment, Promotion and Transfer) Regulation, 2017
3	KPRA Business Regulation, 2017
4	KPRA Appointment of Consultants and Advisors Regulation, 2017
5	Amendment in Withholding Regulation, 2017
6	Khyber Pakhtunkhwa Sales Tax on Services (Adjudication & Appeals) Regulation, 2017
7	Khyber Pakhtunkhwa Sales Tax on Services (Registration & De-Registration) Regulation, 2017
8	Khyber Pakhtunkhwa Sales Tax on Services (Filing of Returns) Regulation, 2017
9	Khyber Pakhtunkhwa Sales Tax on Services (Authorized Representatives) Regulation, 2017
10	Khyber Pakhtunkhwa Sales Tax on Services (Computerized System) Regulation, 2017
11	Khyber Pakhtunkhwa Sales Tax on Services (Adjustment of Tax) Regulation, 2017
12	Khyber Pakhtunkhwa Sales Tax on Services (Specific Provisions) Regulation, 2017
13	Khyber Pakhtunkhwa Revenue Authority Transport and Staff Vehicles (Use and Maintenance) Regulation, 2017
14	Khyber Pakhtunkhwa Revenue Authority Employees (Conduct) Regulation, 2017
15	Khyber Pakhtunkhwa Revenue Authority Employees (Efficiency and Discipline) Regulation, 2017
16	KPRA Employees (Absorption) Regulation, 2017
17	KPRA Employees (Appeals) Regulation, 2017
18	KPRA Financial Regulation, 2017

19	KPRA Delegation of Financial Powers and Powers of re-appropriation Regulation, 2017
20	KPRA Employees General Provident Fund Regulation, 2017
21	KPRA Employees Pension Regulation, 2017
22	KPRA Employees Medical Attendance Regulation, 2017
23	KPRA Employees TA DA Regulation, 2017
24	KPRA Employees Benevolent Fund and Group Insurance Regulation, 2017
25	KPRA Reward Regulation, 2017
26	KPRA Employees (Leave) Regulation, 2017

Strategy Formulation

In order to gain sustainable and steady increase in Sales Tax collection KPRA has prepared **Revenue Collection Strategy (RCS)** with four main components i.e. Taxpayer Compliance Strategy, Audit Strategy, Withholding Strategy, and Enforcement Strategy. Besides, a comprehensive Communication Strategy has also been prepared.

Human Resource Management

Only a capable Human Resource can steer this fledgling institution towards its full potential. As stated earlier the organization was understaffed at all tiers which impeded the routine operations of KPRA. Therefore, a major HR plan was introduced in the current year encompassing a blend of expertise which led to coming together of the current transition team comprising members from the civil service and technical experts. In order to functionalise the directorates and Collectorates, 198 positions have been sanctioned. Moreover, a pre-service training of two months for all the BS-7 and above officials has been introduced for the new employees and also on-job trainings arranged with help of the donor agencies. A transparent and merit based system has been launched to choose the best among the aspirants. Moreover, serving employees have been incentivised through a special allowance in order to boost their morale and enhance efficiency.

Engaging Development Partners

As the task of capacity building and gaining quick dividends is complicated, various donors' agencies have been engaged in order to seek both financial and technical assistance. US-AID, World Bank and GIZ have been contributing to the ongoing reforms through various interventions in shape of conducting surveys, recruitment, content/record development, and trainings etc. KPRA looks forward to a long standing and synergistic partnership with all the respective donors.

Currently KPRA is being assisted by USAID - KP Governance Project, GIZ - Support to Local Governance and World Bank administered MDTF - Governance Policy Project. Their technical support at this institution building stage is of immense importance.

Broadening of tax base

In order to explore potential tax payers in the hotel industry, the Authority obtained data about operational hotels and restaurants of Naran Valley through secondary source and served them with notices for mandatory registration. Besides, Informative workshops were held in order to educate the hotel and restaurant owners about their obligations towards Sales Tax on services and their role in improving the Provincial tax revenues. The restaurants and hotels showed positive response to those notices which led to increase in revenue.

IT Enabled Taxpayer Support Services

The taxpayers have been provided all-encompassing e-services on net and through call centres for e-filing, e-payment and e-record keeping facilitation over the dedicated web portal of the Authority at www.kpra.kp.gov.pk. The web portal enables the service providers who intend to register for Sales Tax on services, voluntarily, to give particulars about his business or services at his convenience on an online application form. Another website www.kpra.gov.pk has been recently launched to educate the taxpayers and sharing of comprehensive information with all stakeholders.

Awareness Campaigns

KPRA conducted series of event for awareness of taxpayers and their obligation to pay taxes on the services they deliver in Khyber Pakhtunkhwa. KPRA reached out to the masses via social media, TV talk shows, print, and electronic media in order to sensitize them on the registration process and filing their tax returns.

Training of Withholding Agents

Through a series of workshops, around 200 withholding agents have been trained and sensitized about their obligation under the Withholding Regulation. A significant improvement has been observed in revenue coming through withholding agents.

Budget Estimates and Revised Estimates 2016-17

Government of Khyber Pakhtunkhwa provided grant in aid of Rs. 110 million during 2016-17 which was credited to the KPRA Fund through Assignment Account. Based on the available resources, the Authority prepared Budget Estimates 2016-17. The Estimates were revised during the current financial year keeping in view the actual expenditure during the first seven (07) months of the financial year. An expenditure of Rs. 101.676 million has been incurred during the financial year 2016-17. Major object wise details of both Budget Estimates, Revised Estimates and Actual Expenditure are given below:

Amount in Rupees

Particulars	Budget Estimates	Revised Estimates	Actual Expenditure
Employees related expenditure	22,046,250	29,914,000	27,359,697
Operating expenditure	49,546,500	56,959,000	51,166,739
Pension contribution	-	2,467,000	2,466,293
Transfer	150,000	91,000	90,174
Physical Asset	2,557,250	19,686,000	19,684,062
Repair & Maintenance	700,000	883,000	879,294
Advances	-	-	30,000
Total expenditure	75,000,000	110,000,000	101,676,259

As per requirement of the Khyber Pakhtunkhwa Finance Act, 2013, Annual Financial Statements i.e. Assets and Liability Statement, Receipt and Expenditure Statement and Budget vs Actual Expenditure Statement for the year 2016-17 have been prepared in accordance with the International Public-Sector Accounting Standards (IPSAS) which are **annexed** to the report.

Budget Estimates 2017-18

As a result of major institutional revamping, Budget Estimates of Rs. 400 million were proposed to the Government of Khyber Pakhtunkhwa. Finance Department approved the proposal of the Authority and allocated grant in aid of Rs. 400 million in the Schedule of Authorized Expenditure of the Government of Khyber Pakhtunkhwa

for the FY 2017-18. An amount of Rs. 100 million has since been released through the Assignment Account of the Authority. Expenditure of Rs. 31.442 million has been incurred up to 31.12.2017. The savings are primarily due to non-recruitment of KPRA staff. Object wise details of the Budget Estimates and actual expenditure is given below:

Amount in Rupees

Particulars	Budget Estimates	Expenditure upto 31/12/17
Employees related expenditure	201,361,000	21,943,828
Operating expenditure	113,472,000	6,718,436
Pension contribution	23,567,000	2,203,965
Transfer	1,200,000	145,733
Physical Asset	54,000,000	64,320
Repair & Maintenance	6,400,000	315,809
Advances	0	50,000
Total expenditure	400,000,000	31,442,091

External Audit - Section 14(1)

As per requirement of the law, Director General Audit, Khyber Pakhtunkhwa has conducted audit of the accounts (expenditure) of KPRA for the year 2015-16 and 2016-17. The report received from Director General Audit has been discussed in the Departmental Audit Committee (DAC). Besides the accounts of Revenue Receipts for the year 2014-15 has also been audited. The report has been discussed in the Departmental Accounts Committee (DAC).

Internal Audit – Section 14(2)

MS Zahid Jamil & Co Chartered Accountants has conducted Internal Audit of the accounts of the KPRA for the years 2013-14, 2014-15 and 2015-16. The management letter received has been responded and corrective measures have been taken.

Tax Audit – Section 50

One of the major functions of any revenue Authority is to conduct audit of the taxpayers to curb tax evasions and frauds. Since KPRA was not fully operationalized hence no tax audit was carried out during reporting period. However, selective desk audit has been conducted which led to substantial increase in the revenue generation. Additionally, the Authority has framed KPRA Audit Rules, 2017 and Audit Policy which would enable the auditors of the Authority to conduct tax audit in a professional manner.

KPRA faced numerous challenges in the conduct of its mandated functions during its teething period since 2013. Some of the major challenges and impediments encountered are;

- i. Un-documented economy;
- ii. Un-awareness among the taxpayers and general public;
- iii. Traditional un-willingness to pay taxes;
- iv. Trust deficit to perception of corruptions and misuse of public resources;
- v. Weak tax culture and prevailing cynicism;
- vi. Tax illiteracy among small business owners;
- vii. Lack of will and capacity of the withholding agents;
- viii. Issues with FBR;
- ix. Dependency on PRAL;
- x. Intra-province jurisdiction issues e.g. settled areas and PATA;
- xi. Frequent transfers of top management;
- xii. Lack of Rules & Regulations;
- xiii. Lack of strategic plan, organizational structure & HR plan;
- xiv. Non-availability of required professional Technical staff; and
- xv. Non-availability of Collector Appeals & Appellate Tribunals.

KPRA is a leading agency of the province in terms of its revenue contribution to provincial exchequer. Given the immense potential of sales tax on services in the province, KPRA will be a key player in the gradually reforming tax governance system by adopting modern tax practices and automated processes.

We believe that efficient system is one that inculcates the tax ethos among the citizens, which in turn will lead to voluntary tax compliance, fostering tax culture and eventually triggering all other public investments in development and social sectors.

We intend to strengthen this institution through adopting best HR practices, devising people centred processes, efficient tax audit in terms of value for money with strict

mechanism for internal and external financial audit. Next step is to unleash the latent potential of the human resource through performance and integrity management. These measures, pursued with strategic approach, will not only enable the Authority to tap the maximum potential in Sales tax on Services; but may also provide a solid foundation for a uniform and integrated taxation regime across the province.

ACRONYMS

AG	Accountant General
BRA	Baluchistan Revenue Authority
CM	Chief Minister
DG	Director General
ET&NC	Excise, Taxation and Narcotics Control Department
FABS	Financial Accounting and Budgeting System
FBR	Federal Board of Revenue
FD	Finance Department
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
HR	Human Resource
ICT	Information & Communication Technology
IT	Information Technology
KPPRA	Khyber Pakhtunkhwa Public Procurement Regulatory Authority
KPRA	Khyber Pakhtunkhwa Revenue Authority
LoGo	Local Governance
NFC	National Finance Commission
PATA	Provincially Administered Tribal Area
PRA	Punjab Revenue Authority
PRAL	Pakistan Revenue Automation Ltd
PTMS	Provincial Tax Management System
SoP	Standard operating procedures
SRB	Sindh Revenue Board
STS	Sales Tax on Services
VAT	Value Added Tax

ANNEXURE-1: FINANCIAL STATEMENTS

**KHYBER PAKHTUNKHWA REVENUE AUTHORITY
STATEMENT OF ASSET AND LIABILITIES
AS AT 30 JUNE 2017**

CURRENT ASSETS	2016-17 (RUPEES)	2015-16 (RUPEES)
Cash & bank balance	24,500	24,500
Receivables	135,416	105,416
Total current Assets	159,916	129,916
NON-CURRENT ASSETS		
Physical assets	45,571,677	25,887,615
TOTAL ASSETS	45,731,593	26,017,531
CURRENT LIABILITIES		
Payables	5,066	201,282
Total Current Liabilites	5,066	201,282
TOTAL LIABILITIES	5,066	201,282
RESIDUAL EQUITY	45,726,527	25,816,249
TOTAL RESIDUAL EQUITY & LIABILITIES	45,731,593	26,017,531

**KHYBER PAKHTUNKHWA REVENUE AUTHORITY
STATEMENT OF RECEIPT AND EXPENDITURE ACCOUNT
FOR THE YAER ENDED 30 JUNE 2017**

	2016-2017 Receipts (Payments) Controlled by KPR	2015-2016 Receipts (Payments) Controlled by KPR
RECEIPTS		
Grant in aid	110,000,000	75,000,000
Departmental receipts	-	7,500
	<u>110,000,000</u>	<u>75,007,500</u>
EXPENDITURE		
Employees related expenses	27,359,697	9,870,749
Operating expenditures	51,166,739	39,458,937
Pension Contribution	2,466,293	161,592
Transfer	90,174	9,104
Physical Assets	19,684,062	-
Repair & maintenance	879,294	219,227
Advances	30,000	(194,742)
Surrender and Lapsed	8,323,741	25,475,133
TOTAL	101,676,259	49,524,867

KHYBER PAKHTUNKHWA REVENUE AUTHORITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE
FOR THE YAER ENDED 30 JUNE 2017

	Budgeted Amount	2016-2017 (RUPEES) Revised Budget	Actual
Receipts			
Grant in aid	75,000,000	110,000,000	101,676,259
Departmental receipts	-	-	-
Total Receipts	75,000,000	110,000,000	101,676,259
Payments			
Employee related expenditure	22,046,250	29,914,000	27,359,697
Operating expenditure	49,546,500	56,959,000	51,166,739
Pension contribution	-	2,467,000	2,466,293
Transfer	150,000	91,000	90,174
Physical Asset	2,557,250	19,686,000	19,684,062
Repair & Maintenance	700,000	883,000	879,294
Advances	-	-	30,000
Total expenditure	75,000,000	110,000,000	101,676,259

ANNEXURE-2: DIRECTORS' GENERAL INCUMBENCY

S. No.	Name of Officer	From	To
1.	Raheel Ahmad Siddiqi	30.08.2013	17.03.2014
2.	Sardar Amin ullah Khan	18.03.2014	22.10.2014
3.	Fareeda Amjad	28.10.2014	01.07.2015
4.	Muhammad Javed Marwat	17.09.2015	23.01.2017
5.	Muhammad Tahir Orakzai	17.02.2017	

ANNEXURE-3: HIGHLIGHTS OF KPRA EVENTS



Photo 1: 3rd Meeting of KPRA Policy Making Council 2016



Photo 2: 4th Meeting of KPRA Policy Making Council April, 2017



Photo 3: 5th Meeting of KPRA Policy Making Council August, 2017



Photo 6: Launching of KPRA Website on 1st Jan, 2018



Photo 7: Click from KPRA Website



Photo 4: Review Meeting on KPRA Mid Year Progress/Update 2017 18



Photo 5: KPRA Multi-Stakeholders Awareness Session December, 2017



Photo 8: Director General Addressing Withholding Agents on their Responsibility under KPRA Withholding Regulation



Photo 9: Signing of MoU with FBR on Cross Input Adjustments



Photo 10: Coordination Meeting with LoGo-GiZ on Technical Assistance to KPRA



Photo 11: Coordination Meeting with World Bank Mission on Technical Assistance to KPRA



Photo 12: Director General Presentation to 22nd SMC Officers at NIM Peshawar

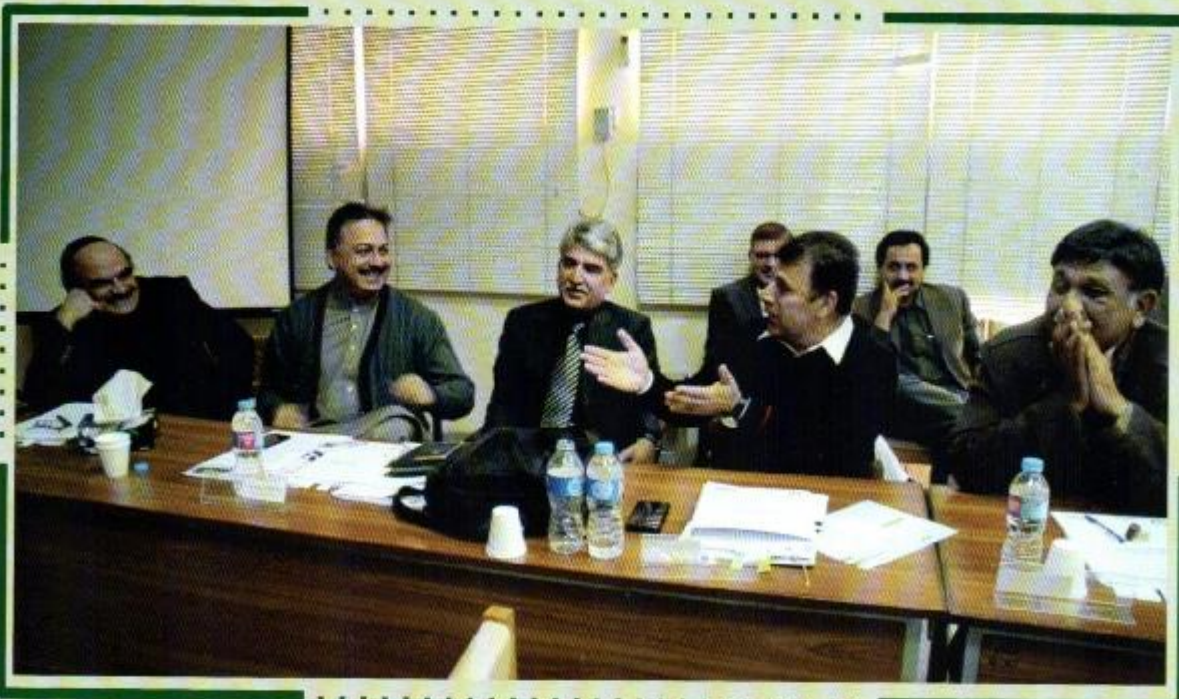


Photo 14: Chief Commissioner RTI, Secretary ET&NC, Director Anti-Corruption, DG Food Safety Authority and Director Ehtesab Commission During a Workshop on Proactive Disclosure on KPRA Recruitments



Figure 15: First Ever Revenue Authorities Coordination Meeting held in Islamabad



Photo 13: KPRA on Electronic Media

“Taxes provide essential public revenues for governments to meet economic and social objectives”

Director General KPRA



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