

## **Terms of Reference (TOR)**

### **Hiring of Consulting Services Firm for providing Technical Assistance**

#### **A. BACKGROUND.**

- (i) The Government of Khyber Pakhtunkhwa with the assistance of the World Bank (WB) has initiated program titled **Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management (KPRM)**.
- (ii) The KPRM program aims to increase Khyber Pakhtunkhwa's own source revenue and to improve the management of public resources for better service delivery. The Program funds expenditures of the main government entities responsible for implementing the PFM Reform Strategy.
- (iii) Reforms to achieve high performance and innovation in the Khyber Pakhtunkhwa Revenue Authority (KPRA) are essential for sustained growth in revenue collection to meet the province's budgetary demands and to finance development programs for public welfare. The main emphasis of tax reforms is promoting voluntary tax compliance through robust compliance control mechanism, enhanced facilitation for taxpayers, improvement of Information and Communications Technology (ICT) based Data Systems for Broadening of Tax Base (BTB), automation and improving accountability and transparency.
- (iv) Given the context, the project intends to obtain the services of a reputable consulting firm to provide on demand technical support to the Project/KPRA through a cross-functional team of highly qualified experts for the task.

#### **B. OBJECTIVE.**

The overall objective of the Taxpayer Audit Wing of the Authority is to have in place a system that will identify the riskiest returns / declarations or non-compliant taxpayers for audit, and then allocate these, in priority risk order, to the available resources.

At present KPRA uses manual selection of audit cases by Auditors based on their own knowledge of the taxpayer's behavior. The manual system has its own limitations:

- i. Being manual as opposed to systematic, auditors can miss some important aspects of non-compliance.
- ii. Auditor use only internal data possibly neglecting relevant information from external sources.

Since it is impossible to control and check every single taxpayer, Risk management is an important element of an effective and efficient management of audit programs. Tax administration where law requires universal/self-assessment filing, will likely audit 10% or less of the total taxpayers population each year. Tax administrations, where laws prescribed only “Business Filers”, may audit up to 30% of the total taxpayers population each year. However, with proper selection, audit will cover up to 90% of the revenue and to provide for sufficient number of audits to effectively deter noncompliance. It is unnecessary to waste scarce enforcement resources on routinely examining low-risk compliant taxpayers.

The objective of the tax audit program, including file selection process, is to allocate examination resources to areas that have the most potential for generating additional revenue. The targeted approach will result in higher revenue from audit activities than an unstructured approach. The Risk assessment techniques calculates a taxpayer’s risk score based on risk criteria using the taxpayer data from tax returns and other sources. The taxpayer’s risk score is used to identify taxpayers for tax audit. A high-risk score means a high probability the taxpayer has misreported his taxes. The objective of the assignment is to assist the Authority for achieving the desired results. The activity is also included under the Program Action Plan (PAP) of Program Appraisal Document (PAD).

### **C. Scope of Consulting Services.**

Khyber Pakhtunkhwa Revenue Authority (KPRA), is looking to modernize its audit processes to meet its existing and future requirements. KPRA seeks the services of a Consulting Firm (herein after termed as the “Consultant”) which shall assess the overall working of Tax Audit in KPRA database for implementation of audit plan for the purpose of audit policy related to taxpayer audit and developing of the risk based audit management system in line with the international best practices and guide/provide recommendations to KPRA for planning, designing technical support audit process management, and compliance assurance of the audit methodology (herein after called the “Assignment”).

The assignment has the following components:

- (i) Carryout intensive review of the updated taxpayer's audit rules, regulations, procedures, practices, recognize implementation status and recommend a proactive audit process in order to ensure improved compliance of the sales tax laws;
- (ii) Identify areas of the laws causing confusions and problems to large number of tax payers and formulate a strategy for the interpretations of those laws.
- (iii) Develop and formulate taxpayer's audit approaches, methodologies and strategies for Audit Case Selection System (ACSS) and Random Audit System (RAS) for large and small/midsize tax payers based on international and domestic best practices;
- (iv) Design selection criteria for coverage of all higher risk areas;
- (v) Based on the review of the FBR's Risk-based Audit System, design and implement a Risked-Based Audit Selection (RBAS) System;
- (vi) Determine and approve parameters for risk scoring session;
- (vii) Prepare rules for using RBAS results for preparing tax audit annual plan;
- (viii) Establish a risk-scoring practice, ensuring risk assessment model monitoring, measuring and improving;
- (ix) Develop procedure for reviewing the score results on the final list of taxpayers, ranked by risk score, to be proposed for tax audit.
- (x) Develop and implement IT application software "Risk-Based Audit Selection System" and "Audit Management Information System" as well as integration with External Platforms of M/s PRAL i.e. Provincial Tax Management System (PTMS);
- (xi) Examine and analyze the result of audit cases in the past, evaluate the outcome of audit and identify the issues in performance of quality audit and give recommendations;
- (xii) Develop standard procedure for analyzing the result of each audit cases in the field to improve the quality of audit;
- (xiii) Assess the taxpayers 'field audit workforce required competencies, recommend improving competencies and address capability gaps through training, mentoring and coaching programs;
- (xiv) Recommend techniques, strategies and actions to enhance the audit program and improved administration of the tax system.
- (xv) Develop the operational framework for 5 Year KPRA Taxpayers Audit Plan for all key activities analyzing the respective trends and international and

domestic best practices setting the objectives and vision of KPRA Taxpayers Audit Plan;

(xvi) Develop KPRA Taxpayer's Audit Manual to ensure compliance with Taxpayers Audit Wing's strategic goal analyzing the compliance trends and international best practices in setting the objectives and vision of the Manual;

(xvii) Ongoing quality assurance of audit and compliance activities for making Annual Audit Report;

(xviii) Provide technical assistance in achieving Taxpayers Audit Wing's KPIs ensuring that audit and compliance activities are in conformance with the Annual Audit Plan;

(xix) Arrange workshops at key stages of the assignment to update and improve deliverables; and

(xx) Develop training modules on effective Tax Audit planning, execution, reporting; and quality assurance and conduct training to build the capacity of the KPRA officers.

#### **D. Expected Deliverables.**

The firm will be responsible to provide the following deliverables:

- i. Inception Report;
- ii. Develop the Operational Framework for five years for KPRA Taxpayers' Audit Plan for all key activities;
- iii. Develop KPRA Taxpayers Audit Policy;
- iv. Develop and implement Risk Based Audit Selection System;
- v. Concept design, technical specification for IT application software integration with data platforms of the Authority;
- vi. Report the result of evaluation of audit cases conducted by the Authority in the past, identifying the issues in performance of quality audit with recommendations;
- vii. Develop Taxpayers' Audit Plan for 2023-24;
- viii. Develop the Operational Framework for Tax Audit Manual for all key activities; and
- ix. Develop training Modules and conduct training to build the capacity of the KPRA officers.

#### **E. Administrative Support Arrangements**

The firm will be required to establish an office in Peshawar during the full duration of implementation of the assignment.

## **F. Facilities to be provided by the Client**

- a. Provide support to the firm in
  - i. collection of data,
  - ii. intimation of workshops to the participants,
  - iii. coordinating with stakeholders for organizing trainings;
- b. Review and critically assess the outputs and deliverables of the experts to confirm that such outputs are in compliance with relevant TORs.

## **G. Duration.**

The duration of this assignment is 12 months.

## **H. Qualification Requirement of the Firm.**

The consulting firm must meet the following:

- i. shall have at least 10 years of post-registration advisory/consulting experience of providing similar services;
- ii. should have completed at least two similar assignments of similar scale and complexity in comparable organization;
- iii. should have adequately established offices;
- iv. should have the following team composition:

### **a. Tax Expert (Indicative)**

#### **Education:**

The tax consultant/expert having Master's in Economics, Law, Commerce, Business Administration, Tax Administration, Finance or other relevant discipline.

#### **Experience:**

- Ten years of increasingly responsible professional experience in the substantive area having sound knowledge of existing and upcoming taxations, its types, and to understand types of target taxpayers.
- Must have expertise in tax law, tax compliance and tax audit planning.
- Extensive experience in research and policy-level analysis.
- Substantial experience in design, monitoring and evaluation of tax/revenue projects
- Strong technical understanding of public sector institutional frameworks, policy and
- ~~Regulatory regime for social sector is required.~~
- Prior experience of working on taxation initiatives ~~in social sector in general~~

### **b. Information Technology Expert**

#### **Education:**

The IT consultant/expert having bachelor/Master's (minimum 16 years education) in Information Technology or Computer Science preferably having Master's Degree in System Management with a focus on Computer Science in Business.

**Experience:**

- At least 10 years experience in Financial Software Development/ERP/MIS, preferably Audit Management Systems and Tax related systems.
- Experience in professional Project Management including requirements analysis specifically.
- Technical expertise regarding Data Analysis and Data Modelling.

**I. Selection Method and Qualification**

The Firm will be selected in accordance with the Consultants Qualification Selection (CQS) method set out in the World Bank's: "Procurement Regulations for Investment Project Financing Goods, Works, Non-Consulting and Consulting Services" (July 2016) revised November 2017, August 2018

**J. Supervision and reporting**

The firm will work with Director General Khyber Pakhtunkhwa Revenue Authority and report to the Project Director KPRM who will be responsible for coordinating assignments of experts to KPRA and Finance Department.