



Asian Development Bank  
Government of the Punjab

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# Fiscal and Financial Management Reform

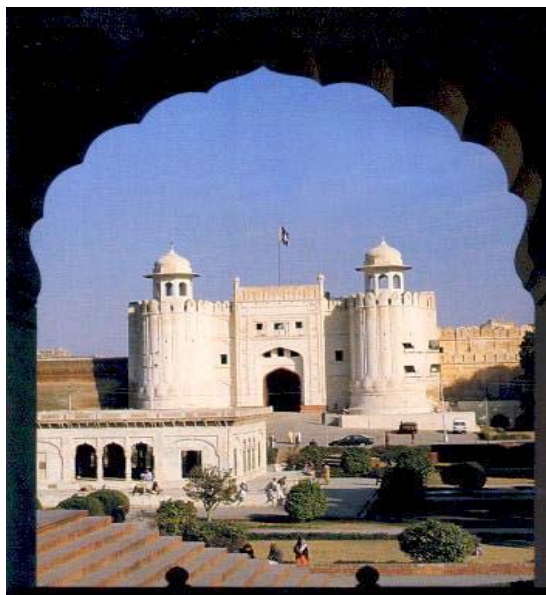
## Taxation Reforms

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### **BOARD OF REVENUE**

### **FINAL REPORT**

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November 2009



GHK International, UK in association with the PRMP, P&D Department, Government of the Punjab



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## Executive Summary

It is a common view that the tax base in many countries has been severely eroded by legal tax avoidance and illegal tax evasion brought about by largely poor administration.

This erosion is thought to have a variety of effects –

- Tax revenues are lost,
- The growth in the tax base is dampened,
- The progressivity implied by the statutory rate structure is not achieved,
- The costs of administration are increased,
- Horizontal and vertical equity suffer because the effective tax rate faced by individuals is higher than it would be if collection were maximised.

It is not surprising, therefore, that in many countries virtually all fiscal reform programs start with the concept of improving administration. Better administration is a discretionary government action that at once can lower the tax rate; increase revenues, and improve the fairness of the system.

This has been the position in the Province – the Departments are seen as inefficient in their tax collection and the Provincial Government has, historically, placed more emphasis on tax administration i.e. the efficient collection of revenue rather than the development of tax reform policies.

The Board of Revenue administers the Stamp Duty under the Stamp Act 1899 and charges are levied in accordance with Schedule 1 of the Act, The Registration Fee is levied under Section 78 of the Registration Act 1908 and Mutation Fee under the Land Revenue Act. The District collectors are responsible for the valuation of land of all rating areas / urban areas fall under section 27A of the Stamp Act.

The Board of Revenue has a complex management structure in that under the current decentralised arrangements Executive District Officers (EDO) are responsible for management of the District Revenue offices and they report directly to the District Coordination Officers (DCO) within each District.

One of the consequences of this complex dual subordination structure is that there are communication gaps between the employees of the BOR and between BOR and the District Revenue Departments and with the public. The communication gap is exacerbated by a lack of modern technology in the Department.

There is a need to improve access to technology for staff and customers, which will lead to improvements in information management and communication. This will not only help internal communications but it will also help to shift public perceptions of services and enhance the transparency of the Department. Good information will allow better monitoring and performance management.

The Department has no policy support and policy development is undertaken on an ad hoc reactive basis rather than being a consistent pro-active approach. During the budget cycle the BOR generally focuses on Schedule 1 of the Stamp Act and without any financial, economic or impact analysis proposes changes in the levy of duty.



The existing process for the transfer of property is long and drawn out and causes inconvenience to the public. In most of the districts the valuation tables are out of date and, as a result, there is a possible loss of revenue to the government treasury in the form of lower stamp duty and registration fees.

There are separate charges for Stamp Duty and Registration Fee, which means that those organisations exempt from registration can use the law to avoid payment. Combining the two charges will lead to an increase in revenues, be more convenient for the majority of customers and take away the necessity for the sub registrar's office to handle cash.

Stamp papers are used for recording the deed but effectively are only a receipt for payment and so it has to be questioned whether they are absolutely necessary.

There is no valuation table for the assessment of the Mutation Fee in relation to the transfer of property in the rural areas. The Patwari in the absence of a defined basis of valuation is responsible for ensuring that the correct amount is paid but he has no training or professional knowledge in this area and the result is that this could cause losses to the treasury.

The mutation transaction is not always carried out in open assembly and the mutation register is not always completed in front of buyer and seller at the time of the transaction. A receipt for the payment of the mutation fee and the additional mutation fee is not always provided to seller / buyer and the transfer of property documents are not provided to the concerned parties at the time of transaction unless demanded by the concerned parties at a later stage.

The staff receives little or no formal training and there is no formal mechanism in place for undertaking a training needs analysis. The Board of Revenue does not have any in-house training facilities and staff experience of the limited training courses that have been provided are generally negative because the training often, does not relate to their current roles and hence has no relevance to their work.

Promotion in the Department is slow and is mainly based on length of service and there are few incentives for staff to perform well and salaries and pay scales for all grades are set nationally. Allowances are attached to posts in line with grading. There are established rules for moving within grades and into next grades. There are no other formal rewards or recognition schemes.

There is no career path in the Department and someone starting at the bottom cannot achieve the senior management levels. This leads to poor motivation and low moral.

There is a need to develop human resource planning as the Department and the Districts face a critical challenge: managing an aging (and declining) workforce as it encounters a wave of retirements over the next decade. The Department will need to address new concepts in work force management, changing physical work environments, new ways of managing human resources and new techniques to measure performance.

The internal auditing standards of the Board of Revenue are poor. The inspectorate of stamps has responsibility for the audit of the stamp duty and registration fee but has a limited number of staff to undertake an extensive audit programme.

In relation to mutation fee there is little audit undertaken except for a limited number of inspections by one of the Deputy Secretaries of the BOR. Due to the low level of internal audit there is the possibility of revenue losses and a lack of audit can leave the organization vulnerable to corrupt practices.

This report identifies the issues outlined above and sets out a number of recommendations that we believe will assist in improving the administration.

The report contains the following sections –

- Introduction* - Sets out the background to the project.
- Section One* - Undertakes a situational analysis of those issues that relate to the Department as a whole.
- Section Two* - Undertakes a situational analysis of those issues that relate to stamp duty, registration fee and mutation fee.
- Section Three* - Describes the processes relevant to the three taxes.
- Section Four* - Undertakes a gap analysis and makes recommendations,





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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 1**



## **INTRODUCTION**

**September 2009**

(J40251976)



## **SECTION ONE INTRODUCTION**

### **1.0 Introduction**

The objective of this component of the Punjab Efficiency Improvement Project is to improve fiscal and financial management practices, taxation policy and administration in the Finance Department, the Excise and Taxation Department (E&TD) and the Board of Revenue (BoR) and specifically to:

- Further the process of Taxation Reforms;
- Improve tax policy formulation;
- Improve tax administration between the provincial and lower tiers of governments;
- Strengthen the tax policy function within the Finance Department

The final report has been produced in accordance with the Terms of Reference (amended). It follows on from the inception report produced in February 2009 and the mid term report initially produced in June 2009, and its purpose is to provide:-

- An analysis of existing taxation policies;
- A situation analysis in relation to the administration of both departments and reports of any workshops undertaken;
- A description of the processes involved in the collection of UIPT, Motor Vehicle Taxes, Professional Tax, Stamp Duty, Registration Fee and Mutation Fee;
- A gap analysis in relation to tax policy and tax administration;
- Recommendations in relation to administration and the above taxes;
- Recommendations for the working of a tax policy unit within the Finance Department.
- The Departments' response to the recommendations.

In addition to the requirements of the ToR the team, at the request of the Programme Director of the PRMP, undertook –

- A review of the budget proposals of the BoR and the E&TD and produced a report entitled “*Opportunities for increasing tax revenues in the short term,*” which was included with the mid term report (and which is included as an appendix to the report on the Excise and Taxation Department).
- Meetings with Mr xxxx of Harvard University who is proposing to undertake a pilot in relation to the impact of incentive schemes on performance in the Excise and Taxation Department.
- The development of a paper on performance management in relation to the Excise and Taxation Department.
- A number of workshops in excess of those required by the Terms of Reference.

The report contains our findings and recommendations in relation to the Departments and has been developed in three parts as follows -

- Part One            Board of Revenue

- Part Two            Excise and Taxation Department
- Part Three        Finance Department – Policy Unit.

This part of the report is concerned with the requirements in the Terms of Reference relating to the Board of Revenue and in particular concentrates, at the request of the Senior Member, Board of Revenue, on the three areas – Stamp Duty, Registration Fee and Mutation Fee

### **1.1 The Consulting Team**

Mr. Patrick Doherty	International Consultant (Taxation Reforms Adviser)
Mr. Imran Yousafzai	Domestic Consultant (Board of Revenue)
Mr. N. M. Waqar	Domestic Consultant (Excise and Taxation)
Miss Kanwal Mirza	Research Assistant

### **1.3 Approach**

In order to obtain a comprehensive picture and information about the various taxes and to gain an understanding of the level of service being delivered by the Board of Revenue, Excise and Taxation Department and Revenue Offices in the Districts, the Team consulted with a wide range of stakeholders and these have included all the senior staff and the key team members of the Excise and Taxation Department, the Board of Revenue, the Finance Department and staff at Field Offices in Lahore, Rawalpindi, Faisalabad, Kasur, Sialkot and Murree.

Not only have we met with senior staff but also we have met and discussed the issues with District Coordination Officers, District Officers Revenues, Deputy District Officers Revenues, Stamp Vendors, Tehsildars, Kanongos, Patwaris, Directors in Excise and Taxation, Excise and Taxation Officers, Clerks, Constables and Inspectors.

Initially, six focus group meetings were held together with two workshops that included staff at all levels and from all three Departments.

#### **1.3.1 Workshops**

Following the issue of the mid term reports further workshops were held in July and August with staff from the Departments and also individual meetings were held with senior staff to discuss in detail the recommendations contained in the mid term reports.

Prior to the production of this final report further workshops were held in September where further discussion on the recommendations to be contained in the report was undertaken. It is also planned, following submission of the reports, to hold workshops in October to provide feedback to staff from all levels in the Departments.

#### **1.3.2 Feedback Meetings**

In relation to the recommendations contained in this part of the report feedback meetings were held with the Senior Member Board of Revenue, the Secretary, Excise and Taxation, the Finance Secretary and their senior managers to discuss the Team's findings and recommendations and their response is included in this report.

### **1.4 Acknowledgements**

The Team would like to thank Mr. Akhlaq Tarar, the Senior Member Board of Revenue and the senior managers in the Department together with all the field staff for their time,

assistance, openness and patience over the period of the project. Their help has been crucial in reaching the conclusions contained in this report. In particular we would mention –

Mr. Munawar Majoka	Secretary Revenue
Mr. Javed Bokhari	Secretary settlement
Mr. Ali Raza Bhutta	Project Director, LRMIS
Mr. Khalid Ramey	Director PHA Lahore
Mr. Sultan Alam	Inspector (Inspectorate of stamps), BOR
Mr. Muhammad Khokar	Land Revenue Specialist, LRMIS
Mr. Amer A Khan	Deputy District Officer Registration, Lahore
Mst Waseema Uma	Deputy District Officer (Revenue), Lahore City
Mst Musrat Jabeen	District Officer Revenue, Faisalabad
Mst Kiran Khurshid	Deputy District Officer (Revenue), Faisalabad city
Mr. Akram	Assistant Secretary (general), BOR
Mr. Rajput	Assistant Secretary ( Budget) ,BOR
Mr. Muhammad Akhtar	District Accounts Officer, Sheikupura
Mr. Arif Rahim,	Deputy District Officer, Rawalpindi
Mr. Shafqat Raza ,	Sub Registrar, Rawalpindi
Mr M. Mehboob Alam	Deputy District Officer (Revenue), Murree







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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 2**



## **SITUATIONAL ANALYSIS THE BOARD OF REVENUE**

**September 2009**

(J40251976)



## **SECTION TWO     *SITUATIONAL ANALYSIS – THE BOARD OF REVENUE***

### **2.0     Background**

The Revenue Department is the oldest and most influential administrative institution in the Provincial Government. The Department pre-dates the British era and its role and powers have grown with the passage of time. Before the devolution plan of 2001, the District Administration used to perform three categories of functions for the Government -

- General Administration.
- Executive Magistracy.
- Land Revenue.

Following the implementation of the Punjab Local Government Ordinance, 2001 the executive magistracy was abolished; revenue functions that prior to devolution were exercised by the office of the District Collector and the Excise and Taxation Department became the responsibility of the Revenue Department in the Districts by appointing the Executive District Officer as head of the Department. Staff are part of the District management cadres and most of the general administration functions are assigned to the District Coordination Officer.

There is a general perception in Pakistan, and the Punjab is no exception, that most of the departments engaged directly with the public for provision of services do not generally enjoy a good reputation or the confidence of the general public. The Board of Revenue and the Revenue Departments in the districts are also facing a similar situation. Lower level officials of the department exercise considerable power and authority and there is a general impression that their work is complicated and cannot easily be understood and supervised even by their senior officers.

### **2.1     Dispersed Management Structure**

The Board of Revenue has a complex management structure that is the result of the devolution provided for in the PLGO 2001. The Board of Revenue comprises 12 members and is headed by the Senior Member Board of Revenue (SMBR) who is also the member revenue and is responsible for the stamp duty, the mutation fee and registration fee. The BOR is indirectly responsible for the District Revenue Offices, which undertakes the collection of the stamp duty, mutation fee and registration fee.

Under the current decentralised arrangements Executive District Officers (EDO) are responsible for management of the District Revenue offices and they report directly to the District Coordination Officers (DCO) within each District.

The District Officer Revenue (DOR) is responsible for the revenue sub department and he/she is the District Collector. Within the revenue sub departments there are Tehsil offices, each one headed by a Deputy District Officer Revenue. Each Deputy District Officer controls the establishment of Tehsildar, Naib Tehsildars, Kanongo and Patwaris. The detailed structure of the BOR and the District Revenue offices (Faisalabad is used as an example) is set out in Annexes five and six.

The DOR's have a number of responsibilities in addition to tax collection as determined by the DCO and in our view this confusion of responsibility has led to an uneasy management structure and no clear lines of management responsibility or accountability. The BOR has

staff in the field offices that are on the payroll of the District Governments, despite the fact that they, at least nominally, draw their logistical and management support from the Provincial Government.

## **2.2 Management Style**

The management style is very much “top down”. There appears to be no concept of team working in the Department and there is a lack of teams such as “cross functional management teams, problem solving teams, departmental management teams or self-managing teams”. At the top management level in the Board of Revenue, informal team meetings are held to address particular issues but the management style of such meetings is top down.

Most of the members of these meetings agree an out come, rather than their being considered discussion and an exchange of views and ideas. We were informed that the atmosphere of such team meetings is often strained and over-formalised and participants do not feel free to express their opinions.

## **2.3 The Policy Process**

### **2.3.1 Policy Development**

There is no effective policy development process and no consistent approach to developing policy issues or proposals within the BOR. No one person appears to take responsibility for policy development and the Department only seems to react to policy issues during the budget cycle when it is requested by the Finance Department (FD) to produce its budget proposals. The budget proposals appear to be produced very much on an ad hoc basis based on data that had to be collected from each of the 36 Districts.

There is limited cooperation with other units of the provincial and federal government. The BOR is not in a position to make sound revenue forecasts or undertake an impact assessment on tax policy or tax administration changes, as there appears to be no consistent collection and analysis of data for management purposes or for budgetary purposes. This is evidenced to some extent by the difficulties that we encountered in just obtaining basic statistical information about the various taxes.

The existing complex structure of the BOR management has made them very dependent on the District Collection Offices, who are not under the direct control of the BOR. This leads to the communication gaps between the BOR and the Revenue departments in the districts.

Part of the problem is the fact that the FD has generally placed more emphasis on tax administration i.e. the collection of revenue rather than tax reform policies – the reason being that it is perceived that improving administration is easier than trying to get fundamental improvement through policy changes. This emphasis is changing and the FD is now coming to the view that improved collection is a combination of improved administration and improved policy development.

As a result of the top down approach to management team work in the BOR is a concept that does not seem to be readily understood and there is no central coordinating unit that considers the impact that various government notifications have on the Department, the impact that changes in legislation have on the revenue generating sources for which the Department is responsible or for the routine collection of data, the preparation of statistical reports or the analysis of data.

Essentially policy development is reactive rather than being a pro-active.

## **2.4 Financial Management**

From our initial investigation, it would appear that the Drawing and Disbursing Officers (DDOs') who under the DDO code are grade 17 and above officers do not take a close interest in the financial management functions of their respective sections and are heavily dependent on their account / bill clerks.

With increased financial autonomy for districts and rationalisation of department budgets, it is essential that DDOs take greater interest in all financial management activities and take decisions themselves.

## **2.5 Human Resources**

### **2.5.1 Establishment**

The records of the General Administration branch of BOR indicate that there are some 661 employees employed in the general branch and 62 employees (1 Chief Inspector, 2 senior inspectors, 14 inspectors and 47 support staff) employed in the Inspectorate of Stamps giving a total establishment strength of 723 employees. Of these some 118 employees come under the officer cadre and the remainder come under the non-officer / non-gazetted cadre which includes superintendents, assistants, stenographers, clerks and peons etc.

So far as the general administration branch is concerned our initial analysis suggests that some 6% of the employees fall under the officers category - BS17 - BS 22, 61 % are in the support staff group - BS5 - BS16 and 33% of the employees are in groups - BS1 - BS 4 working in very low profile jobs such as peons, drivers and malis etc.

This does not include the staff in the District offices as the Districts technically employ them.

The Board of Revenue and the Revenue Departments in the district governments are facing a critical challenge as they are managing an aging workforce that will result a wave of retirements over the next decade.

### **2.5.2 Incentives**

The Department employs predominantly low paid staff in grades 1 to 5 and at the lower levels the pay rates are only marginally above the Pakistan minimum wage for an unskilled labourer. It should be noted that work in the tax collection is stressful and requires a good technical knowledge of the law and the ability to deal face to face with taxpayers.

The Districts determine the salaries and the establishments in the field offices, but, in practice, the actual number of positions is sanctioned by the Finance Department. All the staff whether at Provincial or District level are employed under rigid general civil service regulations that allow for little flexibility. Promotion prospects are extremely limited and it is impossible for an officer to rise from the lowest position to the top of the Department.

The salaries and pay scales for all grades are set nationally. Allowances are attached to posts in line with grading. There are established rules for moving within grades and into the next grades. There are no other formal rewards or recognition schemes. There are also no local schemes that are operational and no recognition that the jobs in the BOR and the Revenue departments of the districts are tax collection jobs and, therefore, more stressful in nature than many other office based jobs. The elements of rent seeking behaviour and low efficiency cannot be reduced unless performance based incentives are introduced.

The fact that no incentive schemes are available to staff combined with low pay and poor working conditions leads to low motivation and in general a non-merit based system of public employment creates a culture of dependency and increases the possibility of corruption.

Whilst the appointment of all staff is a matter for the civil service we were informed that in relation to the appointment and transfer of patwaris there is considerable political influence exerted which results in the DDOR's having little administrative control over the appointment of their subordinates and they are unable to rotate the patwaris under their jurisdiction.

New entrants to the BOR are tending to be better qualified than their predecessors and this could provide the Department with the possibility of improving the efficiency and effectiveness of its tax collection if it were to take the opportunity to introduce more flexible pay scales, structured training programmes and opportunities for promotion based on experience and training.

### **2.5.3 Motivation**

The civil service employment rules do not encourage a positive approach to staff motivation; only negative tools are available, such as relocation or dismissal of the staff.

There are no incentives for staff to perform well, since those who work hard and those who do not are treated the same; Supervisors judge employees by the amount of time they spend at their post, rather than by the quality or quantity of their outputs.

Not only are there no incentives to improve performance; there are disincentives to taking initiatives - that might improve performance - since employees run the risk of censure if something goes wrong. This has led over the years to most employees adopting an attitude of self-interest and showing little initiative.

In this hierarchical, seniority based civil service system the opportunities for introducing performance related pay and promotion opportunities are limited. It would require specific job descriptions and then objective, independent staff appraisal and evaluation based on accurate management information system to change the approach.

In order to avoid political or other favouritism the management responsibilities should be delegated to a lower level. But delegation of power is missing from the civil service and management culture in the BOR.

### **2.5.4 Human Resource Management**

There is no human resource strategy in place in the BOR or in the District offices and it appeared to us that the senior staff (grade 17 and above officers) do not take a close enough interest in the human resource management functions, which are effectively carried out by the support staff.

### **2.5.5 Performance Appraisal**

In the provincial and district governments there are two standard pro-formas used for performance appraisals, depending on the grade of the member of staff concerned. One applies to all employees grade 5-16 and the other applies to employees who are in grade 17 and above.

The system in operation - Performance Evaluation Reports (PER's) uses a system of Annual Confidential Reports (ACR's). Under this system all employees have an appraisal on an annual basis, however, the practice of carrying out the appraisals is not yet embedded within

the Department and appraisal tends to be undertaken at the initiation of the subordinate when he / she is seeking transfer or promotion.

Both sets of performance appraisal forms mention job descriptions of the individual being appraised, however no job descriptions exist in reality except those mentioned in the departmental rules of business and which are very generic in nature. This raises the question about the accuracy of the appraisal.

Interestingly the PER form used for senior officers requires the individual being appraised to write his/her job description against which the manager has to carryout the performance appraisal.

How targets are set against individuals and how they are to be measured is not clear. There seems to be confusion relative to the understanding regarding job descriptions and the functions ascribed to different posts within the Rules of Business instructions issued by the secretariat. Officers seem to understand their *functions* as being the job description. This may be the main reason for a lack of performance and accountability culture especially as not all roles have been ascribed a function.

The introduction of job descriptions with clear job specifications should lead to clarity for individuals and enable the manager to understand what duties each post holder has to undertake in fulfilling their role. This perhaps, is the main reason why the ACR/PER process is not effectively undertaken to improve performance and as to why appraisals do not feed into training and skills requirements or in improving operational efficiency of the service.

#### **2.5.6 Training and Development**

There is no culture of training within the department except for senior managers and apart from an initial induction process there is little job training or opportunities to take appropriate qualifications provided to the general run of staff

No formal mechanisms exist to identify training needs e.g. training needs analysis either in the Board of Revenue or in the District Revenue offices. There is little or no dialogue between training institutes and the Board of Revenue on how the training institutes could meet the skill gap of the BOR and District Revenue Departments' employees.

The Board of Revenue does not have any in-house training facilities. When training has taken place we found the staff experience to be negative because of a lack of relevance of the training to individuals' jobs.

Senior officers from the DMG and the PCS / PMS Officers group are required for to undertake training from defined training institutes but no mandatory or discretionary training requirements are identified for any other group of staff.

Training is not linked to promotion or progression within the BOR and the Revenue departments of Districts. Progression is based mainly on tenure within the service providing the line manager's reports on the member of staff are satisfactory.

#### **2.5.7 Staff Movement**

There is a culture of moving staff from post to post and department to department particularly at senior level. This, in our view, leads to a lack of stability and continuity in the Departments and is the perfect excuse for no-one really taking responsibility or being accountable for low performing Departments.



Senior staff stay in post, on average, for less than one year.

### **2.5.8 Human Resource Planning**

The Board of Revenue and the Revenue departments in the district governments are facing a critical challenge: managing an aging (and declining) workforce. It will encounter a wave of retirements over the next decade.

The younger workforce is developing a different set of work values and expectations than previous generations and the main issues that need to be addressed are about changing mindsets in relation to new concepts in work force management, retaining, energizing and rejuvenating knowledge for innovation and organizational learning, changing physical work environments, new ways of managing human resource, and new techniques to measure performance of the workforce.

To manage the aging workforce, management must have an accurate understanding of the current and shifting composition of its workforce and a Human Resource Management Information System (HRMIS) would be a key source of all such information.

### **2.5.9 Conclusions**

The above factors combine and result in limited career options within the BOR and a high staff turnover. According to the civil service regulations only 30% of the field staff can be promoted internally, the majority should be newly appointed through a competitive process, managed by the Provincial Management Service under the Public Service Commission. Despite this fact, public sector employment still attracts new entrants where the entry requirement is at Bachelor or Masters level, which also qualifies them for federal government positions.<sup>1</sup>

There are no incentive schemes available to staff and this combined with low pay leads to low motivation and in general a non-merit based system of public employment creates a culture of dependency and increases the possibility of corruption.

The very fact that new entrants are tending to be better qualified than their predecessors can provide the Department with the possibility of improving the efficiency and effectiveness of its tax collection if it were to take the opportunity to introduce more flexible pay scales, structured training programmes and opportunities for promotion based on experience and training.

## **2.6 Tax Administration**

Stamp duty, registration fee and mutation fee are transaction based taxes and are dependent to a large extent on the economic climate and the real estate market both of which can be affected by the prevailing political climate. As stated previously the BOR collects these taxes through revenue staff working in the revenue departments of the districts. Whilst the District Collectors under the PLGO are responsible and accountable to the DCO and indirectly to the BOR for tax collection they have, in addition, other legal obligations to fulfil such as recent involvement in wheat procurement. These competing responsibilities can impact on the collection of the taxes and their ability to exercise quality control.

The Revenue departments in the Districts are responsible for the following

### **Land Management Activities -**

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<sup>1</sup> World Bank Diagnostic Report (UIPT) 2009 (IRRV)

- Transfer of ownership & registration of agreements e.g. Sale, Gift Mortgage, Lease, and Trust;
- Partition of lands;
- Demarcation of holdings;
- Periodic crop inspection i.e. twice in a year;
- Stewardship of Crown Land and management of lease, sale, removal of encroachment, colonisation of state land. Also pursuing litigation on behalf of state;
- Evacuee Claims - Disposal of pending cases, after repeal of the Evacuee Laws in 1975 and Abolition of Settlement & Rehabilitation Department;
- Land Acquisition for public purpose;
- Settlement of Land disputes and acting as Revenue Courts, including dispute of title, partition, tenancy and appeals against Irrigation Department penalties;
- Managing conversion of land use and redesigning map of holdings;
- Development of housing colonies and commercial areas by subdivision of holdings into smaller plots;
- Maintenance of ownership & possession record of the whole land mass. For this purpose Patwari maintains a number of registers e.g. Record of rights (Jamabandi), which is revised every four years;
- Register of crop inspection (Girdawri);
- Dairy of daily happenings (Roznamcha waqiyati);
- Dairy of daily work (Roznamcha carguzari);
- Register of instructions (Roznamcha hidayati);
- Register of fees and dues;
- The Patwaris' records e.g. the Mutation register

As the revenue department is working under the direction of the District Coordination Officer they also undertake other responsibilities in the district and the following is a list of the administrative, coordination and delegated functions that the revenue department performs in the district.

#### Administrative duties

- Implementation of District Government decisions;
- Election arrangements;
- Protocol duties;
- Arrangements of public gatherings;
- Arrangement of Collective marriages;
- Establishment of Ramzan Bazaars;
- Establishment of Hajj Camps;

- Publicity of Government messages.

### Coordination functions

- Polio campaign.
- Desisting of Canals;
- Agricultural loan's disbursement;
- Wheat procurement, sugarcane procurement;
- Emergency duties and contingency planning;
- Flood prevention and relief measures;
- Provision of vehicles and staff for emergencies.

### Delegated functions

- Domicile;
- Arms License;
- Enquiries of District Monitoring Cell;
- Petroleum Agency License;
- Reports and surveys;
- Surveys undertaken by Provincial / District Government through this Department

Revenue collection is a specialised and stressful job and requires dedicated effort. The staff of the revenue department, as can be seen above, are involved in many more duties than just the administration of stamp duty, registration fees and mutation fees.. This leads to a diminution in the time that the staff spends on revenue generation and raises the issue of quality in relation to the management of the records recording revenue expenditure, for example, in the month of Ramadan, the officers of the revenue department are given executive powers to check the prices of various commodities. Most of the staff are engaged in inspecting markets and shops in their jurisdiction and very little of their time is, therefore, left for revenue collection.

During the focus group discussions and the main workshop the participants indicated that ineffective monitoring mechanisms, lack of logistical facilities, increased political interference, off the record settlements, and human resource issues are also causing inefficiencies in the collection of revenue.

Our initial thoughts on the above issue are that because of the existing complex management structure, where the main field operation staff of the revenue department report to the DCO instead of the BOR, is causing inefficiencies in the quality of service delivery and revenue collection. In addition it results in unclear lines of management responsibility within the Board of Revenue. The staff in the field offices is effectively working for two masters.

## **2.7 Customer Service**

On the basis of the District offices that we visited in Faisalabad, Rawalpindi, Kasur, Sialkot and Murree public access is poor as are customer facilities and of a very low standard by international



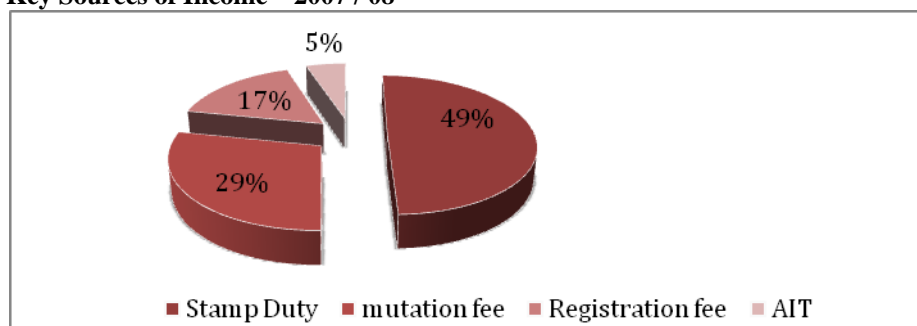
Figure 1 “Queuing System” in Field Office

standards. There are no structured reception facilities and the public are allowed to wander around the buildings until they find the appropriate inspector or his official. The state of decoration is low and the public access areas are simply not welcoming. In Lahore a “one window” concept has been introduced that at least provides some semblance of customer service.

## 2.8 Revenue Collection

Being a revenue generating/ collection department the BOR is always under pressure to generate additional revenue to help meeting rising Government expenditure. The total revenue collected in 2007-2008 by the Board of Revenue was Rs. 14,707 million of which some Rs. 1,517 million (Abiana) was collected on behalf of the irrigation department and which is not a revenue source of BOR. However, of the remaining collection –Rs. 13,190 million - 49% was contributed by stamp duty, 29% by mutation fee, 17% by registration fee and 5% by Agriculture Income Tax (Figure 1).

**Figure 2: Key Sources of Income – 2007 / 08**

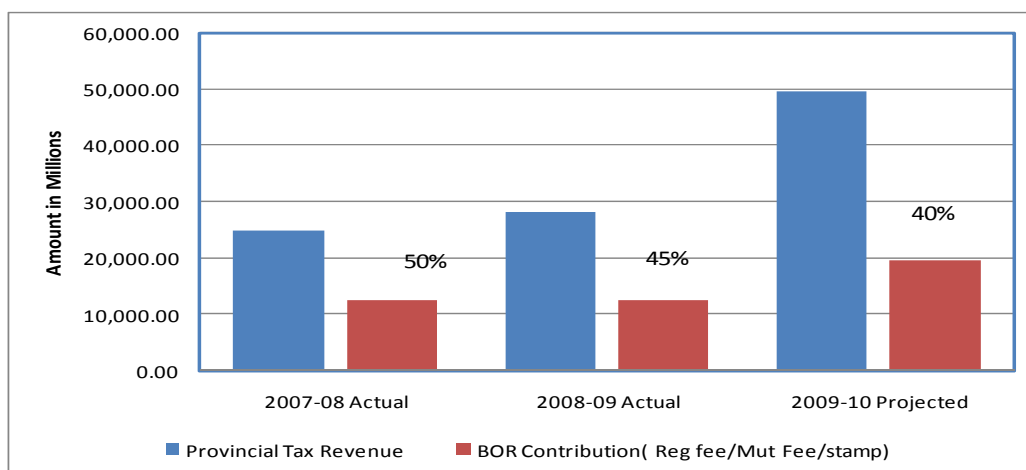


Source: BOR

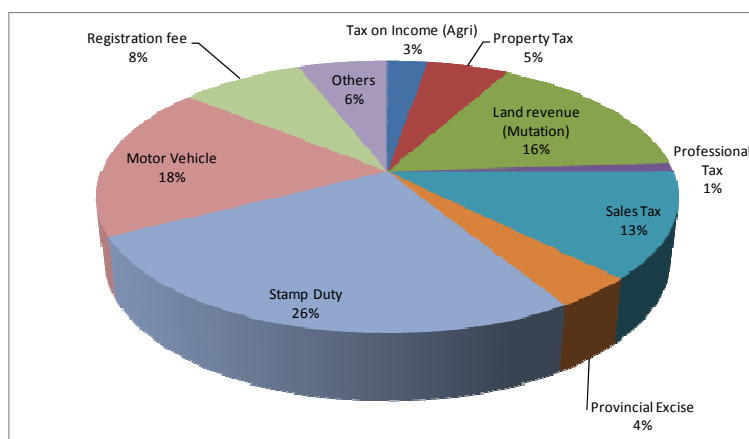
The trends since 2007-2008 suggest that the BOR contribution as a proportion the total provincial tax revenue is decreasing. However, the overall trends of the provincial tax revenue show an increasing trend (Figure 3).

*Please note that BOR contribution means collection from Mutation Fee, Registration fee and Stamp duty.*

**Figure 3: Annual Recovery Contribution of BOR in Provincial Taxes(from 2007-08 to 2009-10)**



Source: BOR and Annual Budget statement 2009-2010

**Figure 4: Share of individual taxes in the total Provincial Tax Revenue (2007-2008)**

Source: BOR and Annual Budget statement 2009-2010

At the time of writing the report the final accounts for 2008-2009 had not been finalised so the accounts for 2007 / 08 were used for analysis purposes.

As can be seen from the above chart the BOR through stamp duty, mutation fee and registration fee is responsible for the collection of some 50% of the total Provincial revenue, therefore, the Board of Revenue plays a very important role in the provincial revenue structure.

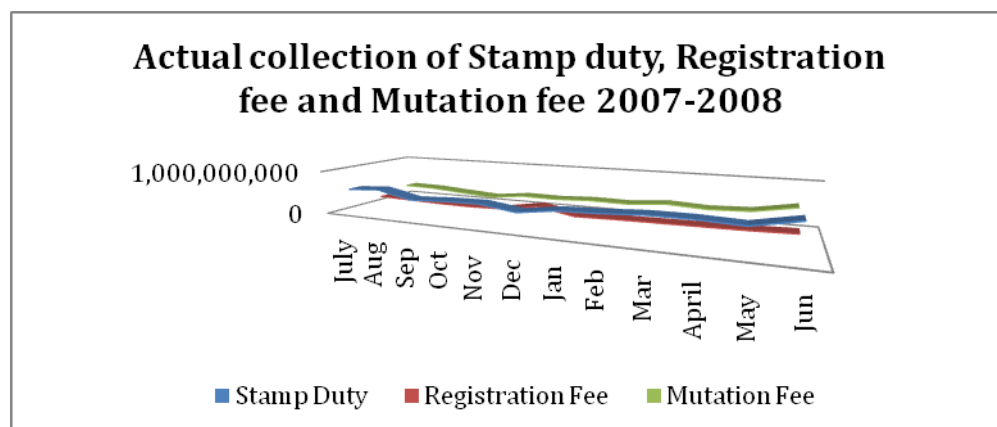
The revenue generated by stamp duty, mutation fee and registration fee is largely based on market activity and the annual targets are set by the Finance Department on the basis of historical trends. Once the budget estimates are set the Board of revenue informs the districts of the financial targets.

The monthly collection figures (registration fee and mutation fee) compiled by the districts are consolidated in the recovery branch headed by the Deputy Secretary Recovery whilst stamp duty is consolidated in the Inspectorate of Stamps.

If the monthly collection is below target, notices are served to the concerned District Collectors (by the Deputy Secretary Recovery in case of mutation fee and the Secretary Settlement or the Chief Inspector of stamps in case of stamp duty and registration fee) with an instruction to improve collection. However, these notices are little more than a formality as the taxes are subject to market activity there is little point in instructing staff to increase collection. What is required is regular analysis of the market to identify the reasons for shortfalls in income.

While conducting an analysis of the monthly collection of all major receipts it is evident from Table 33 below that the registration fee collected is some 30 to 35 percent of the stamp duty in every month except December where the registration fee increased to 79 percent of stamp duty. One of the possible reasons for this is that due to an audit of the district collector shortages would have been identified and the deficient amount collected in the month of December 2008. However, the BOR were not able to provide us with an explanation of the variance.

**Figure 5: Actual monthly collection of Major receipts (2007-2008)**



*Source Board of Revenue and Annual budget statement*

Budget targets once set are revised during the fiscal year on the basis of actual collection, however, it can be seen from table 1 below that actual collection is falling below the original budgeted figure – which was an estimate imposed by the Finance Department.

It would seem to us that the initial budget figures were unrealistic and took no account of what was happening in the economy or in the property market i.e. high inflation and a decline in property transactions.

The table below also suggests that the revised estimates were unrealistic and in most areas actual collection was more than 100% collection. One can argue that since all of the three sources of revenue are transaction based taxes it is difficult to develop accurate estimates. This does not, however, explain the reason for unrealistic estimates being set in the first instance

**Table 1                      Comparison of original budgets and revised budgets**

Period	2007-2008			2008-2009 ( Actual as of February-09)		
	Stamp Duty	Registration	Mutation Fee	Stamp Duty	Registration	Mutation Fee
	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn
Original Budget	6,700,000,000	2,714,000,000	4,535,000,000	10,000,000,000	3,500,000,000	4,202,000,000
Revised Budget	6,541,160,819	2,400,000,000	3,726,000,000	6,400,000,000	2,183,604,000	3,953,000,000
Actual Collection	6,546,118,000	2,040,642,000	3,939,916,000	6,823,000,000	2,187,000,000	4,537,000,000
% age collected against the original estimates	98%	75%	87%	68%	63%	108%
% age collected against the revised estimates	100%	85%	106%	107%	100%	115%

## 2.9 Computerisation

The Board of Revenue information systems are manual and paper based. Though BOR and the Revenue departments in the districts are equipped with computers these tend to be used for word processing purposes or storing data. Information is collected and processed for historical purposes rather than using the information to make strategic decisions. That said the computer literacy level of staff is very low or non-existent.

Very few, if any, formal structures have been established for collecting, processing or managing day-to-day information within the Department. Most information flow is processed through informal mechanisms and channels. Each section of the BOR is an island of information, collecting, processing and producing information, rarely is this information shared between the sections. At present there is no formal corporate communication strategy in the BOR. It is observed that a very strong manual culture is prevalent in the BOR and the support staff prefer to use Typewriters instead of computers.



**Figure 6 Manual Systems**

The Board of Revenue has some desktop computers but it does not appear that there is a planned approach to the computerisation of the department. What computers are available do not appear to be used to their full potential. At best computers are being used as tools for word-processing rather than data storage and manipulation. Staff working in different sections of the BOR such as recovery, budget section, Inspectorate of Stamps, and others while they have received basic word processing training they have not been trained in how to operate computerised systems for the benefit of the whole organization.

There are no computerised information systems that make information accessible such as an Establishment List, an Organisational Structure, Vacant Posts, and individual records of employment, sickness, training, rules and code of conduct for employees. All personnel information is maintained in service books/files. An employee may have more than one file depending on the subject matter and this can pose potential problems in compiling information on any aspect of HR and makes strategic planning on such issues as work force planning, training provision and organizational capacity development difficult at the corporate level. Human resources are not viewed as an asset in planning, and delivering services. The process of requesting information itself can be difficult.

The challenge for the Board of Revenue is to start thinking about computerisation in a more planned and inclusive manner, where the whole organisation can benefit from technology and not just individual departments.

The adoption of such an approach would result in cost effective resources, a more responsive workforce to technology (which is currently not the case) and more attuned and effective organisation getting the maximum benefit out of computerisation. Good information will allow better monitoring and performance management.

Improvements in computerisation will improve communication within the Department and will help to shift public perceptions of the services provided and enhance transparency within government.

## **2.10 Land Records Management and Information System**

The BOR is undertaking an ambitious program to develop a Land Records Management and Information System (LRMIS) for the rural areas with implementation planned for late 2011. The purpose of the project is to establish an efficient, accountable, equitable and secure system the objectives of which are to –

- To Increase Security of Titles;
- To decrease transaction costs;

- Improved access to Revenue records;
- Establishment of a citizen responsive service system for maintenance of records;
- Improve the service for vulnerable groups.

The plans include provision for the development of 155 customer service centres as follows

- 35 District Service Centres
  - Repositories for data from all tehsils
  - Service Centre for HQ Tehsil
- 96 Tehsil Service Centres
  - Serve the entire Tehsil (except sub-Tehsil)
- 22 Sub-Tehsil Service Centres

If successful this will revolutionise the way in which the Department works and will significantly improve the customer experience.

## 2.11 Internal Audit

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Accordingly this means that internal audit activity should be independent and the internal auditors should be objective in performing their work. Thus independence is an attribute of an organisational unit, and objectivity is an attribute of individuals. In this context, independence means that internal auditors should carry out their duties freely and objectively.

Internal audit in respect of the stamp duty and the registration fee is the responsibility of the Inspectorate of Stamps and following an assessment of their work it is our conclusion that the office of Chief Inspector of stamps is not as independent as good auditing practice suggests and the inspectors who are acting as internal auditors are not objective in performing their work.

The existing establishment of the Inspectorate of Stamps consists of 1 chief inspector, 2 senior inspectors, 14 inspectors and 47 support staff and according to the information we were provided the 14 inspectors performs 100% audit of approximately 500,000 transactions in a year across the whole province.

One of the functions of an internal audit service is to provide the management with a quality assurance service and in doing this the internal auditor should monitor transaction and assist the management by assessing;

- Whether departmental objectives will be achieved and are reasonable;
- Whether all options have been identified and thoroughly analyzed;
- Whether quantitative and qualitative analysis are complete and accurate;
- Whether departmental plans have been established and staff are adhering to the plans;

In the Board of Revenue quality assurance is low or non-existent as the scope of the audit is limited to checking the figures in relation to Stamp Duty transactions in the urban areas including examining the contents of the deeds and then verifying them with the valuation



tables for the particular district being audited. This means that if there are some 250 working days in a year each inspector checks approximately 143 transactions in a day. This, in our view, does not ensure an effective internal audit and questions must be raised as to the quality of the audit.

Good practice requires that Internal auditors evaluate the whole management process of planning, organizing, and directing to determine whether reasonable assurance exists that objectives and goals will be achieved. The Internal auditor should be alert to actual or potential changes in internal or external conditions that affect the ability to provide assurance from a forward looking perspective. In those cases, internal auditors should address the risk that performance may deteriorate. In the BOR there is no mandate for the Inspectorate of Stamps to evaluate the management performance.

One of the important functions of internal audit is ensuring that internal control is in place. Controls may be preventive, detective or directive. A system of internal control is the integrated collection of control components and activities that are used by an organisation to achieve its objectives and goals. No such perception exists in the BOR regarding the role of the Inspectorate of Stamps.

The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation
- Ensuring effective organisational performance management and accountability
- Effectively communicating risk and control information to appropriate areas of the organisation.
- Effectively coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The Inspectorate of Stamps, or for that matter any other entity in the BOR, is not undertaking the above to ensure good governance which could further ensure the achievement of departmental key objectives and goals.

During our visit to the Chief Inspector of Stamps we were shown some of the audit reports that were produced and whilst the reports showed that underpayments had been identified these are not quantified and so no statistical data is available as to the level of error in relation to the raising of stamp duty or the amount of revenue lost as a result of incorrect calculations of stamp duty and registration fees.

On the other hand the internal audit mechanism for mutation fee barely exists except for a limited number of visits by one of the deputy secretaries of the BOR. This lack of internal audit leaves the system of mutation open to abuse with the potential for loss in revenue.

## **2.12 Performance Management and Quality Control**

There is little or no measurement of performance either at a departmental level or at an individual staff level. There is no performance management framework that enables residents, politicians, managers and other stakeholders to see how the Department 'measures up' in comparison to their own previous performance and, where relevant, in comparison with other organisations.

There is a lack of management information and little ability in the way in which information is currently held to undertake detailed analysis of revenue generation or breakdown over, districts etc.

As there is no performance management framework almost by definition there is little quality control exercised.





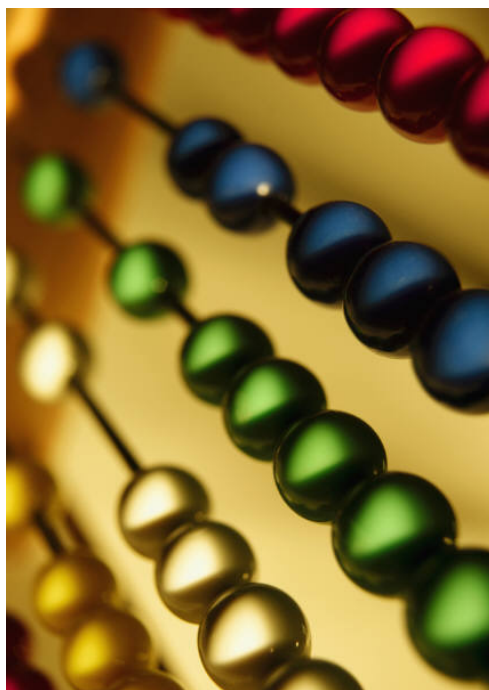
The Asian Development Bank



Government of Punjab

# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 3**



### **SITUATIONAL ANALYSIS**

### **THE TAXES**

**September 2009**

(J40251976)



## SECTION THREE SITUATIONAL ANALYSIS – THE TAXES

### 3.1 Situational Analysis – Stamp Duty

#### 3.1.1 Tax Base / Tax Rates

Stamp Duty is not a tax but a duty that is paid against services rendered. It is administered under Schedule 1 of the Stamp Act 1899 and in accordance with section 54 of the Transfer of Property Act 1882 “every document exceeding Rs 100 creating, extinguishing any right or title for immovable property is compulsorily registerable” the procedure for which is prescribed in section 17 of the Registration Act 1908. The duties payable are set out in Schedule 1 of the Stamp Act and the rates of land (urban) notified by the collector under section 27A of the Stamp Act 1899.

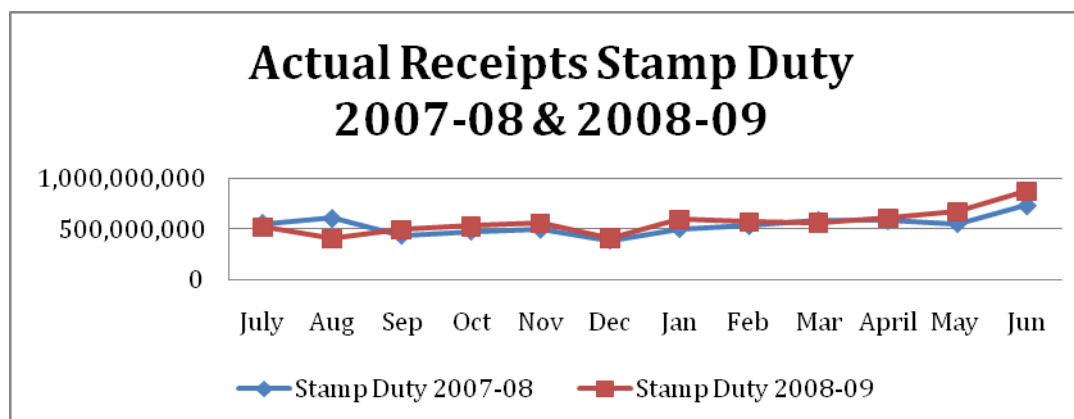
Whilst the Stamp Act is a federal statute, the Provincial Government administers Schedule 1. This means that if any changes are required in the rates in Schedule 1 the Provincial government can make them through the finance bill. Only the federal government under Article 143 of the Constitution of Islamic Republic of Pakistan can undertake any other changes to the Stamp Act.

The BOR is responsible for proposing changes in the rates of the duty but when proposals are made there is no statistical data available to assess the impact of the proposals on revenue collection. The BOR does not have the technical capacity to understand and identify market trends and our initial understanding suggests that it is difficult for the Department to assess the true revenue potential of stamp duty.

As can be seen from Table 1 above the total revised target for the collection of stamp duty in 2008-2009 is Rs.6.40 billion and the actual receipts up-to June 2009 are Rs.6.82 billion Rupees, which is 107% of the total revised target. The department in April 2009 anticipated that actual year-end collection might exceed the target. Historical trends suggest that in the months of May and June property transactions increase and this may be in part due to the fact that people are trying to pre-empt an increase in the tax rates in the following financial year.

Actual receipts for 2007 / 08 and 2008 / 09 is reflected in figure 4 below

Figure 7: Comparison of Actual Receipts 2007/08 -2008/09 (upto June 2009)



There is only one head of account (B02701) where money collected from the sale of non-judicial stamps is deposited and this does not provide the BOR with a clear picture regarding

the sale of stamps and hence the Inspectorate of Stamps has difficulty in reconciling the receipts.

### **3.1.2 The Valuation Tables**

The valuation tables have not kept pace with market values and although they are supposed to be revised annually there is an inconsistent approach to updating them. In some areas, for example, Rawalpindi, they are revised annually but in other areas they are not. The reason given is lack of resources to undertake the review.

The fact that the tables are out of date and have not kept pace with market prices means that there is inevitably a loss of income to the Provincial Government.

### **3.1.3 Human Resources**

The staff dealing with stamp duty is ill equipped, unskilled and has low motivation and they are expected to work on other duties as directed by the DCO – leading to staff having problems in determining their priorities.

They receive no training and there is no culture of training provision in the Department.

### **3.1.4 Performance Management**

There is no performance management framework in place and although some statistics are collected on a monthly basis at District level and returned to the BOR little or no action is taken in relation to these.

### **3.1.5 Audit and Inspection**

Staff from the office of the Inspector of Taxes, who has 14 inspectors, audits the transactions for stamp duty and they undertake over 500,000 checks of individual transactions on an annual basis. We were informed that this is a 100% check of all transactions and although no statistics are available from the reports that were made available to us they find a large number of errors in the calculated rate of stamp duty.

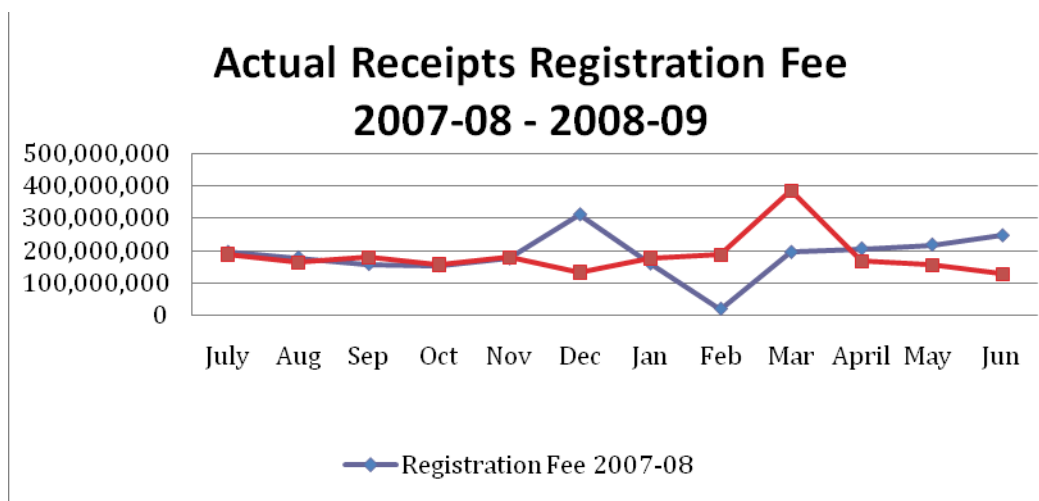
Given the number of transactions and the number of staff involved this cannot, based on our experience, be an in depth audit. The auditors receive no formal training and have few facilities in the way of transport and subsistence allowance provided to them.

## **3.2 Situational Analysis - Registration Fee.**

The registration fee is applicable on all the documents that are registered under the Registration Act. The current fee rate is 1% of the value of the property. It is a significant source of revenue and contributed almost 19 % of the revenue collected (stamp duty, registration fee and mutation fee) in 2007-2008. The registration fee is invariably linked to stamp duty because of the need to register the transfer of properties / land registering upon sale etc.

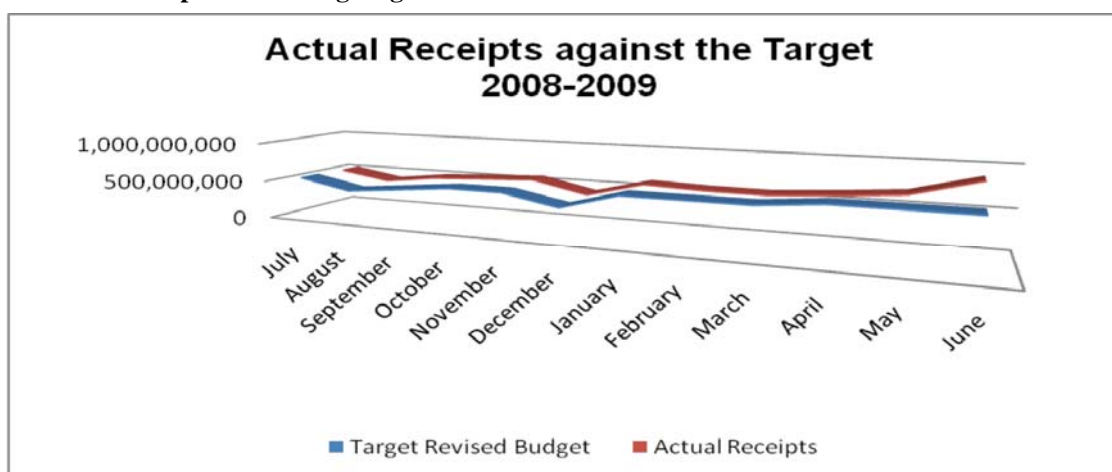
Figure 5 shows a comparison of the registration fee monthly collection for the last two years. The trends suggest that the income stream is relatively stable except in the month of December where the collection in 2008 shows a reduction of 57 percent as compared to December 2007.

**Figure 8: Monthly comparison of the collection of registration fee in 2007-2008 and 2008-2009.**



The revised target for registration fee in 2008-2009 was Rs. 2.183 billion. Actual receipts collected up-to June 2009 was Rs.2.187 billion, which is more than 100% of the total revised target. The Department was confident and anticipated in the month of April that actual collection would achieve the target set by the BOR for 2009 / 09. As with stamp duty historical trends suggest that property transactions increase in the months of May and June.

**Figure 9: Comparison of target against actual collection: 2008 / 09**



### 3.2.1 Cooperative Societies

Housing schemes developed under the Cooperative Societies Act are exempt from paying the registration fee and it is estimated that if these societies were brought into liability an increase of 10%-15% in the revenue from registration fee could be achieved.

### 3.2.2 Human Resources

The staff dealing with registration is ill equipped, unskilled and has low motivation and they are expected to work on other duties as directed by the DCO – leading to staff having problems in determining their priorities.

They receive no training and there is no culture of training provision in the Department.



### 3.2.3 Performance Management

There is no performance management framework in place and although some statistics are collected on a monthly basis at District level and returned to the BOR little or no action is taken in relation to these.

### 3.2.4 Audit and Inspection

Staff from the office of the Inspector of Taxes, who has 14 inspectors, audits the transactions for registration fee and they undertake over 500,000 checks of individual transactions on an annual basis. We were informed that this is a 100% check of all transactions and although no statistics are available from the reports that were made available to us they find a large number of errors in the calculated rate of stamp duty.

## 3.3 Situational Analysis – Mutation Fee

### 3.3.1 Tax Base / Tax Rates

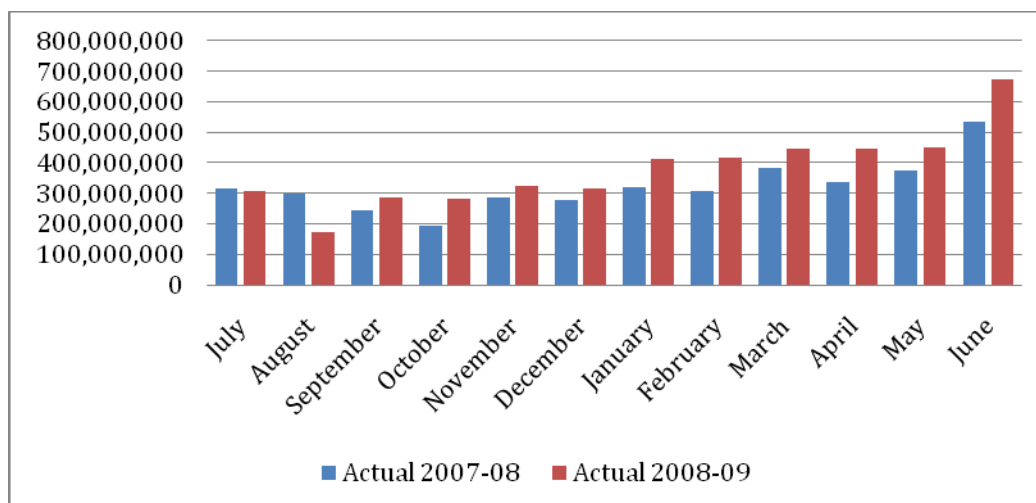
The mutation fee is a set rate of Rs.200 but there is an additional mutation fee applied to oral mutations that is 3% of the sale price of the land / property. These are reviewed annually in the Finance Bill as part of the budget process and it accounts for some 30% of total income and raises some Rs.4bn annually.

Oral Mutation applies only in rural areas and the key types of mutation are *Warsat Mutation, Beh, Tabadala, Taqseem, hiba, and Mortgage, Redemption etc.*, however, the additional mutation fee is not applicable to *hiba, tabadala and taqseem* under inheritance law.

Valuation tables are not applicable in the rural area and the price is either declared by the seller or fixed by patwari based on the average price (*osat bai*). We were informed that some 50% of transactions are undervalued – principally because pre-emption does not apply and 50% of transactions are over valued – where pre-emption does apply.

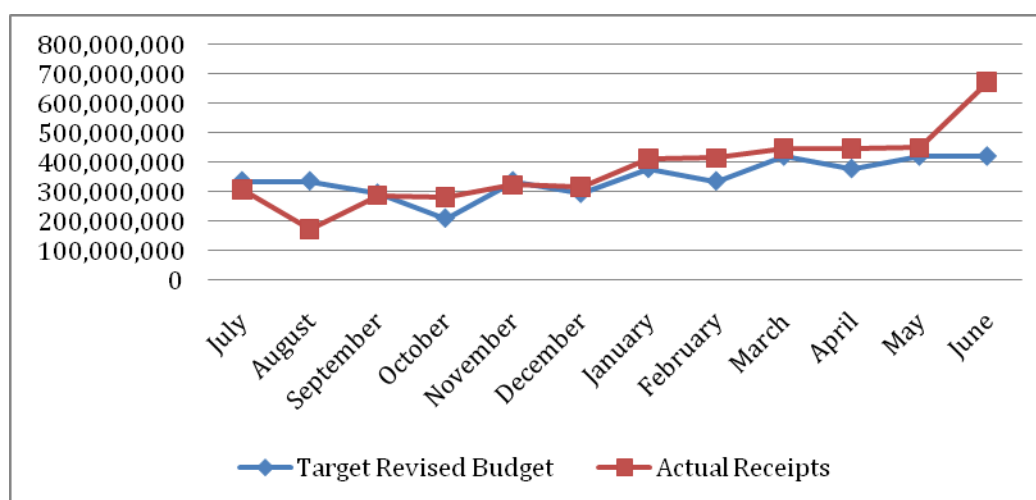
Figure 7 shows a comparison of the monthly collection of mutation fee for the last two years and the trends suggest that except for August 2008 where the collection dropped by 43 percent there has been an increasing trend in the collection of mutation fee in 2008-2009 as compared to 2007-2008. The trends are promising and during the discussions with various staff members of the Board of Revenue, they are optimistic about achieving the current year target.

**Figure 10: Comparison of Mutation fee collection between 2007/08 and 2008/09**



The original target set by the finance department in the budget estimates was Rs.4.60 billion but the BOR revised the target to Rs.4.16 billion in March 2009. Actual receipts up-to June 2009 was Rs.4.53 billion which is 115 % of the revised target and 99% against the original target set by the Finance department. (Figure 8)

**Figure 11: Comparison of target against actual collection: 2008 / 09**



### 3.3.2 Human Resources

Staff dealing with the mutation fee is ill equipped and the key person in the process – the patwari – receives no training and has other duties as directed by the DCO. The appointment of the patwari is subject to political influence and he receives little supervision and no effective audit of the transactions is undertaken.

### 3.3.3 Performance Management

There is no performance management framework in place and although some statistics are collected on a monthly basis at District level and returned to the BOR little or no action is taken in relation to these.

### 3.3.4 Audit and Inspection

The audit of oral mutations is the responsibility of the Accounts and Audit office but we found no evidence that any effective audit had been undertaken.



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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 4**



### **BUSINESS PROCESSES**

**September 2009**

(J40251976)



## **SECTION FOUR                      BUSINESS PROCESSES**

### **4.1 Business Processes – Stamp Duty and Registration Fee**

Sale of real estate in Pakistan normally takes place through a title document known as a Sale Deed, except in certain cases e.g. purchase of real estate in Defence Housing Authority (DHA) or in a housing society where a sale deed is not executed for transfer of title in real estate and an allotment letter / transfer letter from the authority or the society, as the case may be, is deemed to be the title document.

Some people, before execution of the sale deed, may opt to execute an agreement to sell. However, such agreement to sell does not transfer title to a property in favour of the vendee. It, nevertheless, does create a right in favour of the vendee, in case the vendor refuses to honour the terms and conditions of the agreement, to seek specific enforcement of the agreement to sell. Title in an immovable property is only deemed to transfer once a Sale Deed or title document has been executed.

A sale deed must be affixed with requisite stamp duty and it must be registered with the relevant sub-registrar. After registration of the Sale Deed with the sub-registrar it must be ensured that a mutation of such sale is entered in the register of mutations kept and maintained by patwari.

Stamp duty is governed by the Stamp Act 1899 and the duty is charged in accordance with Schedule 1 of the Act in relation to a deed of sale, mortgage deed, a lease deed etc; The Stamp Act is a federal statute but schedule 1 is administered by the Provincial Government, which means that if any changes are required to schedule 1 these can be made by the Provincial government through the finance bill on an annual basis.

#### **4.1.1 The Role of Stamp Vendors**

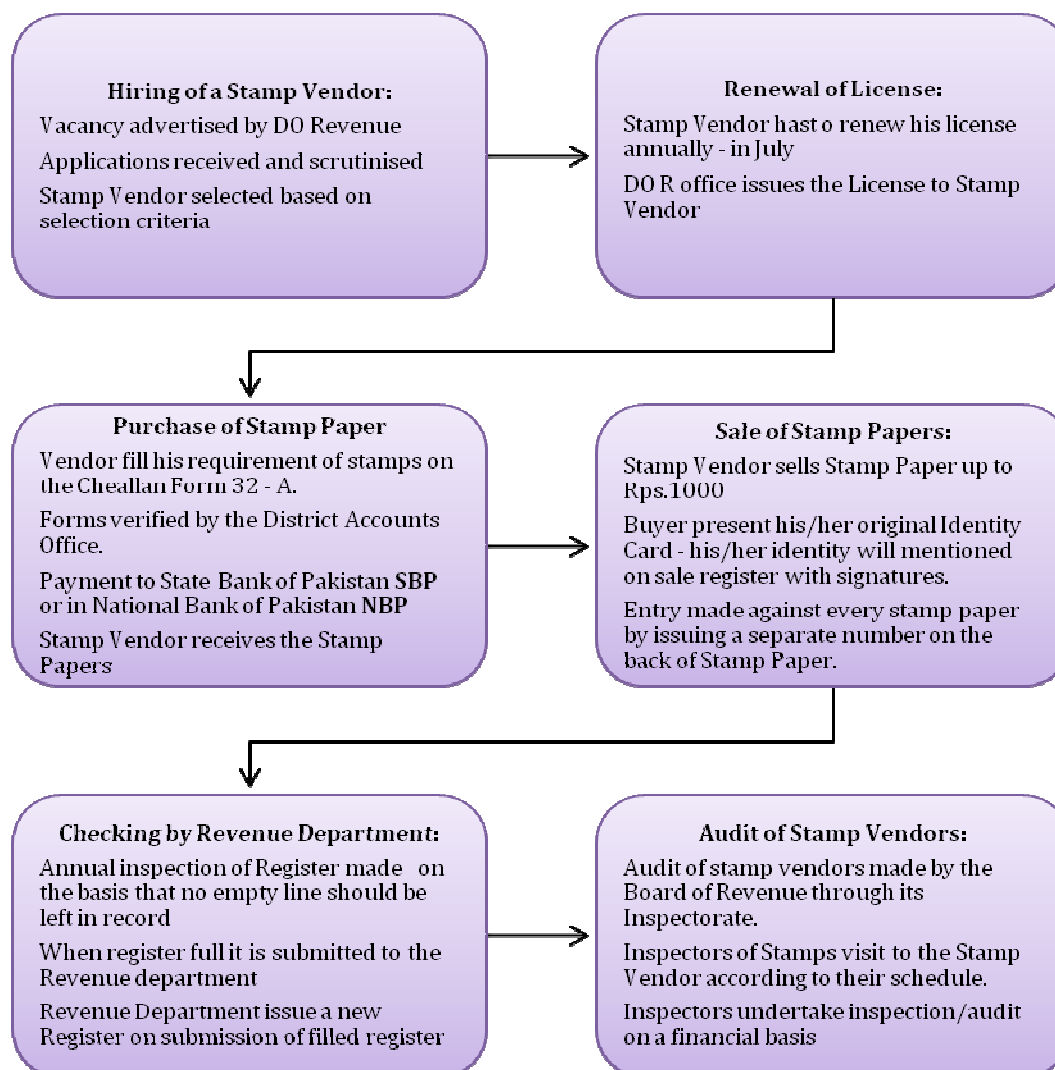
Stamp vendors are licensed to sell stamps up-to a value of Rs.1,000. In order to sell stamps the vendor has to be licensed by the District Collector on an annual basis.

To obtain the stamps vendor deposits a challan in the bank and then has to visit the treasury to obtain the stamp papers and these are in denomination of 20, 50, 100, 500 etc..

The stamp vendor is required to record the transaction of the sale of every stamp consecutively in a register issued by the district collector, which is then returned to the office of the district collector at the end of financial year. During the year the register is supposed to be audited but we saw evidence to the fact that this audit does not appear to take place. We witnessed the fact that a stamp vendor had left blank lines in the register and we were informed that this is done so that stamps can be sold retrospectively at a price higher than the face price of the stamps.

The process of sale and Purchase of stamp papers through stamp vendors is explained in Figure 9.

**Figure 12:            Process of Sale and Purchase of Stamp Papers through a Stamp Vendor**



#### 4.1.2 Sale of Property

When a the seller wants to sell his/her property there are a number of steps that have to be followed –

1. Firstly they have to visit the office of the patwari who will issue a fard on a prescribed proforma for the sale of property.
2. The seller (and occasionally the buyer) then visits a deed writer (Wasil Baqi Navees) and the deed writer based on the sale price of the property “which in most of the cases in the urban area is the district collector price and is less then the market price” calculates
  - a. the stamp duty, which is 2% of the property price, and
  - b. the registration, fee which is 1% of the price.

This cost is communicated to both parties ( seller and buyer). The existing practice is that the buyer pays the stamp duty and the registration fee. However, section 29 of the Stamp Act allows both the parties where there is agreement to share the expenses.

3. The buyer then completes the Challan form and submits a payment to the State Bank of Pakistan.
4. Following payment to the bank the seller visits the treasury office to obtain the stamp paper to the value of the payment made as advised by the deed writer. The treasury after examining the bank receipt issues the stamp papers to the buyer or his lawyer.
5. The buyer then visits the deed writer again and the deed is drafted onto the stamp paper.
6. This stamp paper along with power of attorney (if any), (Farad Performa) is submitted to the office of the Registry Muharar where the value of the stamp duty paid is verified against valuation table. There is also a check to ensure there is no dispute or litigation in respect of the property.
7. If the registry Muharar is not satisfied that the sale price has been declared correctly he or feels that it is below the collector's price then he will reassess the amount due in stamp duty.
8. If the price is seen as reasonable the documents are submitted to the office of the sub-registrar, and a statement is made by the buyer and seller before the Sub-Registrar that they wish to go ahead with the transaction after which the documents are signed.
9. Following this the documents sent back to the Registry Muharar and a payment of the registration fee of 1% of the value of the property is made.
10. The property sale is then registered in the Execution register with the signatures and thumb impression of the sellers and signed by two witnesses.
11. A record of the registration is maintained with the office of the Registry Muharar and one copy of registration provided to the buyer.

Annex seven also explains the process of the stamp duty and registration fee in a graphic form.

Under section 49 of the Stamp Act if the sale of the property does not proceed following payment of the stamp duty the vendor or the vendee (whoever, possesses the stamps) can apply to the district collector for a refund of the amount paid.

After presentation/ execution of the document, if the sub registrar feels that duty paid is insufficient he/she can impound the document under section 33 of the Stamp Act. If the sub registrar fails to detect a deficiency the collector, during his annual inspection may identify any shortfall and, if the collector fails to detect any shortfall the inspectorate of stamps (acting as internal auditor) may identify any such short falls during his periodic inspections

In the case of disagreement between the sub-registrar / collector and the Internal Auditor/ Inspector stamps, the matter is referred to the Departmental Accounts Committee for the settlement of the issue.

#### **4.1.3 Role of the Inspector of Stamps**

The BOR receives a consolidated report from the District Accounts Offices and the district collectors on a monthly basis. The Inspectorate of stamps then reconciles the reports and files them. The report itself shows little detail but does identify total sales of stamps. No similar mechanism exists for identifying the sale of stamps through stamp vendors.

A periodic audit is conducted by the inspectors of the Inspectorate of Stamps for all the treasuries, courts, concerned offices (RTA, PTA, Licensing branch etc) in the province where

stamps are used. The purpose of the audit is to ensure that the correct amount has been assessed for payment of stamp duty. Any shortfalls that are identified can be recovered but are subject to a right of appeal.

Following the inspections audit reports are prepared and the departments/ agencies that are the subject of the audit are directed to comply with any recommendations made. If there is a failure to respond to the recommendations then the matter is referred to the Departmental Accounts Committee, where all concerned are called in person to provide an explanation. If the matter is not settled then it is referred to the Provincial Accounts Committee for further consideration.

#### **4.1.4 Appeals**

The appeal process is governed by Section 71 of Registration Act and section 56 of the Stamp Act. Appellants can appeal against the refusal of the sub registrar to register the transaction to the District Collector

Where the document is insufficiently stamped or is time barred from the duration of refund the application is made to the collector and any appeal is made to the Senior Member Board of Revenue..

#### **4.1.5 Conclusions**

The process of selling a property is long and drawn out and not a particularly easy process for the seller or the buyer. The implementation of the LRMIS will make the process easier and will provide less opportunity for additional, unsanctioned charges to be made e.g. the fee for issuing the fard is Rs.200 but we were informed that the actual charge made is often around Rs. 1,000.

The stamp papers that are issued are effectively a receipt for payment of the stamp duty and it is difficult to understand why they are still needed in a process that involves the sale of property. Removing the requirement for a printed stamp paper would reduce the process for the parties involved, reduce expenditure on printing the papers and generally reduce the bureaucracy involved. Few countries around the world use pre printed stamp papers.

An increase in the stamp duty from 2% to 3% would remove the need to charge a separate registration fee of 1% and again would streamline the process and would avoid the necessity for payments to be made in cash at the sub-registrar office.

It would also have the added advantage of bringing housing associations registered under the Cooperative Housing Societies Act in to the net as they are currently exempted from payment of the registration fee.

An additional fee of Rs 500, chargeable to the buyer could be introduced for checking the validity of the property documentation by the office of the sub-registrar. The purpose of the check is to provide some protection for the buyer so that he can be sure of the validity of the transaction based on the sub registrar's records.

The office of the inspectorate of stamps has only 14 inspectors to undertake the audit of over 500,000 documents. This is a relatively small number of staff to undertake a "100% audit of all transactions." The staff informed us that they have inadequate resources to undertake their duties having no transport, unless they use their own vehicles, and very low subsistence and travel allowances. They receive no specific training in auditing techniques.



When stamp papers are sold the separate denominations are not recorded by allocating separate codes against the sales. This could be resolved easily by allocating separate codes in the chart of accounts and this would not only help the inspectorate of stamps to reconcile the stamps sold with the treasury records but would also assist the BOR in determining any increases / decreases of the value of stamps in schedule1.

The valuation tables are out of date and need updating preferably on a yearly basis. Reducing the differential between market rates and the rates in the valuation table would increase revenue.

## **4.2 Business Process – Oral Mutation / Mutation Fee**

The Mutation Fee is levied in accordance with the Land Revenue Act, 1967 and the fees are determined in accordance with section 46 of Act by the Provincial Government.

In rural areas valuation tables have not been prescribed for determining the minimum rate of mutation fee or additional mutation fee so the fees are normally based on the value of the transaction declared by the seller.

The principal factor that prevents under declaration of value in order to reduce liability to the additional mutation fee of 3% is the pre-emption '**Haq-e-Shufa**' law. Under this law the neighbour of a seller has the first right to claim a transfer of property to him / her at the sale price. This effectively acts as a preventive measure against undervaluation in some 50% of the sales in rural areas. Payment of Mutation Fee is based on the value of the property declared.

As no valuation standards have been specified, the patwari maintains a memorandum record of the value at which property transactions take place during the year. This is known as "Osat Bai" and the value is calculated on the basis of total number of Mutations made in previous financial year divided on the value of property sold in previous year. This record is used to compare the valuation of the property transaction. However, this is not strictly followed in determining the value of the additional mutation fee.

### **4.2.1 Oral Mutation**

The process of collection of mutation fee of Rs 200 and additional fee of 3% of the value of the property in the case of transfer of property in rural areas begins whenever there is a transaction involving a sale, transfer or exchange of property.

In the case of a registered mutation the transaction is recorded on a stamp paper and follows a similar process to that of stamp duty. In the case of Oral Mutation the seller initially approaches the Patwari of the local area accompanied by the buyer and "Lambardar" and "Pati Dar". In the absence of a Lambardar two "Pati Daran" will suffice.

The patwari records the request for mutation having made a number of checks including checking of ownership of the property from the Register of the Record of Rights, checking if there are any outstanding disputes against the property. If satisfied he makes an entry in his daily dairy - this process is known as "Reporting the Matter".

The buyer and the seller then meet the patwari on the appointed day together with the two witnesses and the agreement to sell and buy is meant to be held in open assembly. Once agreed the Patwari records the transaction, in the presence of buyer and seller and two "Pati Daran", in the Mutation Register "Dakhil Kharij" in accordance with the Land Revenue Manual

(Sect 41 (3) and 42). Patwari the makes two entries - 1 called “Parat Patwar” is the record maintained by the Patwari.

The 2<sup>nd</sup> called “Parat Sarkar” is submitted to the district headquarters and maintained in Tehsils of the revenue department. The patwari is supposed to make these entries in pencil until finalising the process but in practice these entries are made with permanent pen and the area of property and the ownership with Red and bold ink.

Also we were informed when visiting the field offices that the transactions do not always take place in open assembly and the register is not always fully completed at the time of the transaction. This practice takes away the protection for the buyer and seller that the open assembly is intended to provide and failure to complete the register in the presence of the buyer and seller means that they are not aware of what entries are eventually made. They do not receive a receipt or a copy of the



**Figure 13 Register**

transactions unless they specifically request one.

According to the law the mutation fee and the additional mutation fee should be deposited at the bank and then submitted to the revenue officer at the time of recording the statement “Bayan” but in practice the fee is collected by the patwari in cash at the time of the oral mutation taking place.

Gardawar “Kanongo” is legally bound to visit rural areas on a scheduled basis. On his visit he verifies information that the Patwari has entered in the “Register Dakhil Kharij”. If an entry is found to be incorrect he can place his comments in the register otherwise he signs the register to verify the entry. In reality this is not the actual practice followed in many of the rural areas of the Punjab.

There is then intended to be a further check by the Revenue Officer (Tehsildar/Naib Tehsildar) but again we were informed that a detailed check does not always take place. The process is represented by the process map in Annex eight.

#### **4.2.2 Conclusions**

The process of oral mutation is significantly different from the process of the transfer of property in urban areas with less checks and balances leaving the process open to manipulation by those involved -

- There is no valuation table that can be applied in relation to transfers of properties in the rural areas. In the absence of a defined basis of valuation the system can be abused and can result in losses to the treasury in the form of lower additional mutation fees being assessed.
- The mutation transaction is not always carried out in an open assembly
- The mutation register “Dakhil Kharij” is not always completed at the time of the transaction and in front of buyer and seller. In some cases the Patwari does not get the thumb impressions or signatures of the parties (seller/ buyer) in the Mutation register.
- The mutation fee and the additional mutation fee are supposed, by law, to be paid at the bank but in practice they are paid to the patwari and a receipt for payment of is not always provided to seller/ buyer.

- The transfer of property documents through mutation are not always provided to the concerned parties at the time of the transaction.
- The verification of the transaction by the Kanongo and the Revenue officer do not always take place or are performed in a cursory manner.
- There is no independent audit of the transaction regarding mutation no independent audit is carried out in practice and no sample checks are performed on a random basis with the buyer and seller to verify the details of the transaction.
- All the records of the patwari are manual and the record of rights is maintained on four yearly basis. Currently there is no computerised record in the event of loss of the original records.





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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 5**



### **MAJOR GAPS / ISSUES**

### **&**

### **RECOMMENDATIONS**

**September 2009**

(J40251976)

## **SECTION FIVE    *MAJOR GAPS / ISSUES AND RECOMMENDATIONS***

### **5.1    Introduction**

This section is subdivided in to three parts -

1. A general section where the comments relate to the Department as a whole
2. Stamp Duty / Registration Fee – specific comments relevant to this tax.
3. Mutation Fee – specific comments relevant to this tax.

The mid term report of this project was discussed with the Board of Revenue and the district offices of the Revenue department for their feedback. A number of sessions were held with the key staff from the Board of Revenue and the District Revenue Departments.

The Senior Member Board of Revenue constituted a working group and they were assigned the responsibility of critically reviewing and analysing the mid-term report. A meeting with the SMBR followed the sessions with the working group. The minutes of the meetings are attached at Appendix 8 and the Department's response to the recommendations is included in this part of the report.

### **5.2    Board of Revenue – General**

#### **5.3    Efficiency of Tax Collection**

There is a perception that the Board of Revenue is not an efficient organisation and as a Department that is engaged with the general public it does not generally enjoy a good reputation or the confidence of the general public. The Board of Revenue and the Revenue Departments in the districts suffer from the same perceptions.

There is also a general impression that the work is very complicated and cannot easily be understood and supervised even by their senior officers. Although the Department is moving towards computerisation of land records there is little computerisation of the routine office procedures and extremely poor communication between the Provincial Headquarters and the District Revenue offices.

It is widely recognised that efficiency in the Department is low and this is reflected in the fact that there is leakage in the tax base and unequal application of the valuation tables in urban areas and little check on the values used for the purposes of calculating the additional mutation fees in rural areas. The reasons for this are varied and complex and relate to an accumulation of the issues mentioned in the following paragraphs.

This section, based on the situational analysis and the process reviews, identifies the major gaps and issues that we believe need to be addressed to improve the efficiency of the BOR. It also sets out our initial recommendations that we consider will address the gaps and issues over a period of time. It also sets out the Department's response to the recommendations.

### **5.4    Governance and Institutional Issues**

#### **5.4.1    Gap**

The Board of Revenue works within a complex institutional arrangement and a complex dispersed management structure that is the result of the devolution provided for in the PLGO 2001. Under the current decentralised arrangements Executive District Officers (EDO) are responsible for the management of the District Revenue offices and they report directly to the

District Coordination Officers (DCO) within each District. They are not directly responsible to the Board of Revenue, however; overall management responsibility and policy development remains with the Department whilst the local governments are responsible for the administration and logistical arrangements.

This dual subordination means that senior staff has competing priorities in relation to the Department and to the local governments and it appears that tax collection has a low priority. This leads to a lack of responsibility and accountability at all levels within the structure.

## **5.5 Tax Administration**

### **5.5.1 Gap**

Revenue collection is a specialised and stressful job and requires dedicated effort. Staff of the revenue department is involved in many more duties than just the administration of stamp duty, registration fees and mutation fees. This leads to a diminution in the time they spend on revenue generation and raises the issue of quality in relation to the management of the records recording revenue expenditure,

Participants at the focus group discussions and the main workshop indicated that ineffective monitoring mechanisms, lack of logistical facilities, increased political interference, off the record settlements, and human resource issues are also causing inefficiencies in the quality of service delivery and revenue collection.

### **5.5.2 Recommendation**

The governance arrangements and the institutional environment impact directly on the efficiency and effectiveness of the Department and therefore, It is recommended that these be reviewed to provide clearer lines of management responsibility and accountability and a clearer definition of priorities.

In making this recommendation the consultant team put forward a model for discussion with the working group in which a separate Revenue service was proposed and where the Punjab Public Service Commission would fill in the various positions. The Consultant recognise that this is only a hierarchical structure and that a detailed review needs undertaking particularly in light of the LRMIS project and the impact that will have on the Department and the model proposed is intended to be a starting point and to highlight the need for changes in the present structure.

The proposed model (attached as Annex-10), which is functional in nature, identifies clearer lines of management, clearer definition of priorities, more transparency and accountability. This structure is also intended to enable promotion within the Department from the lower levels to the top thus providing the opportunity for career development. The model would also facilitate improved customer service and the efficiency within the Department.

The proposed model is capable of being synchronized point with the proposed service centre model of the LRMIS.

### **5.5.3 BOR Response to the above Recommendation**

The Working Party recognises the need for the changes in the structure and were of the view that the proposed structure was an expensive model and that something simpler should be put in place and that could give results in medium term. It was agreed that a revised model would be provided in the final report and this is set out at Appendix 10.

SMBR agreed that the structure needed to be amended and suggested that the consultants' proposed model should synchronise with the service centre model of the BOR LRMIS project.

## **5.6 Management Style**

### **5.6.1 Gap**

There is a top down management style within the Department with little concept of teamwork this leads to lack of initiative amongst staff in coming forward with new ideas.

### **5.6.2 Recommendation**

It is recommended that a structured programme of management development be instituted throughout the Department for all levels of management staff. At the present time the management training that is undertaken is ad hoc and only provided to senior members of the management.

### **5.6.3 BOR Response to the above Recommendation**

The BOR agreed and added that the Board of Revenue must be consulted in finalizing the proposed strategy and emphasised that lower tiers of the BOR should be targeted first under the proposed strategy.

## **5.7 The Policy Process**

### **5.7.1 Gap**

We were informed that the Revenue Department, within the Board of Revenue is supposed to be the Policy Support Unit. Clearly from discussions with the senior management and from our own research and observations this is not working.

Consequently, there is no effective policy development process and no consistent and systematic approach to developing policy issues or to research and development within the BOR. No one person appears to take responsibility for policy development and the Department only seems to deal with policy issues on a reactive basis e.g. during the budget cycle when it is requested by the Finance Department to produce its budget proposals. The budget proposals appear to be produced very much on an ad hoc basis.

The result is that there is no in depth consideration of proposals that are made and no consistent collection of data on which to base decisions.

The lack of policy development capacity and the lack of cooperation with the Finance Department on tax policy issues subsequently results in few, if any, well-designed, assessed and actioned proposals – this was evident to us during the budget process. The senior management appears to have little support within the management structure in relation to policy development.

### **5.7.2 Recommendations**

It is recommended that a Policy Support Unit be set up in the BOR directly responsible to the SMBR. The unit should comprise staff with a variety of skills including economic, financial accounting, human resources, legal and staff who have experience of working within the BOR environment.



### **5.7.3 BOR Response to the above Recommendation**

The SMBR and his working group supported the view that there is a need to improve policy development within the Department and concept of a Policy Support and Planning Unit but SMBR pointed out that it is extremely difficult to hire experts from the private sector even on slightly better salaries and that it is very difficult for the private sector to understand the existing rules and regulations of the BOR and they may take 6-12 months in understanding the BOR Work Environment. For these reasons previous management avoided taking this type of initiatives. SMBR considered that the Head of the Policy Unit should be designated as Director General.

Some of the members of the working group were of the view that there is no need for the policy unit and it will be a burden on the Board. However, the SMBR did recognise the importance of the need to establish a separate policy support unit where the team of specialists act as a think tank and advise the SMBR and his team accordingly.

## **5.8 Financial Management**

### **5.8.1 Gap**

Although the Department is responsible for collecting significant amounts in revenue and has complex financial arrangements in place with the Districts there appears to be little in the way of staff with financial skills in the Department.

### **5.8.2 Recommendation**

It is recommended that appropriate staff be given the opportunity to receive training in financial accounting including the opportunity, if considered appropriate, to study for an appropriate accounting qualification.

### **5.8.3 BOR Response to the above Recommendation**

The BOR agreed the recommendation and considered that the proposed policy unit and the newly proposed office of Director General Internal Audit could undertake some of the PFM jobs.

## **5.9 Capacity**

### **5.9.1 Gap - Human Resources**

A high proportion of the staff employed in the BOR and in the District Revenue offices are in grades 1 to 5, which means that many of the workers are earning a salary that is only a little above the Pakistan minimum wage of Rs.6,000.

There are no incentive schemes available to staff and this combined with low pay leads to low motivation - in general a non-merit based system of public employment creates a culture of dependency and increases the possibility of corruption.

Job descriptions are inadequate and were last reviewed, we were told by the administrative branch of the BOR in 1982. There is no systematic system of staff appraisal and evaluation in place in order to determine promotion prospects or pay levels. The system that is in place appears only to be used when requested by the employees – which leads us to the conclusion that there is little management commitment to the process.

There is an aging workforce and the Department faces a considerable turnover of staff over the next ten years with new staff entering the service who will have different expectations

than their predecessors.

The structure of the Department is very hierarchical and it is impossible for an entrant at the bottom end – no matter how efficiently they carry out their duties – to reach the top ends of senior management. In discussions with staff it was made clear to the consultants that this has an impact on motivation and that as promotion is slow, within the current limited confines of the structure, this leads staff to apply for posts in other Civil Service Departments giving the BOR a relatively high turnover of staff.

### **5.9.2 Recommendations**

It is recommended that –

1. A human resources strategy be developed incorporating –
  - a. A review of staffing levels to identify if there are adequate staff numbers in place to ensure efficient working.
  - b. A review of staff salaries to ensure comparability with the rest of the civil service. This should include the possibility of introducing a performance based pay relative to collection levels.
  - c. A review of current job descriptions that are out of date and do not adequately reflect or explain the responsibilities of individual posts.
  - d. The introduction of an objective, independent staff appraisal and evaluation scheme that is applied in a consistent and systematic manner..
  - e. An investigation of the barriers to promotion with the objective of providing a career based structure within the Department.
  - f. The development of a plan to deal with an ageing workforce and to ensure that adequate succession planning is in place.

### **5.9.3 BOR Response to the above Recommendation**

The BOR agreed the recommendations

### **5.9.4 Gap – Training and Development**

There is no culture of training within the department except for senior managers and apart from an initial induction process there is little job training or opportunities to take appropriate qualifications provided to the general run of staff and little exposure to systems in operation in other countries.

No formal mechanisms exist to identify training needs e.g. training needs analysis exist either in the Board of Revenue or in the District Revenue offices. There is little or no dialogue between training institutes and the Board of Revenue on how the training institutes could meet the skill gap of the BOR and District Revenue Departments' employees.

Promotion or progression within the BOR and the District Revenue offices is not linked to training or skills but to length of service.

### **5.9.5 Recommendations**

It is recommended that –

1. A comprehensive training and staff development strategy is developed linked to the strategic objectives of the BOR.

2. A dedicated central Training and Development Unit (Training Academy) be set up in the BOR for undertaking and organising training in the following areas -
  - Legislative.
  - Procedural training.
  - ICT and Systems training.
  - Customer focussed skills.
  - Qualification-based training.
3. A consistent and coherent training needs analysis be undertaken across the Board of Revenue and Revenue departments
4. Investigations be undertaken as to the feasibility of introducing an appropriate professional qualification structure in to the Department.
5. It is recommended that study tours be undertaken overseas with a view to looking at the alternative methods of administering property transfer taxes in other tax administrations.

#### **5.9.6 BOR Response to the above Recommendation**

The BOR agreed the recommendations and the SMBR welcomed the concept of a training centre in the form of a Revenue Academy that would design and deliver training courses for senior, middle and lower middle management.

### **5.10 Customer Service Centres**

#### **5.10.1 Gap**

Customer facilities at the District Revenue offices are of a very low standard. There are no structured reception facilities and the public are allowed to wander around the buildings until they find the appropriate clerk. The state of decoration is low and the public access areas are simply not welcoming. In Lahore a “one window” concept has been introduced for stamp duty and registration fee that at least provides some semblance of customer service.

Good customer service can be summarised by the following table –

#### **Attributes and Behaviours of Customer Service**

<b>Customer Experience</b>	<b>Enabling Staff Behaviours &amp; Values</b>
Easy to use	Knowledgeable
Simple	Supportive
Intuitive	Reassuring
Rapid	Helpful
Focused	Friendly
Reassured	Positive
Accessible to all	Comforting

	Professional
	Resourceful

### 5.10.2 Recommendations

It is recommended that

- a. a review of customer service centres be undertaken with a view to drawing up plans to bring them up to an acceptable standard with proper facilities for customers, and
- b. Discussions be held with the Excise and Taxation Department and other stakeholders to test the feasibility of sharing the customer service centres that are being developed by the BOR as part of the LRMIS project.

### 5.10.3 BOR Response to the above Recommendation

The SMBR and his team appreciated and acknowledged the fact that the existing facilities in the BOR customer service centres are not up to an acceptable standard and there is a need to upgrade the existing infrastructure. The Project Director LRMIS agreed to explore the possibilities of sharing the BOR customer service centres with the Excise and Taxation department. However, the other members of the working group strongly opposed the idea of using BOR customer's service centre by the E&T.

## 5.11 Customer Access to Services

### 5.11.1 Gap

The Administrative Section informed the consultants that there is no formal customer service strategy in place and except for the present access via the District offices customers have no other methods of access to the Department. There is no separate customer service policy manual or any other documents issued separately but there are limited instructions regarding customer service available in rules of business for BOR.

### 5.11.2 Recommendations

It is recommended that a comprehensive customer service strategy be developed that incorporates a channel access strategy to provide customer access by electronic means such as the website, digital television (if available) Interactive kiosks, modern telephone system, and text messaging. The timing for this is opportune with the development of LRMIS and the proposed new customer service centres.

### 5.11.3 BOR Response to the above Recommendation

The BOR agreed that a customer service and channel access strategy should be developed.

The working group commented that the BOR does have a mechanism where the Department has set criteria to disseminate information to clients but that it does not exist in the form of a strategy. It further suggested that the BOR should be involved in the development of the proposed strategy and emphasis should be placed on effective implementation of any proposed strategy.

## **5.12 Customer Communication**

### **5.12.1 Gap**

There is little or no meaningful communication with taxpayers and they are not routinely provided with any information about the services provided by the BOR or the Provincial Government, what their taxes are spent on and about what levels of service they can expect from the Government and its various Departments.

It is understood that the Department is developing a strategy to deal with these issues but none of the staff interviewed during the course of the project were aware of the strategy.

### **5.12.2 Recommendations**

It is recommended that a customer service strategy be developed with the objective of transforming the customer experience and providing a variety of ways to access information including customer consultation, website, television, newspapers, information leaflets etc.

### **5.12.3 BOR Response to the above Recommendation**

Whilst the BOR agreed with the above recommendation

## **5.13 The Working Environment**

### **5.13.1 Gap**

The issues relating to staff salaries and training have been identified in the general section above. This issue relates to the working environment of sub standard office accommodation that staff is expected to work in and that have low levels of decoration and cleanliness.

### **5.13.2 Recommendation**

It is recommended that offices that staff is currently working in be the subject of a review to put in place a phased programme of improvements to the working conditions.

### **5.13.3 BOR Response to the above Recommendation**

The BOR agreed with the recommendation but explained that due to the budgetary constraints they were unable to make improvements to the offices. Also, the working group pointed out that maintaining the revenue department offices in the districts is the responsibility of the District Governments and the BOR cannot intervene in this regard.

## **5.14 Computerisation**

### **5.14.1 Gaps**

#### **5.14.1.1 Office Systems**

The Board of Revenue information systems are manual and paper based and the computer literacy levels of staff is very low or non-existent.

The Board of Revenue has some desktop computers but with the exception of the planned LRMIS project does not appear to have a planned approach to the computerisation of the department in relation to administrative systems or the rollout of desktops to all members of staff.

What computers are available do appear to be used to their full potential and staff working in different sections of the BOR such as recovery, budget section, Inspectorate of Stamps, and

others while they have received basic word processing training have not been trained in how to operate computerised systems for the benefit of the whole organization.

#### **5.14.1.2 Information Systems**

There are no computerised information systems that make information accessible e.g. Personnel systems and financial management information systems. Improvements in computerisation will improve communication within the Department and will help to shift public perceptions of the services provided and enhance transparency within government.

Whilst it is recognised that the Department has started to consider the development of office systems there is no specific plan in place and none of the staff that the consultants spoke to had been consulted on what they considered was needed and how any proposals would fit in with the working arrangements.

#### **5.14.2 Recommendations**

It is recommended that

- a. a working party be set up to identify the needs of the Department in relation to computerisation with the objective of developing a project plan for the procurement and implementation of office systems.
- b. Training be developed to provide all staff with computer awareness and specific skills training for staff using computers so that the full potential of what is currently available can be realised.

#### **5.14.3 BOR Response to the above Recommendations**

The BOR agreed with the above recommendations.

### **5.15 Departmental Communication**

#### **5.15.1 Gap**

Communication within the Department is based on manual systems and this leads to delays and gaps in the communication process. There is no centralised email system and no intranet available to staff that would act as an internal communication tool e.g. the development of an intranet would enable the development of procedure and working practice manuals that would ensure all staff have access to consistent information for undertaking their work, which would help to eradicate different working practices in different offices.

E-mail addresses used by staff are personal ones that provide no security for confidential information.

Again it is believed that the Department is in the early stages of considering the computerisation of office systems.

#### **5.15.2 Recommendations**

It is recommended that –

- a. A dedicated, secure email system be set up for BOR.
- b. A Departmental intranet be developed, and
- c. Electronic working procedures and practices be developed.

### **5.15.3 BOR Response to the above Recommendations**

The SMBR and his team agreed that the manual system and ineffective communication systems the BOR are causing significant inefficiencies in the Department.

The SMBR informed the consultant team that the BOR LRMIS project has recently advertised the EOI regarding the Automation of BOR and it is expected that the automation will help BOR in streamlining the existing communication processes.

The SMBR agreed that there is a need to change the mindset as employees of the BOR currently see electronic communication as a threat not an opportunity.

## **5.16 Internal Audit**

### **5.16.1 Gap**

The Inspectorate of Stamps carries out the audit of stamp duty and registration fees whilst there is little effective audit in relation to mutation fees.

The Inspectorate of Stamps is expected to audit over 500,000 transactions annually with some 14 inspectors – at best the audit is cursory and in the case of mutation fees there is little or no audit undertaken.

Staff receive no formal training in accounting or in modern audit techniques and have few resources in the way of transport or subsistence allowances provided to them.

A lack of effective and efficient audit can lead to corrupt practices developing.

### **5.16.2 Recommendation**

It is recommended that the Inspectorate of Stamps be replaced, and

- a. An internal audit department be developed with adequate staffing levels, training and the introduction of professional qualifications that audits the transactions in respect of stamp duty, registration fees and mutation fees.
- b. Appropriate skills training and professional qualifications be identified and undertaken with the staff involved.

### **5.16.3 BOR Response to the above Recommendations**

The BOR agree with this recommendation and the Idea of establishing a separate internal Audit department in the BOR is appreciated by the SMBR and his team. They emphasised that the activities of an internal audit section should also include the proper monitoring and evaluation functions for the proposed service centres of the BOR to be established under the LRMIS.

The SMBR considered that the internal Audit department could also undertake the reconciliation of accounts in the proposed service centres.

## **5.17 Performance Management and Quality Control (PMQA)**

### **5.17.1 Gap**

There is little or no measurement of performance either at a departmental level or at an individual staff level. There is no performance management framework to enable measurement of previous performance or quality and, where relevant, in comparison with external organisations.

The consultants recognise that as part of the LRMIS project elements of PMQA will be built in to the new system this is not comprehensive and will not apply to all the work of the Department. At the present time as there is no performance management framework almost by definition there is little quality control exercised.

#### **5.17.2 Recommendation**

It is recommended that a performance management framework (PMQA) be developed, taking in to account that being developed in LRMIS, to enable the Department to measure its performance and quality of service delivery internally and benchmark itself against external organisations.

#### **5.17.3 BOR Response to the above Recommendation**

The BOR agreed this recommendation in principle.

The SMBR and the Project Director agreed that a culture of performance management has to be introduced if the BOR wants to identify gaps in performance and where improvements are required.

However, some of the members of the Working group of BOR considered that it was easier said than done and it is extremely difficult to change the existing mind set of the BOR employees and Provincial Government where performance is not measured solely by job performance.

### **5.18 Stamp Duty / Registration Process**

#### **5.18.1 Gaps**

The following gaps in the process were identified -

- There is no effective monitoring of the patwari to ensure the probity of his actions when he issues the fard on the payment of a prescribed fee.
- The existing process for the registration of property is long and is causing inconvenience to the public.g. the seller having to visit the deed writer twice, visits bank and the treasury all just to achieve writing the deed on the stamp paper.
- Under the 'caveat emptor' principle the rights of the buyer are not protected.
- The payment of the 1% registration fee (cash) in the office of the sub-registrar where the buyer gets a hand written receipt is a loose control and there are sometimes delays in the money being deposited at the bank.
- Stamps sold through stamp vendors are not subject to audit by the Inspector of Stamps.

#### **5.18.2 Recommendations**

It is recommended that –

- a. The actions of the patwari are subject to audit.
- b. A review of the stamp duty process is initiated to determine how it can be shortened to the benefit of the customer including considering the system at the Lahore office of requiring the buyer and seller to use a lawyer be further investigated to determine if this makes the process easier for the parties to the transaction.



- c. A check on the validity of the documentation be included in the overall checks as a protection for the buyer. (See under Rates below).
- d. Payment of the registration fee be made at the bank (but see recommendation below under Rates)
- e. Stamp vendors become subject to audit by the Inspector of Stamps.

### **5.18.3 BOR Response to the above Recommendations**

The SMBR and the members of the working group agreed with the recommendation the registration fee and the mutation fee should be paid to the bank instead of the Patwari or the Registry Moharar. Although rules already exist for this they are effectively ignored. SMBR further explained that this issue will be addressed in the proposed service centres because there will be bank booths in every service centre.

In relation to providing protection to buyers SMBR explained that the government cannot guarantee the title unless the whole record is computerised and the government is confident enough after 12 months -18 months time that there are no errors in the record then the government can ensure protection regarding title.

## **5.19 The Valuation Tables**

### **5.19.1 Gaps**

The valuation tables do not apply across the whole of the Punjab. They apply only to those areas classified as urban areas, which means that stamp duty and registration fees can be applied only in urban areas. There are “rural” areas that have not been declared as urban under section 3 of the Urban Immoveable Property Tax even though they are, in practice, extensions of urban areas as a result of the progress of building in the cities into what were once rural areas.

This means that the mutation fee is levied in these areas and results in under declared valuations of property.

The valuation tables are out of date and inconsistently updated throughout the Punjab. It is estimated that in some areas of the Punjab there is a difference of 70% in the market value of properties and the values shown in the valuation tables.

In between updates of the valuation tables there is no indexation of values so there is a decline in real terms in the value of revenues received.

### **5.19.2 Recommendations**

It is recommended that –

- a. A centralised valuation section, with appropriately professionally qualified staffs created within the BOR with responsibility for preparing the valuation tables across the Province to ensure consistency and to track market values.
- b. The valuation tables are updated at the earliest opportunity.
- c. Valuation tables are introduced to cover the rural areas.
- d. A network is set up with property agents other appropriate organisations to gather data on the selling price of properties with a view to indexing the valuation tables in between the preparation of new tables.

- e. TMA's should be encouraged to declare those areas that are designated as rural but urban in nature.

### **5.19.3 BOR Response to the above Recommendations**

The SMBR and his team agreed with the above recommendations but expressed reservations about the development of a centralised valuation section. The members of the working group were of the view that it should be outsourced but SMBR did not agree with this suggestion and he gave the example of the Bank of Punjab where property agents had been and were valuing the property without real evidence of values.

SMBR supported the idea of a centralised valuation section in the longer term because he considered that in the present circumstances it would be difficult to establish because of a lack of suitably qualified people. A process of training would have to be undertaken to obtain the right mix of skills.

## **5.20 Tax Rates**

### **5.20.1 Gaps**

There are two tax rates – stamp duty at 2% and registration fee at 1%. Payment of stamp duty is made at the bank and payment of registration fee is paid in cash at the District offices.

Transactions that take place in accordance with the Cooperative Housing Societies Act are exempt from the registration fee resulting in a loss of revenue. It is estimated that revenue could be increased by 10% to 15% if this exemption were removed.

There is a practice of beneficial transfer of property through the use of "Power of Attorney" and this had led to substantial reductions in the collection of stamp duty. The law has been changed to bring these transactions in to the tax net but no effective policing of such transactions takes place.

There is little protection in the process for the buyer. He / she is reliant on the staff checking the property documents for accuracy and validity. The BOR could introduce a fee for this validity check of say Rs.500.

### **5.20.2 Recommendation**

It is recommended that -

- a. Stamp duty and the registration fee be combined in to a single stamp duty with a rate of 3%. This would have the advantage of the seller only having to make a single payment to the bank and BOR staff then handles no cash. Also it would bring in to the tax net those transactions that are currently exempt under the Cooperative Housing Societies Act.
- b. Effective implementation of the legislative powers relating to transfers by way of power of attorney is required.
- c. On the assumption that the stamp duty and the registration fee are amalgamated then a new registration fee, payable by the buyer, could be introduced of say of Rs 500. This would be introduced to protect the buyer in the form of checking the validity of the property documents by the office of the sub-registrar.

### **5.20.3 BOR Response to the above Recommendations**

The BOR agreed to the above recommendations except checking the validity of the property documents by the office of the sub-registrar. The reason being that unless the property records are computerized and government is confident about the accuracy of the records then validity of title cannot be guaranteed.

## **5.21 Stamp Papers**

### **5.21.1 Gap**

Stamp papers are issued on payment of the appropriate stamp duty and when the registration fee has been paid. Effectively stamp papers act as a receipt for the payment made and are unnecessary in their present format.

### **5.21.2 Recommendation**

It is recommended that:

1. The use of stamp papers for the purpose of transfers of property be dispensed with and replaced with a standard receipt process.
2. Investigations are made as to the feasibility of dispensing with stamp papers for other transactions.

### **5.21.3 BOR Response to the above Recommendations**

The SMBR and his team agreed that the stamp paper is just a form of receipt and can be replaced with another form of receipt in the property transaction process. However, for other transactions the Board has proposed additional security features in the new stamp papers.

## **5.22 Mutation Fee**

### **5.22.1 Gap – Lack of Valuation Tables**

Valuation tables are not applicable in the rural area and the price is either declared by the seller or fixed by patwari based on the average sale price (*osat bai*). This can lead to under declaration of values leading to a loss of revenue to the Provincial Government. Although It is recognised that for agricultural properties undervaluation is a limited issue because of the law of pre-emption.

Valuation tables would, however, be useful due to the changes in land use and land around village settlements coming under commercial or residential usages. Zoning and land use regulations coupled with valuation tables in the rural areas would help to raise the level of revenue.

### **5.22.2 Recommendations**

It is recommended that valuation tables be introduced for rural areas

### **5.22.3 BOR Response to the above Recommendations**

The SMBR strongly supports this recommended because he believes that it will streamline the transfer of property process and will help to stem revenue losses to the Provincial Government treasury.

### **5.22.4 Gap – The Process**

The oral mutation process has a number of gaps -

- The transaction for the transfer of a property by oral mutation is supposed to take place in open assembly – our understanding is that this rarely happens.
- Payment of the additional mutation fee is supposed to be at the bank – again our understanding is that this rarely happens and payment, on most occasions in cash, is made directly to the patwari.
- No receipt for the payment is provided to the buyer unless one is requested.
- No copy of the transaction is provided to the buyer or seller.
- Details of the transaction are supposed to be entered in to the register at the time of the transaction and witnessed – our understanding is that this does not always happen and the register is updated after the event and not in the presence of the parties to the transaction or the witnesses.
- The entries in the register are supposed to be checked by the Kanongo and by the Tehsildar – it is the consultants understanding that this is not always done in a timely or detailed manner.
- No random checks are undertaken by the BOR or the District Revenue office with the parties (buyer and seller) to the transaction to cross with the entries in the register to verify their validity.

There has been a complete failure on the part of the supervisory staff either through laziness or a lack of training to conduct inspections and this has led to the use of inappropriate practices in the knowledge that there is no effective enforcement..

In addition, there has been a failure on the part of the managerial staff to enforce compliance with the law even though they have full knowledge of the inappropriate practices.

It is recognised, however, that the Department is ambitious to reform the mutation process and is in the early stages of developing proposals to ensure that the process of maintenance of records should be free of the involvement of existing revenue functionaries and that a new cadre of officers should be created to perform the necessary back office functions for the maintenance of land records.

#### **5.22.5 Recommendations**

Until the new processes are developed it is recommended that –

- a. The legal requirements relating to oral mutation are enforced to ensure protection for the parties to the transaction.
- b. The patwaris be required to ensure that oral mutation takes place in open assembly.
- c. Payment of the additional mutation fee is made at the bank and the patwaris informed that they must not take payments.
- d. The patwari must be required to provide the buyer and seller with a copy of the property transaction.
- e. The patwaris be instructed that the details of the transaction are entered in to the register at the time of the transaction.

- f. The transactions undertaken by oral mutation are subject to the same audit as stamp duty and registration fee.
- g. Random checks are made with a sample of the parties to an oral mutation transaction to ensure the validity of the transactions.

It is recognised that many of the inappropriate practices will be overcome when the new LRMIS is put in place with its performance management and quality assurance system but until then the above recommendations should be put in place.

#### **5.22.6 BOR Response to the above Recommendations**

The BOR agreed with the above recommendations.

### **5.23 Human Resources**

#### **5.23.1 Gap**

Staff dealing with mutation fee is ill equipped and the key person in the process – the patwari – receives no training and has other duties as directed by the DCO. The appointment of the patwari is subject to political influence and he receives little supervision and no effective audit of the transactions is undertaken.

#### **5.23.2 Recommendations**

It is recommended that –

- a. A review of the responsibilities of the patwari is undertaken with the objective of defining clearly his responsibilities and the defining the appropriate qualifications and experience required for undertaking the work involved.
- b. Appointments must not be subject to political influence and the normal civil service rules of appointment must be applied.

#### **5.23.3 BOR Response to the above Recommendations**

The BOR agreed and welcomed the idea of reviewing the responsibility matrix of the employees of the Board of Revenue and the Revenue departments of the Districts. The members of the working group agreed that some appointments are subject to political influence and therefore, in practice, normal civil service rules are not applied.





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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**

## **SECTION 6**



### **TIME BOUND ACTION PLAN**

**September 2009**

(J40251976)





**SECTION SIX****TIME BOUND ACTION PLAN**

Reference	Action	Start date Timeframe
1	<b>Structural Improvements</b> <ul style="list-style-type: none"> <li>Working group constituted to review the new proposed structure of BOR and align the same with their departmental / donor funded interventions in future which could meet the challenges for next 30 to 40 years/ Long term.</li> <li>Approval from the highest competent forum.</li> <li>Changes in legislation if required</li> <li>Institutional set-up(including Job description and personal specification) and Financial Arrangements</li> <li>Infrastructure development if any</li> <li>Procurement of goods and services</li> </ul>	<i>Start Date</i> Month One
2	<b>Establishment of “Policy Support Unit” in BOR: -</b> <ul style="list-style-type: none"> <li>Develop the logical framework mainly focuses on the achievement of departmental key goals, purpose, outputs and objectives.</li> <li>Develop the organisational structure of the Policy Unit.</li> <li>Establish horizontal and vertical linkages with other tiers of the BOR and the proposed Tax policy unit in the Finance department.</li> <li>Restructuring of the office by designing Business Process according to departmental requirement.</li> <li>Determine staff requirements and qualifications.</li> <li>Develop individual job descriptions.</li> <li>Determine contract conditions and salary.</li> <li>Procurement of goods and services including the appointment of Director General</li> </ul>	<i>Start Date</i> Month Four
3	<b>Capacity Building of Human Resources: -</b> <ul style="list-style-type: none"> <li>Development of Human Resource Management Strategy</li> <li>Implementation of HRM strategy</li> <li>Development of HRM information systems</li> <li>Forward succession planning.</li> </ul>	<i>Start Date</i> Month 13th
4	<b>Training &amp; Development: -</b> <ul style="list-style-type: none"> <li>Training &amp; development strategy developed.</li> <li>Training unit established in BOR.</li> </ul>	<i>Start Date</i> Month 19 <sup>th</sup>

	<ul style="list-style-type: none"> <li>• TNA undertaken.</li> <li>• Design Courses</li> <li>• Study tours.</li> </ul>	7 months
5	<b>Customer Service Centre: -</b> <ul style="list-style-type: none"> <li>• Develop Customer Access Strategy</li> <li>• Review the current processes.</li> <li>• Develop customer service strategy.</li> <li>• Develop plan for establishment of Customer Service Centres.</li> <li>• Renovate these centres according to the requirements of the respective areas.</li> </ul>	<i>Start Date</i> Month Two
6	<b>Stamp Papers:/ Registration Fee -</b> <ul style="list-style-type: none"> <li>• Set up Working Group</li> <li>• Amend legislation – where appropriate</li> <li>• Replace Stamp Papers with a normal receipting process.</li> <li>• Combine Stamp Duty and Registration Fee</li> </ul>	<i>Start Date</i> Month 1
7	<b>Mutation Fee: -</b> <ul style="list-style-type: none"> <li>• Develop a business case for the competent authorities regarding removal of Oral Mutation.</li> <li>• Approval of the competent authority</li> <li>• Implement full registration process</li> </ul>	<i>Start Date</i> Month 7
8	<b>Improved Working Environment: -</b> <ul style="list-style-type: none"> <li>• Programme of renovation undertaken.</li> <li>• Facilitate the staff for office work.</li> </ul>	<i>Start Date</i> Month 7th
9	<b>Information Technology: -</b> <ul style="list-style-type: none"> <li>• Set up working party.</li> <li>• Develop a communication strategy</li> <li>• Develop an IT strategy.</li> <li>• Implementation of ICT strategies</li> </ul>	<i>Start Date</i> Month 7th
10	<b>Internal Audit: -</b> <ul style="list-style-type: none"> <li>• Approval of the Internal audit department from the competent forum.</li> <li>• Determine the scope of the newly proposed Internal Audit Department</li> <li>• Procurement of goods and services including the appointment of DG Audit</li> <li>• Formal training (Audit / accountancy)</li> </ul>	<i>Start Date</i> Month 7th

## ACTION PLAN - TIMELINES.

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# **FISCAL AND FINANCIAL MANAGEMENT REFORMS**



## **ANNEXES**

**September 2009**

(J40251976)





**ANNEX 1*****Literature Review***

The following literature was made available to the Consulting Team prior since the commencement of the project:

- Copies of legislation relevant to –
  - Stamp Duty
  - Registration Fee
  - Mutation Fee
- Ferguson Reports
- Internal reports and documentation relevant to staffing, budgets, collection data and statistics.
- Relevant operational papers.
- Public Financial Management Reports.
- Taxes Collected by Board of Revenue
- Taxes Collected by Excise and Taxation
- World Bank reports.
- Property Tax Administration - Functional Alignment and Assignment of Responsibility for the UIPT system.
- Property Taxes in the Large Cities of Punjab, Pakistan (2006).
- Pakistan: Provincial Government Taxation. (2008).
- Medium-Term Policy Framework of the Government of Punjab on the Urban Immovable Property Tax.
- Information Technology:
  - Presentation on LRMIS
  - Copy of Specification for UIPT system.
  - Information relevant to MTIS
  - Information relevant to professional tax
- Finance Department / E&T / Urban Unit - various papers.
- Medium Term Budgetary Framework 2009 / 10.
- Reports on decentralisation and public finances:
- Devolution in Pakistan, ABD/DfID/WB, 2004.
- Punjab Public Financial Management and Accountability Assessment, GoP-WB, 2005.

Internet search on Federal and Provincial Government websites:

<http://pportal.punjab.gov.pk/portal/http://www.cbr.gov.pk/>

<http://www.pifra.gov.pk/>

[http://www.punjab-prmp.gov.pk/taxation\\_reforms.htm](http://www.punjab-prmp.gov.pk/taxation_reforms.htm)

<http://www.statpak.gov.pk/>

<http://www.urbanunit.gov.pk/index.asp>

**ANNEX 2****Board of Revenue Workshop – April 2009**

MINUTES		
PREPARED BY: Pat Doherty	REVIEWED BY: Mr. Imran Yousafzai Mr N.M. Waqar	REFERENCE NO:
WORKSHOP TITLE:	Comments and Suggestions on Mid-Term Report BOR	
DATE OF MEETING: 23 <sup>rd</sup> April 2009	VENUE (ADDRESS) AND TIME: Seminar Hall, 1 <sup>st</sup> Floor, MPD Department 10.00 am – 15.00 pm	
PARTICIPANTS IN WORKSHOP: <ul style="list-style-type: none"><li>• SMBR</li><li>• Staff from all levels within the BOR</li><li>• Finance Department Staff</li><li>• Representatives from the Urban Unit</li></ul>		
BACKGROUND AND OBJECTIVES OF THE MEETING:		
<b>Background</b> <p>Improving own source revenue is one of the core objectives of Punjab Government and I was appointed as a short-term international consultant to act in the capacity of Taxation Reforms Adviser together with two domestic consultants, Mr Imran Yousafzai from GHK and Mr NM Waqar.</p> <p>During the inception period the consultant team held various departmental meetings with senior staff from the Board of Revenue and Excise and Taxation. Following this it was decided that we should run a series of focus groups with both departments.</p> <p>The result was that three focus group discussions were organized from 11<sup>th</sup> February to 13<sup>th</sup> February 2009 focusing on UIPT, professional tax and motor vehicle tax. Departmental staff from E&amp;T attended the focus groups and identified and discussed key issues and constraints in relation to the administration of the E&amp;T department.</p> <p>The focus groups were followed by a workshop on the 18<sup>th</sup> February 2009 in order to discuss the issues raised at a wider forum which included senior managers from E&amp;T other stake holders including the post office, Lahore Development Authority, the Urban Unit, P&amp;D department, World Bank mission and employees of the Excise &amp; Taxation department.</p> <p>These meetings were followed by three focus group discussions for the Board of Revenue from 18<sup>th</sup> March to 20<sup>th</sup> March 2009 focusing on Stamp Duty, Registration Fee and Mutation Fee. Departmental staff from BOR and Revenue departments of various Districts attended the focus groups in which they identified and discussed key issues and constraints in relation to the policy and administration of the Board of Revenue, Punjab.</p> <p>The focus groups were followed by a workshop on the 23<sup>rd</sup> April 2009 in order to discuss the issues raised at a wider forum which included the SMBR, senior managers from BOR, Revenue Departments of the District, other stake holders including the Lawyers, Finance Department and the Urban Unit, P&amp;D department Punjab. Patwaries, Qanoongos and Tehsildars also attended and participated in the Workshop.</p>		
<b>Workshop</b>		
<u>Methodology</u>		
While designing the workshop for the Board of Revenue the consultant team determined		

to use a different model from that used for the Excise and Taxation workshop in that instead of the consultants giving presentations to the participants, presenters were selected from the participants of the focus group discussions from amongst those who had actively participated and contributed in highlighting the key issues of policy and administration in relation to Stamp duty, Registration fee and Mutation fee. Meetings were held with the presenters and presentations were prepared accordingly.

#### Key Purpose

The purpose of taking this approach was to create ownership by the department in relation to the workshop and any recommendations that resulted from the discussions.

The key purposes of the workshop were:-

- By using departmental staff to do the presentation to create ownership from the department in relation to the workshop and any recommendations that resulted from the discussions.
- To share with stakeholders the issues raised during the focus groups. And
- To provide an opportunity to discuss international standards in tax collection with the participants.

#### Workshop Proceedings

**Mr. Mujtaba Piracha, Program Director PRMP** welcomed the participants and explained that it was the intention of the Punjab Government to modernize the administration and improve the efficiency of the E&T Department. He said that the Punjab Government has formed a tripartite group consisting of representatives from three major departments, involved in tax collection i.e. Finance Department, Excise & Taxation Department and Board of Revenue and that consultants, foreign and domestic had been appointed to review the administration of the Board of Revenue Punjab. Mr Piracha emphasised that PRMP placed / embedded the consultants in the department so as to enhance their interaction with the department and suggest reality based reforms instead of reforms based on academic studies. He thanked the SMBR for attending the session and considered that his presence would a very positive indicator for the reform process.

**The Senior Member Board of Revenue (SMBR) Mr. Akhlaq Ahmad Tarar**, gave a short presentation to the workshop in which he said that he appreciated the presence of the revenue staff (Patwaris, Qanoongoos, and Tehsildars) who are directly concerned with the collection process and understood the problems faced during recovery of government dues. He advised the participants to cooperate with consultants so that they understood the problems that staff were facing while continuing with current departmental practices. He also invited the participants of the workshop to give comments and suggestions on the presentations, which were the output of the focus group discussions.

SMBR agreed that the collections of Taxes / Government dues are low and this could be due to the existing policy and business processes in the BOR and the Revenue Departments in Punjab. He asked for suggestions on how the department could improve the business processes involved in tax collection and make the departmental machinery more efficient and suitable to meet future challenges.

SMBR emphasized the need to bring more transparency to the process of tax collection so that government receives more dues and clients / customers are properly facilitated. He suggested that a One Window Operation (OWO) should be established by creating online links between BOR service centres and the Registrar Offices so that customers are facilitated accordingly. He said if service delivery was improved he believed it would contribute to increasing the collection of government dues.

**Mr Patrick Doherty, an International Tax Expert**, presented an update on the progress of the consultancy project since January 2009. He explained that the consultant team had conducted the literature review of both the departments i.e., Excise and Taxation and Board of Revenue. The team also held a number of face to face meetings with Departmental Managers and staff and had organised and conducted a series of focus group meeting both for BOR and E&T and had also organised a workshop for the Excise and Taxation department. Mr Doherty explained that the team now are beginning to have an understanding of the BOR processes and existing structures and had collected some initial data but that over the coming few months the team, with the help of the BOR, will be conducting analysis of the information collected and would advise the BOR accordingly.

While explaining the importance of the workshop he stressed the fact that only the BOR staff really understood what their problems were and the need to be open about the issues that they faced and this type of forum provided them with the opportunity to have their views heard and it would enable the consulting team to feed their views in to the final reports for the BOR with a view to improving the policy and administrative processes.

### **Stamp Duty**

**Mr. Sultan Alam, Inspector, Inspectorate of Stamps, BOR** gave the feedback from the focus group on stamp duty and informed the participants that the presentation was a reflection of the focus group discussions.

Mr Sultan explained that stamp duty is applicable on every document exceeding the amount of Rs.100. And under section 17 of the Stamp Act it was compulsory for registration to take place. In this regard he pointed out the problems faced during oral mutations and he made reference the Transfer of Property Act 1882, which should be applied to the whole of the Punjab.

He pointed out that the valuation table for the property rates need to be revised and updated. He further suggested that the table should display a clear difference between rural and urban properties; it should be based upon available market rates.

Mr. Sultan, expressing the views of the focus group, suggested that the powers of the District Collector of the District should be enhanced while evaluating the land and properties and also suggested that powers be given to the collectors to deal with undervaluation / overvaluation of the land / properties so that transparency in valuation table is ensured.

### **Discussion Session**

Following the presentation the participants were invited to comment and discuss the issues and the following comments were made:-

- It was suggested that further workshops should be arranged after further analysis to discuss the options available to the department.
- The structure and workload of the department are the main issues and the department should be re-modernized.
- Section 27-A should be amended and district collectors should be responsible if the variation is more than 10%
- Revision of valuation table not implemented effectively.
- Priorities of the various stake holders related to any emergency or a matter related to public interest is causing inefficiency in the administration and collection of Stamp Duty and Registration Fee.
- There is only one head of account ( B02701) where money collected from the sale of

non Judicial stamps is deposited and this does not give BOR a clear picture regarding the sale of stamps and hence the Inspectorate of Stamps has difficulty in reconciling the receipts.

- District Collector under the PLGO is responsible and accountable to DCO and the BOR at the same time he has many legal expectations - to fulfill the indicators given by the Provincial Government (competing priorities)
- There is no formal mechanism for in service training such as internal audit and collection fee and duties & taxes.
- There is a need to simplify the procedure for submitting the fee - which takes at least 4 days and customers are facing problems as a result.
- The Capital Value Tax (CVT) is un-constitutional and needs to be abolished as the federal government should not intervene in the provincial government domain resulting in losses and inconvenience to the Provincial government.
- Annual Indexation of the rates in schedule 1 of the stamp Act and in the Valuation Tables should be considered in order to avoid the impact of large increases every four or five years.
- Khasra number should also be included in the valuation of properties table by the district collectors. This will give little room to the patwari / other revenue officials in causing losses to the provincial government.
- A serial number on the Challan form should be introduced for the submission of registration fee. It will not only make the process transparent but will also make the audit process easy.
- Stamp duty may be increased to 3 percent from 2 percent and registration fee of 1 percent may be removed. This will have no impact on the customers but will ensure that those societies, which are exempted under the Cooperative Societies Act and thus not paying the registration fee will be bound to pay the enhanced stamp duty.
- A nominal amount of registration fee (Rs. 500) per deed may be introduced to increase the revenue of the provincial government.
- An audit must be made effective in monitoring the housing societies.

### **Registration Fee**

**Mr. Aamer A Khan, Deputy District Officer Registration, Lahore** gave the presentation on the registration fee and explained that his presentation was the follow up to the Focus group discussion held on 18<sup>th</sup> March 2009. Mr. Aamer A Khan pointed out certain barriers involved in the collection of registration fee:-

- Many areas are not specified as rating areas.
- There is a gap between the market rates and district collector rates - sometimes more than 100 percent.
- People use power of attorney instead of registering the sale purchase deed. This is done to avoid paying registration fee.

Mr. Amer A Khan also raised a number of administrative issues:

- The payroll structure is poor and revenue collection is a stressful job;
- There are no incentives available for the staff that encourage improved revenue ;
- District Collectors have discretionary powers and in many cases are not

accountable;

- There are 36 districts and Tehsils / Towns and the revenue departments' staff have many administrative issues that need to be considered;
- Appointment of the Local Commission is an issue (self collection);
- Issue of rent seeking behavior, - site inspection at the time of registering the property is not effective;
- Weak mechanisms of the self audit;
- No professional training is provided.

### Discussion Session

The following points were raised during the discussion -

- The whole of the Punjab should be declared as a rating area, however, there was a point of disagreement about the necessity for this and it was explained that BOR working is different than E&T. It was then pointed out that in schedule 1 of the Stamp Act the word "urban" is used and there was, therefore, a need to amend section 27A of the Stamp Act as it is causing losses to the provincial treasury.
- Increasing the DC rate and reducing the gap may tend to decrease income from the registration fee - evidence suggests that customer may not register the property.
- Giving Power of Attorney to the seller will not only affect the registration fee but also stamp duty.
- Gap between Market Rates / DC Rates - reduce gap
- There is an *alternative view is also available that is-* reducing the gap between market rates and DC rates will have no impact on the collection of registration fee
- Power of Attorney should be amended to require registration
- There is also an *alternative view* - Power of attorney is the facility provided to those people who cannot come in person for the transaction such as people living overseas.

Due to time constraints further the discussion session was closed.

### Mutation Fee

Mrs. Waseemah Umar presented the results of the focus group on the mutation fee. Waseemah stated that there were a number of taxes related to the transfer of property:

- Stamp duty (2%)
- Registration Fee (3%)
- Property Transfer Tax with TMA
- CVT (levied on land within 10 Kms radius), &
- Mutation Fee

It was pointed out by Mr Khokhar that an amendment had been made to CVT (July-2008) and that the criterion of 10 kms is no longer applicable. The SMBR instructed his officers to make immediate arrangements to ensure that the change was implemented.

Waseemah resumed after the discussion on CVT by describing the taxes concerned with oral mutation. These being:

- Stamp Duty
- Property Transfer Tax & Mutation Fee

She then described the barriers to collection of above taxes:-

- In relation to Oral Mutation there is no preset procedure available for the

- valuation of rural/agricultural property.
- The sale and purchase contract is arbitrarily signed between vender and purchaser.
- Under estimations of value.
- An alternative view is to avoid preemption peoples use the method of “Shuffa” i.e. the overestimation of values.
- Patwari’s discretion stands in cases of exchange of property as gifts etc.
- Conversion of rural areas into built up areas - Oral Mutations are attested in the manner under section 42 of the Land Revenue Act – this should be reviewed.
- Transfer of property in accordance with the Land Revenue Manual involve a lengthy and complex procedure which causes inconvenience to the general public. – the process needs to be reviewed and rectified to avoid manipulation.
- Many miscellaneous assignments/duties overburdening the Revenue staff.
- Ineffective monitoring by the supervisory officers within BOR.
- Increased political influence especially following devolution.
- Lack of operational/logistic facilities for field staff (she pointed out that in many areas patwar kahanas are established in private bungalows)
- HR Issues – low pay and low capacity.

She completed her presentation with the recommendations of the focus group: -

- Valuation of land to be undertaken under the following categories-
  - Urban areas
  - Rural Areas
  - Built Up areas.
- District Collectors to be empowered / held accountable for the notification of revenue estate as any of the above categories under policy guidelines formulated by BOR.
- Para 7.33 be amended / modified for remittance of monies into the government treasury directly.
- Revenue staff should not handle money.
- Proper HR Practices should be introduced within the Revenue department e.g. better recruitment, training, orientation about department and discipline etc.
- Provision of sufficient resources (Human & Financial)
- Regular monitoring and follow up by the supervisory officers/BOR (including revenue staff)

### **Discussion Session**

- SMBR agreed with the above suggestions / recommendations given in Waeemah’s presentation.
- There was a need for a policy unit that is administered by the specialists acting as advisors to the BOR, which should also act as internal auditor of the BOR
- Niab Tehsildar, Lahore city added that: there is a separate and clear law available in legislation for Revenue departments for Mutation, and according to the law staff is not allowed to be involved in any sort of cash handling. However, the law is not properly practised.
- There is a need for a proper M&E framework

### **Land Record Management Information System.**

**Mr Ali Raza Bhutta, Project Director LRMIS** gave a presentation on the LRMIS

initiatives. Mr. Bhutta stated that previous projects had not been very successful in themselves but in a sense they were successful as pilot projects as they established a roadmap for future projects. He explained the concept of the service centres that were to be established under the LRMIS project.

There are two major tasks to complete within the project –

- 1<sup>st</sup> was enter the record of Land Revenue, and
- 2<sup>nd</sup> task is to verify and rectify the information from the field staff.

SMBR added that technical staff would be required to undertake the verification of data but this would be done at a later stage as data take on was the priority.

All the records of the Patwar Basta should eventually be transferred to the computerized database.

Mr. Ali Raza described the process of recording mutation according to which only registered and verified mutation records are to be entered in the database to avoid ambiguity. There was a suggestion by Mr. Mokal that there is a need to establish a law under which it is made compulsory that deeds should be written by the seller and the purchaser and recorded at the same time.

#### **Message from Finance Department**

**Mr. Umer Masood, Additional Secretary Finance ( Budget)** informed the participants that the coming financial year is very critical for taxation departments especially for BOR. The Finance Department is looking for few changes in the current departmental targets because 60 percent expenditure budget of Government of Punjab is dependent on the revenues collected by BOR.

He also explained that the Finance Department is introducing a new method of performance evaluation at least at district level. Monitoring and accountability should starts after a month of target allocation and the Finance Department would be able to take action in the case of discrepancies. Mr Masood completed his presentation by stating that the Finance department was also reviewing the HR and training issues of BOR.

#### **Closing of the Workshop**

Mr. Pat Doherty, the International Tax Consultant thanked the audience for their participation and said that he hoped to visit a number of the offices to see their workplace first hand and to try and get a better understanding of the work that they undertook. He then dealt with a number of questions from the audience about valuation matters and the formation of a policy unit within BOR.

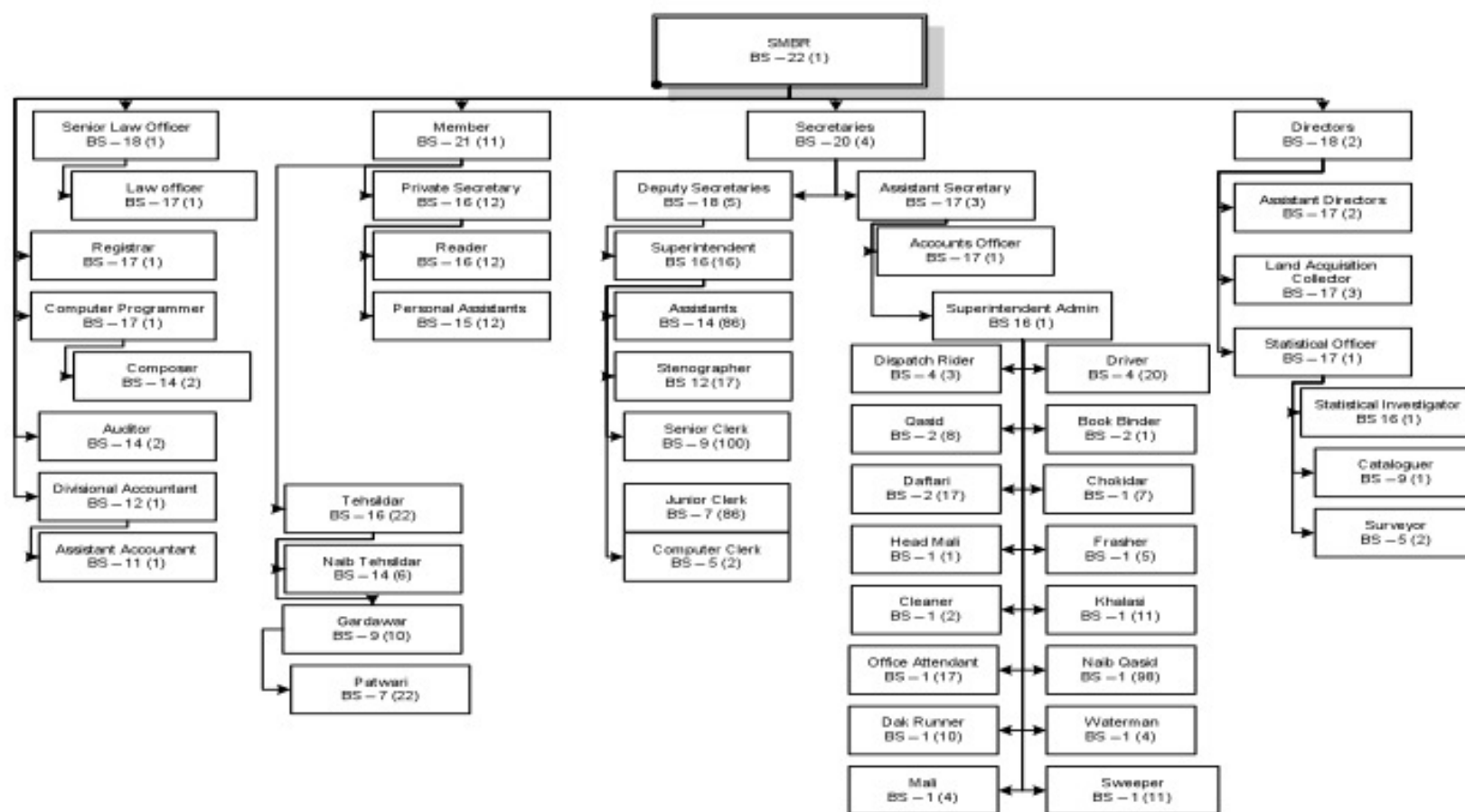
Finally, Mr. Akhlaq Ahmed Tarar thanked PRMP, ADB and the consultants for arranging the workshop where key issues were highlighted and discussed. He explained that this is the start and during the course of time we will undertaking further work that will bring reforms in the BOR and that will contribute to the development of Punjab by the collection of more revenues.

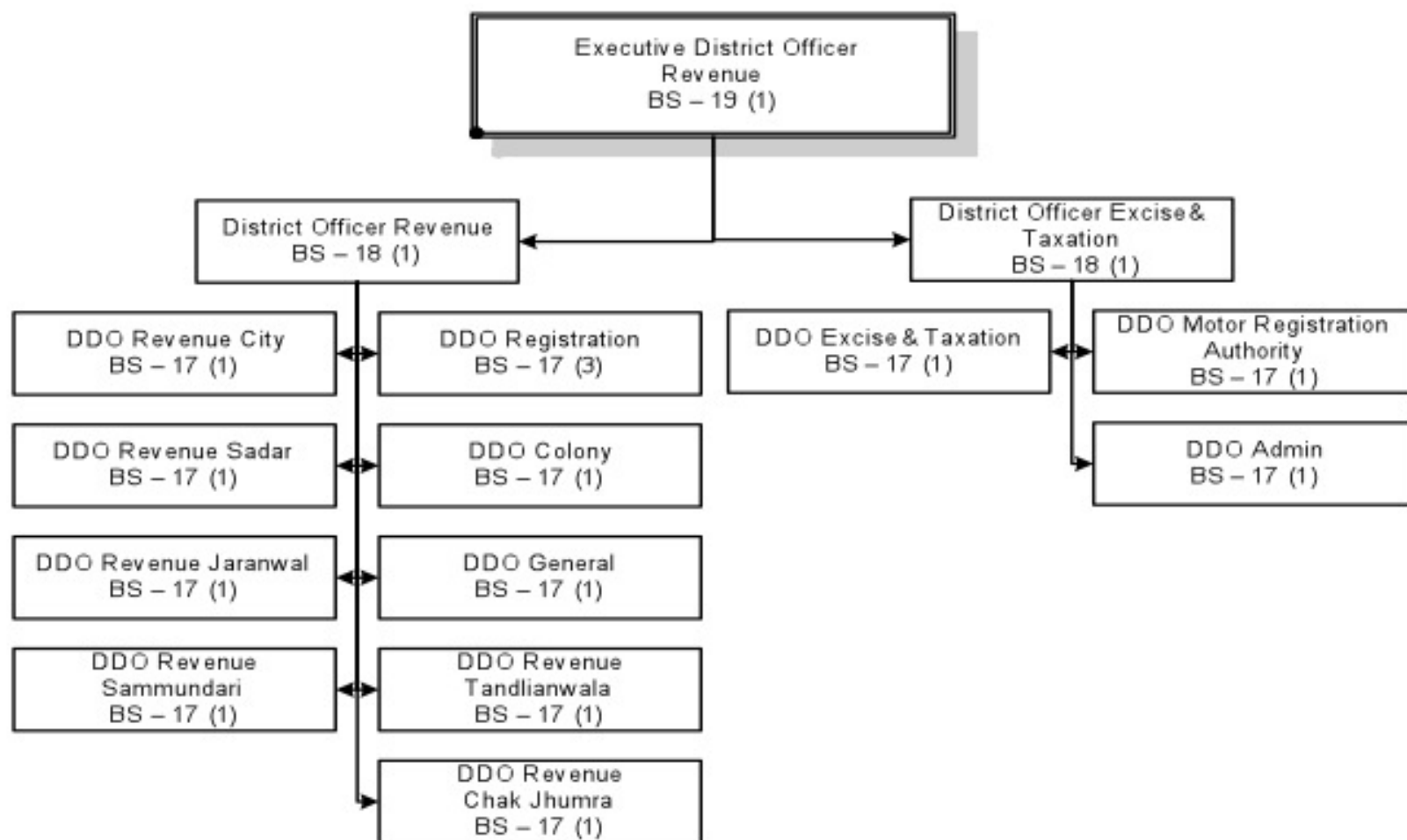
He also felt that there is a need in the BOR for the services of independent valuation specialists are procured to assist in the preparation of valuation tables which will have a positive impact on the provincial receipts. He also realized that there is a need to improve coordination between the staff of the BOR and revenue departments in Punjab and also the coordination between BOR and other revenue collecting agencies. He thanked the participants for taking part in the discussions during the day.





### ANNEX 3 *Organisational Structure of the Board of Revenue*



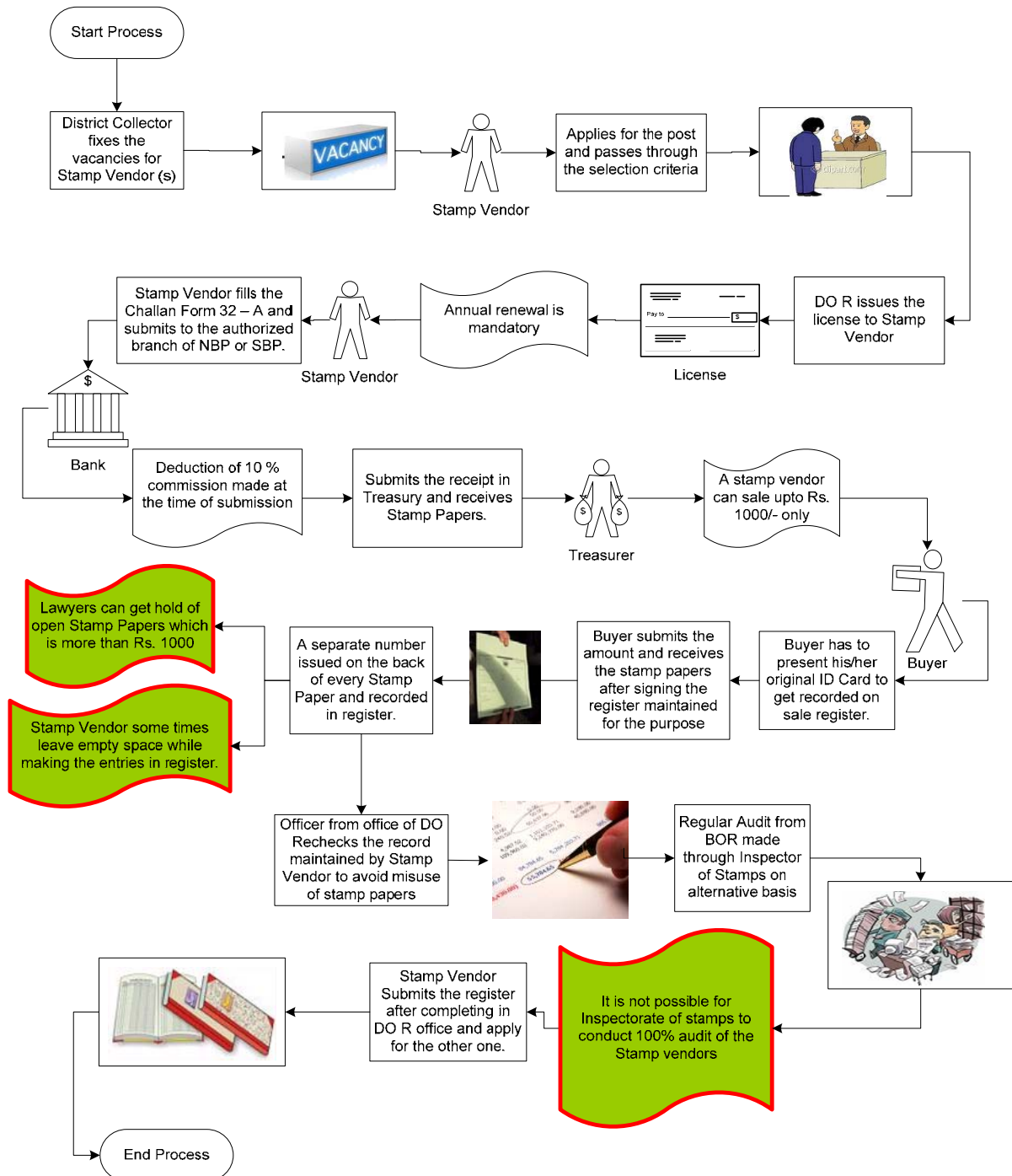
**ANNEX 4*****Organisational Structure District Revenue Office (Faisalabad)***

## ANNEX 5

## Stamp Duty / Registration Process

**Purchase of Stamp Papers Through Stamp Vendor**

Monday, August 31, 2009

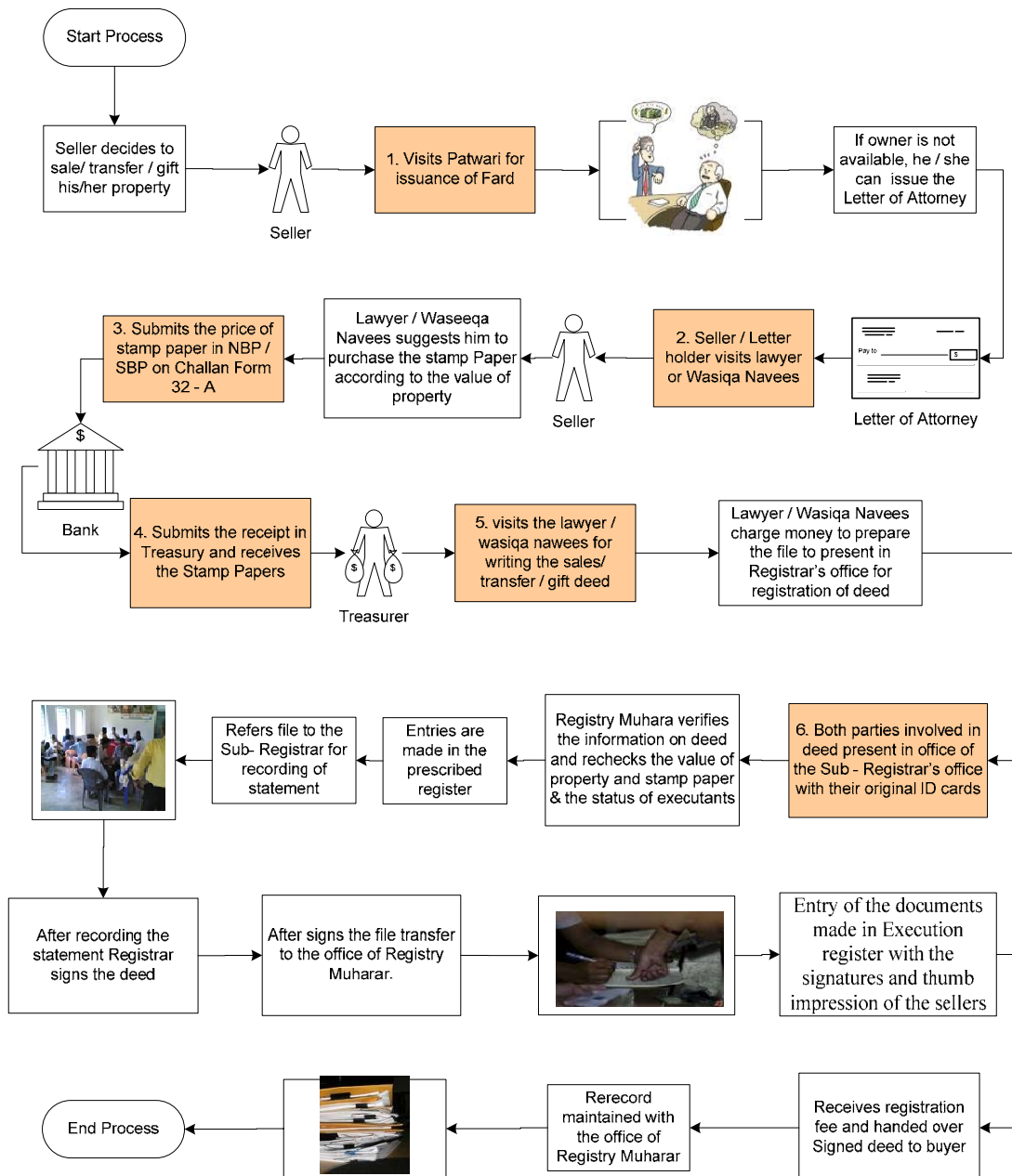


## ANNEX 6

## Stamp Duty / Registration Process

**Registration Process Non Computerized**

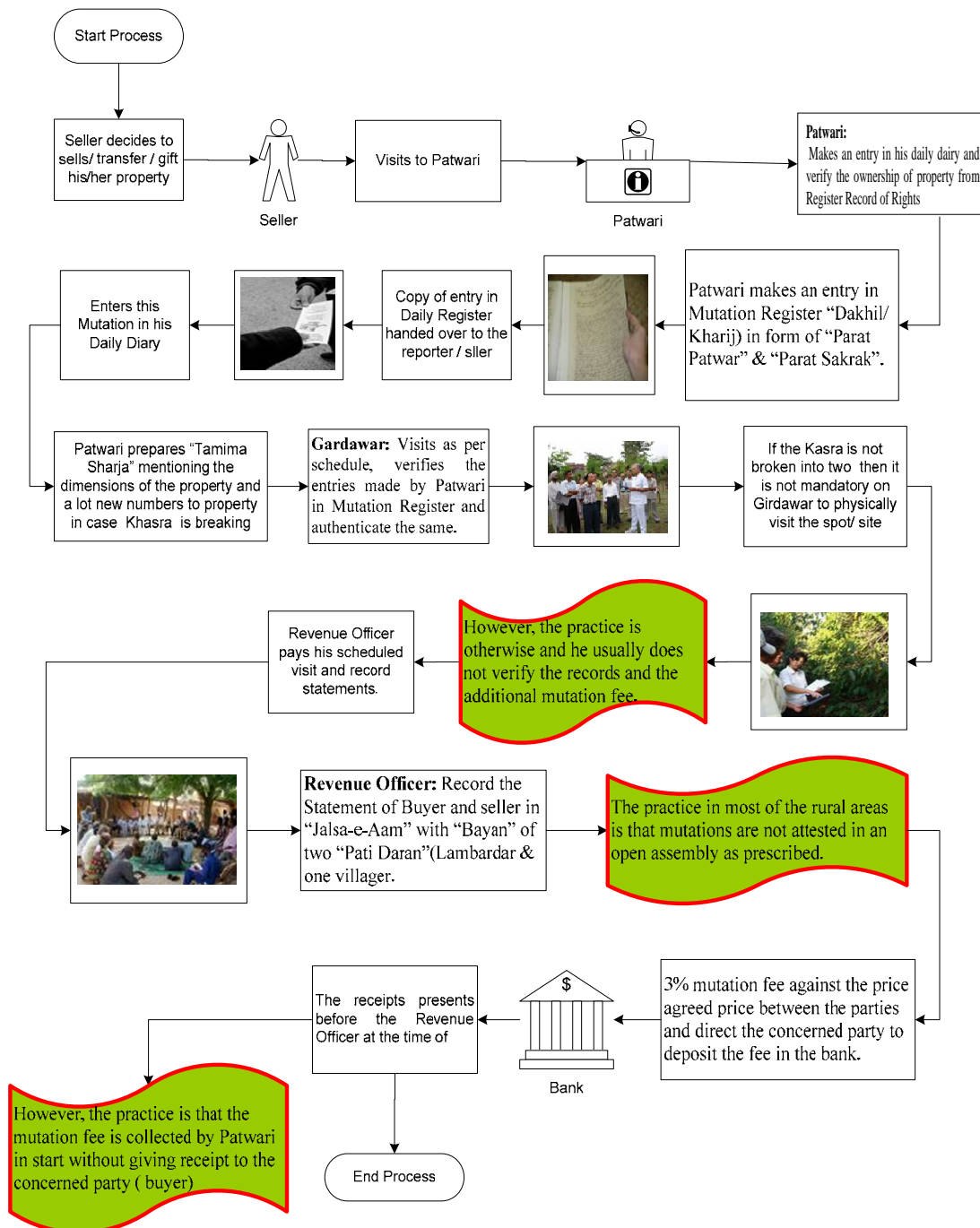
Monday, August 31, 2009



## ANNEX 7 Oral Mutation Process

### Oral Mutation

Monday, August 31, 2009



**ANNEX 8****Minutes of Workshops – August 2009**

MINUTES		
PREPARED BY: Kanwal Mirza	REVIEWED BY: Mr. Imran Yousafzai	REFERENCE NO:
WORKSHOP TITLE:	Comments and Suggestions on Mid-Term Report BOR	
DATE OF MEETING: 15-08-09	VENUE (ADDRESS) AND TIME: Meeting Room BOR 9:00am – 11:00pm	
PARTICIPANTS IN WORKSHOP:		
<ul style="list-style-type: none"><li>Mr. Munawar Ahmad Majoka Secretary Revenue, BOR Punjab</li><li>Syed Javaid Iqbal Bukhari Secretary settlement BOR Punjab</li><li>Mr. Khalid Mehmood Ramey Deputy Secretary Recovery, BOR Punjab</li><li>Mr. Ali Muhammad Khokhar Land Revenue Specialist</li><li>Mr. Sultan Alam Inspector of Stamps</li><li>Mr. Imran Khan Yousafzai Domestic Consultant</li></ul>		
BACKGROUND AND OBJECTIVES OF THE MEETING:		
<p>The series of workshops were arranged to provide feedback from staff of the senior managers of the Board of Revenue on the recommendations contained in the mid-term report with the view of refining such recommendations, which will later be fed into the final report due in October 2009.</p>		
Discussion Highlights		
<ul style="list-style-type: none"><li>While discussing on the policy processes the participants were of the view that it will be a burden on BOR. It is a good idea but the scope of work should be defined by the Board not consultants.</li><li>While discussing the training and development participants made comments that;BOR must be consulted in the proposed strategy;there is need for professional training especially at lower level.</li><li>The participants oppose the idea of combining customer service centre with Excise &amp; Taxation Department.</li><li>Participants comment on Customer Services Strategy was that the BOR does have a mechanism where the department has set a criterion to disseminate the information and share with clients. However, it is true that it does not exist in the form of proper strategy.</li><li>To protect the buyers' right Secretary Revenue suggested that the government may introduce a guarantee in this regard but this may need changes in the current legislature.</li><li>On recommendation of centralized valuation Secretary Revenue was of the view that the BOR does not have enough capability to undertake centralized valuation process. However, there is a possibility to outsource this component.</li><li>While discussing the idea of combining the Registration Fee and Stamp Duty, the working group informed that this was experimented previously but somehow, that did not work.</li><li>On recommendation of replacing Stamp Papers with a Plain Paper Form the participants disagreed with the proposed recommendation and suggested that additional security features have been incorporated in the newly proposed stamp papers.</li><li>Discussion on Oral Mutation ends up with the comments that with the passage of time the department discourages the Mutation (Oral Mutation) by making the changes in the existing policy.</li></ul>		
Agreement:		
<p>The participants agreed at the points:</p> <ul style="list-style-type: none"><li>Establishment of Policy Support Unit within BOR.</li><li>Introducing HR reforms.</li><li>Training for capacity building of the existing staff of BOR.</li><li>Implement / enforce the instructions available in Land Revenue Act for improvement in Customer Services.</li></ul>		

- There is a need for a proper Customer Service Strategy in BOR.
- Working environment in offices should be improved by renovating the offices.
- The department should develop a strategy to enhance the IT literacy in the department and using computerized record keeping systems.
- Internal Audit department should be established independently under supervision of SMBR and auditors should be trained properly for the job.
- Review the Stamp Duty and Registration Fee submission Procedures.
- One Window Operation approach.
- Oral Mutation should be abolished.
- Department should review the existing departmental and management structures, and clarify the management lines.

## MINUTES

<b>PREPARED BY:</b> Imran Yousafzai	<b>REVIEWED BY:</b>	<b>REFERENCE NO:</b>
<b>WORKSHOP TITLE:</b>	Comments and Suggestions on Mid-Term Report BOR	
<b>DATE OF MEETING:</b> 18-08-09	<b>VENUE (ADDRESS) AND TIME:</b> Meeting Room BOR <b>02:00pm – 04:00pm</b>	
<b>PARTICIPANTS IN WORKSHOP:</b> <ul style="list-style-type: none"><li>• Mr. Munawar Ahmad Majoka                      Secretary Revenue, BOR Punjab</li><li>• Mr. Khalid Mehmood Ramey                      Deputy Secretary Recovery, BOR Punjab</li><li>• Mr. Ali Muhammad Khokhar                      Land Revenue Specialist</li><li>• Mr. Sultan Alam                                      Inspector of Stamps</li><li>• Mr. Imran Khan Yousafzai                      Domestic Consultant</li></ul>		
<b>BACKGROUND AND OBJECTIVES OF THE MEETING:</b> <p>The series of workshops are arranged to provide feedback from staff of the senior managers of the Board of Revenue on the recommendations contained in the mid-term report with the view of refining such recommendations, which will later be fed into the final report due in October 2009.</p>		
<b>Discussion Highlights</b> <p>Mr.Imran Yousafzai explained the reasons for the proposed model. Such as lack of transparency, accountability, effective service delivery, communication gaps, inefficient Human Resources, ineffective Financial management practices, poor promotion prospects, leakages in revenue collection etc. He also explained the international best practices where employees are given equitable promotion opportunities. Under the new proposed model the existing structural issues are addressed and proposing for a separate revenue service through out the province primarily concentrating on stamp duty, registration fee and mutation fee.</p> <ul style="list-style-type: none"><li>• Working group’s participants were of the view that there is less likelihood to provide the promotion opportunities to the employee at lower level because of the current hiring criteria, education and it’s not that easy to change the existing mindset. However, the consultant did appreciate their concerns and explained that the team is not proposing a temporary change but with the help of this structure BOR could gain further strength and improve the existing inefficient process phase wise and which may take up-to 10 -15 years and will be ready for future challenges.</li><li>• Change of designation from SMBR will need amendment in “<b>Punjab Board of Revenue Act, 1957</b>”.</li><li>• The BOR is currently working as a separate secretariat and it will be better if the same is applied to the newly proposed structure.</li></ul>		



- The participants were of the view that the proposed structure may cause duplication. The consultant explained that this structure is not interfering with the existing setup of BOR but is the additional arm of BOR where the Board will not be dependent on district administration for timely reporting purposes.
- There was a suggestion that Agricultural Income tax may also be included because the model will not work in isolation.
- Under the current set-up in the BOR Inspector General Registration / Land record is dealing with Registration fee. Under the proposed structure amendment in Section 3 of Registration Act will be required and under article 148 of the constitution only federal government has the power to make amendments in the existing statute.
- Participants agreed to have people in districts and tehsils who could act as watch dog for the BOR.
- Regarding the introduction of Rs 600 per transaction of Mutation and registration, the participants were of the view that it will be an extra burden on public.
- The working group was of the view that the establishment of internal audit department in BOR is a good idea and they believed that an effective internal audit making registration of the property compulsory will help in plugging the existing leakages of 25 % in oral mutation. However, they did admit that there are leakages of 5% in stamp duty and registration fee.

**Agreement:**

The participants agreed on the following

- Oral Mutation should be abolished.
- Every document should be registered.
- The model needs further discussions in order to make it workable and cost effective.

## MINUTES

<b>PREPARED BY:</b> Imran Yousafzai	<b>REVIEWED BY:</b>	<b>REFERENCE NO:</b>
<b>WORKSHOP TITLE:</b>	Comments and Suggestions on Mid-Term Report BOR	
<b>DATE OF MEETING:</b> 22-08-09	<b>VENUE (ADDRESS) AND TIME:</b> <b>Office Chamber SMBR</b> <b>09:00am – 10:20am</b>	
<b>PARTICIPANTS IN WORKSHOP:</b> <ul style="list-style-type: none"><li>• Mr. Akhlaq Ahmed Tarar                      Senior Member Board of Revenue</li><li>• Mr. Munawar Ahmad Majoka                Secretary Revenue, BOR Punjab</li><li>• Mr. Khalid Mehmood Ramey                Deputy Secretary Recovery, BOR Punjab</li><li>• Mr. Ali Muhammad Khokhar                Land Revenue Specialist</li><li>• Mr. Javid Bokhari                              Secretary Settlement BOR</li><li>• Mr. Imran Khan Yousafzai                  Domestic Tax Consultant</li></ul>		
<b>BACKGROUND AND OBJECTIVES OF THE MEETING:</b> <p>The team of Tax consultants submitted the Mid-term report and in order to involve the senior managers of the Board of Revenue series of sessions were organized. In this regard the SMBR constituted a working group who would discuss the gaps and recommendations identified by the consultants and after incorporating their views a detailed session with SMBR along with the members of the working group will be arranged in the venue. SMBR called the meeting on 22-08-09 and discussed the mid- term report in detail. The discussion was primarily focused on the gaps and proposed recommendations of the Mid Term report.</p>		
<b>Discussion Highlights</b>		

Mr. Imran Yousafzai explained the reasons for the proposed model. Such as lack of transparency, accountability, effective service delivery, communication gaps, inefficient Human Resources, ineffective Financial management practices, poor promotion prospects, leakages in revenue collection etc. He also explained the international best practices where employees are given equitable promotion opportunities. Under the new proposed model the existing structural issues are addressed and proposing for a separate revenue service through out the province primarily concentrating on stamp duty, registration fee and mutation fee. However, after the working group criticism by calling this model an expensive model, the team revised a model in Presentation to SMBR.

- The BOR supports the idea of Policy and Planning Unit but the issue is that first it is extremely difficult to hire experts from the market even on slightly better salaries and secondly it is very difficult for the private sector to understand the existing rules and regulations of the BOR and they may take 6-12 months in understanding the local BOR Work Environment. That is the main reason that previous management avoided in taking such type of initiatives. The BOR expects that the consultants will not only recommend the policy and planning unit but also broader outline for the proposed experts as well.
- SMBR welcomed the idea of training centre in the form of Revenue academy and which designs and impart training for senior, middle and lower middle management.
- The lower cadre employees should also be inter-changeable because that is one of the big issues in the Board of Revenue.
- The Idea of the establishment of a separate internal Audit department in the board of revenue is very appreciable and this should also ensure the proper monitoring and evaluation functions for the proposed service centres of the BOR to be established under the LRMIS. The internal Audit department should also perform the reconciliation of accounts jobs in the proposed service centres.
- The SMBR appreciated the idea of combining the two tax rates together which under the LRMIS model in service centres will be called transfer fee.
- Regarding the stamp paper SMBR agreed that stamp paper is just a form of receipt and it can be replaced with another form of receipt in the property transactions. However, for other transactions the board has proposed additional security features in the new stamp papers.
- The SMBR agreed with the recommendation of submitting the registration fee and the mutation fee in the bank instead of Patwari or registry mohrarar although there are rules for that but that is a loose internal control. He further explained that this will be addressed in our proposed service centres because we are proposing bank booths in every service centre.
- Regarding providing protection to buyers SMBR explained that the government cannot guarantee the title unless the whole record is computerized and the government is confident enough after 12 months -18 months time that there are no errors in the record then the government can ensure protection regarding the titles.
- SMBR did not agree with the working group suggestion of outsourcing the valuation component of BOR. He gave example of the Bank of Punjab where the Valuers have appointed the property agents and were valuing the property without any justification. Regarding the Central valuation cell in the BOR, SMBR admitted that ideally it should be done centrally but under the existing scenario it is extremely difficult for us because we do not have the capability to undertake this assignment on our own. Therefore, may be in coming 10-20 years the government first build the capacity in the BOR and then undertake the valuation through those valuers instead of District Collectors.
- Regarding the proposed structure he advised the consultants that the proposed structure should synchronize with our proposed interventions under the LRMIS. Under that intervention we are proposing a centre on each Tehsil level and the assistant director land record position, which will be filled through Public Service Commission. However, the SMBR did request to upgrade the position of Director Policy and Planning to Director General to make it more attractive. He further

advised that an internal auditor can sit in the proposed service centre.

- Under the policy and planning support unit there is no need for two wings and only one wing is enough which does the job of a think tank and the rest of management issues are handled by the secretaries.

**Agreement:**

The participants agreed on the following

- Oral Mutation should be abolished.
- Every document should be registered in the proposed service centre.
- The model needs further discussions in order to make it compatible with LRMIS propose service centres.
- Overall SMBR agreed on the majority of the recommendations made by the consultant team.

# MINUTES

<b>PREPARED BY:</b> Kanwal Mirza	<b>REVIEWED BY:</b> P.K. Doherty	<b>REFERENCE NO:</b>
<b>WORKSHOP TITLE:</b>	<b>Feed Back on Final Report</b>	
<b>DATE OF MEETING:</b> 22-10-09	<b>VENUE (ADDRESS) AND TIME:</b> Seminar Hall MPDD <b>09:30am – 01:00pm</b>	

## PARTICIPANTS INVITED IN THE WORKSHOP:

- |                               |  |
|-------------------------------|--|
| 1. Mr. Tarar                  | Senior Member Board of Revenue                     |
| 2. Mr. Monawar Ahmad Majoka   | Secretary (Revenue)                                |
| 3. Mr. Ali Muhammad Khokhar   | Land Revenue Specilist                             |
| 4. Mr. Ali Raza Bhutta        | Project Director LRMIS                             |
| 5. Mr. Aslam Shahid           | Deputy Secretary Settlement                        |
| 6. Mr. Sultan Alam            | Inspector of Stamps                                |
| 7. District Officer Revenue   | Shiekhupra, Kasure, Sahiwal, Jaranwala, Rawalpindi |
| 8. Deputy District Officer    | from various cities of Punjab                      |
| 9. BOR Filed Staff            |  |
| 10. Stamp Vendors from Lahore |  |
| 11. Mr. Patrick Doherty       | International Tax Expert                           |
| 12. Mr. NM Waqar              | Tax Specialist ( Domestic)                         |
| 13. Mr. Imran Khan Yousafzai  | Domestic Consultant                                |
| 14. Mr Mutjaba Piracha        | PRMP   |

## Purpose of the Workshop :

The purpose of this workshop was to obtain feedback from the administrative departments and the field offices on the recommendations contained in the draft final report with the view to improving the same. The feedback to feed into the final report.

## Discussion Highlights

- Mr. Mujtaba Pracha briefed the participants about the purpose of the workshop.
- An inaugural address was delivered by the SMBR, he said that he has discussed all the recommendations contained in the report with consultant team, with his department and the provincial revenue officers and that he was broadly in agreement with them. He invited the revenue field staff to comment and provide feedback and input upon the recommendations in the report. He said he would like to have the ideas of field staff on the recommendations regarding Stamp Duty and Registration fee and how practical these recommendations were and what would be the difficulties they would have to face. He hoped that on the basis of feedback from his staff this report would provide a basis to help the BOR achieve its goals.
- Mr. Patrick Doherty delivered the presentation on final draft report and Mr. Imran Yousafzai explained the proposed structure for BOR in detail and invited the participants to give their open comments and suggestions.
- SMBR invited the participant to comment in any language they feel comfortable. He said that we have lots of discussions on these recommendations but to finalize these we need the feedback from field staff. He requested Mr. Doherty to display all the recommendations one by one so that participants could comments on them easily.
- Policy Support Unit: DOR Kasure said that department really needs this policy support unit to regularize the decision making process such as decision of fixing tax rates etc.
- DOR Kasure suggested that incentives should be provided to revenue field staff to improve service delivery. SMBR told him that this suggestion is already under consideration.

- While discussing the training needs the SMBR said that the Board takes this issue very seriously and supports the recommendation to establish a revenue academy for officers and staff.
- Discussing the poor customer services DOR Sahiwal said that department officers and staff has to deliver multiple services to the public (customers) and government and that there is a time management problem and they recognize the need to deliver a better service than is currently the case... SMBR said that these issues may be addressed with the implementation of the LRMIS project.
- Discussing the establishment of an independent internal audit department Mr. Sultan said that the audit department would be a very effective means of regulating the recovery procedures and would enhance capacity building of the department.
- Mr. Ali Raza Bhutta commented that the Internal Audit department is very good suggestion but that auditors must be separate from tax collectors, and have separate hierarchy within the department to ensure their independence Auditors must have strong IT facilities.
- While discussing the registration fee and stamp duty DOR Kasur said that there is more than one fee involved in a simple registration fee and this makes the public confused. If they are merged and payment made possible through a single challan into the bank it would be a great facilitation to the public. He also suggested that a strategy must be developed to minimize the roll of the Patwari.
- The SMBR briefed the participants about the proposals for the proposed Customer Service Centres that are to be established at Tehsil level to facilitate public and to avoid problems relating to the exploitation of poor illiterate people.
- The valuation tables - DOR Sahiwal suggested that as the Inspectors of stamps are going to audit registration fee they could also inspect the valuation tables.
- One idea was to dedicate the powers of valuation to sub-registrar office who must be equipped with a team of professional people to evaluate the property.
- One suggestion was to include the sitemap with the property registration documents to calculate the exact value of the property.
- Haji Rahat, stamp vendor said that two years ago the practice was to value the property in 'off road' and 'on road' categories but now this practice has stopped. He gave the example of Rice Course Road where there is no differentiation between residential and commercial properties. This must be addressed.
- He also said that according to the law - Registry Muharar could not be passed the registration of any property before valuation of the property by him or by his staff. In this way the Registry Muharars are in practice of keeping the registration fees with them and to hold these unofficially.
- Haji Rahat supports the idea of merging the registration fee and stamp duty because it will minimize the problems of the general public.
- Mr. Amer A Khan pointed out the misuse of the Power of Attorney by the public. Mr. Imran Youafzai said that in the focus group discussions this practice was highlighted that this was a way that people used to try to avoid payment of the taxes. Mr. Sultan was of the view that this a facility to people cannot be fully abolished.
- Various problems were discussed that occurred in the process of mutation and exploitation made by patwari was also pointed out. There are two steps involved - firstly to register the document, secondly to go the patwari for recording registration. Many frauds have been identified in the practice of mutation including the sale of properties taking place two or three times. SMBR agreed with the points raised and he wanted to do away from oral mutation and planned to address the issue when the new customer service centres came on stream.
- SMBR asked for suggestions and comments from participant on the structure suggested by the consultants.
- Mr. Imran Khan explained the proposed structure in detail to participants.
- Mr. Bhutta requested that the organogram be made clearer. He appreciated the idea of three independent departments for policy, audit and revenue collection activities. He said that clearer management lines would enhance the working capacity of officers and staff. He also explained the proposed establishment in the service centres and how he anticipated staff would be working.
- DOR Multan said that real problem causing poor recovery performance was the transfer and

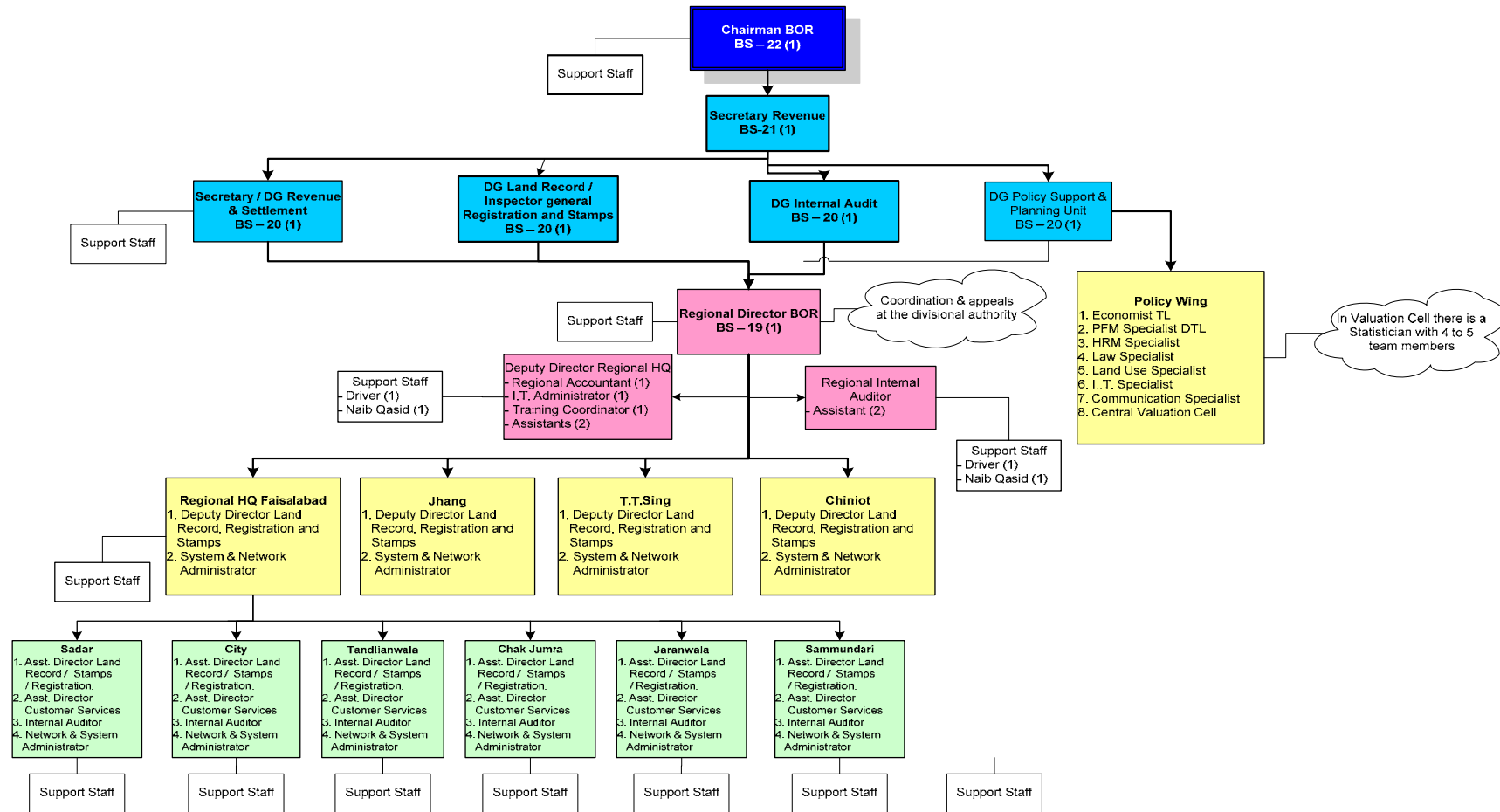
deployment of untrained clerical staff to revenue departments.

- DOR Multan suggests that should be a staff guidance manual issued by the BOR on annual basis (and updates as appropriate) to all districts and tehsils.
- DOR Kasur suggested a regular audit of Patwaris regarding mutation fee.
- There must be a team of 3 to 4 persons in the registrar office to conduct surveys. These staff must be trained in the assessment and valuation of properties.
- The workshop was closed by Mr. Bhutta who thanked Mr. Doherty and his team on behalf of the SMBR for the work they had done and said that it was appreciated and would contribute to the work of the Department.

**Agreement:**

The SMBR and the participants agreed the recommendations contained in the report including:-

- The establishment of a Policy Support Unit within BOR.
- Entire job descriptions of revenue staff must be reviewed.
- Improving the customer service delivery.
- The establishment of a training academy for revenue officers and staff.
- The need to improve and equip the offices with IT and communication facilities.
- The need to establish an independent Internal Audit Department under SMBR.
- Combining the stamp duty and the registration fee.
- Abolish the use of stamp papers from property transactions.
- To move towards the removal of oral mutation.

**ANNEX 9*****Proposed Structure***

**ANNEX 10*****Proposed Structure - Revised***