

IPA 2009 CROATIA PROJECT FICHE

HR2009-03-16-05

1. Basic information

1.1 CRIS Number: IPA/2009/21661

1.2 Title: **Enhancement of the administrative capacity of CTA in the field of audit**

1.3 ELARG Statistical code: 03.16 - Taxation

1.4 Location: Ministry of Finance - Tax Administration

Implementing arrangements:

1.5 Implementing Agency:

The Central Finance and Contracting Agency (CFCA) will be the Implementing Agency responsible for tendering, contracting and payment. Responsibility for technical aspects related to preparation, implementation and control remain on the Ministry of Finance - Tax Administration as the beneficiary institution.

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1.6. Beneficiary (including details of SPO) : Ministry of Finance - Croatian Tax Administration

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Financing:

- 1.7 Overall cost (VAT excluded)¹: EUR 1 000 000
- 1.8 EU contribution: EUR 950 000
- 1.9 Final date for contracting: 2 years following the date of conclusion of the Financing Agreement
- 1.10 Final date for execution of contracts: : 2 years following the end date for contracting
- 1.11 Final date for disbursements: 3 years following the end date for contracting

2. Overall Objective and Project Purpose

2.1 Overall Objective:

To strengthen the Croatian Tax Administration hereinafter (CTA) functions of tax auditing and battling tax fraud in line with EU best practices.

2.2 Project purpose:

To enhance the administrative capacity of CTA in the field of audit.

2.3 Link with AP / NPAA / EP/ SAA

Some of the most important priorities which have been specified in the Council Decision of 5 February 2008 on the principles, priorities and conditions contained in the Accession Partnership with Croatia in the area of taxation are:

“Significantly strengthen the enforcement capacity of the tax and customs administrations, particularly regarding collection and control functions and developing the necessary IT systems; continue the work on building a functioning and adequately staffed excise duty service; **simplify procedures and reinforce controls to effectively prosecute tax fraud.**”

In the National Programme for the Accession of the Republic of Croatia into the European Union - 2008 (NPAA) it is stated that strengthening the administrative capacity of Tax Administration and Customs remains one of the main priorities which require additional efforts.

According to the Croatia Progress Report from 5 November 2008 it is stated in conclusion paragraph that: “Substantial further efforts are also required to strengthen the administrative capacity, including IT interconnectivity.”

¹ The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated.

2.4 Link with MIPD

According to Multi-annual Indicative programming Document for the Republic of Croatia, under Strategic objectives of IPA Component I it is stated that the third strategic objective is: "...to further enhance Croatia's ability to assume the obligations of membership by supporting the institutional capacity building for *acquis* transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis*."

This project proposal is in line with aforementioned strategic objective.

2.5 Link with National Development Plan (where applicable)

Not applicable.

2.6 Link with national/ sectoral investment plans (where applicable)

1. The determination of the Government of the Republic of Croatia to fight against corruption is shown in two key anti-corruption documents: **the Anti-corruption Strategy adopted by the Croatian Parliament on 19 June 2008 and respective Action Plan.**

The latest measures being undertaken by the Government of the Republic of Croatia in the framework of Anti-corruption Strategy are very important for the common functioning of repressive institutional framework (including state attorneys, police and judiciary). The objective is to detect, prosecute and sanction the perpetrators of criminal offences, particularly in the context of fraud and corruption as soon as possible.

2. In December 2007 the **Tax Administration adopted the Strategy for the period 2008-2013**, which contains the analysis of the state of play: advantages, weaknesses, possibilities, threats and strategic objectives in the areas of strategic importance for the Tax Administration such as:

- Strategic development and risk management
- Human resources management, training and development
- Organization and processes
- Legal issues
- Information technology

For more economic, efficient and effective implementation of the abovementioned key strategic areas that form the basis for achievement of strategic goals laid down in this Strategy, the Tax Administration shall adopt a Business Change Management Plan, which contains a breakdown of each key strategic area into overall goals, main activities, responsible persons and/or bodies and a link to Fiscal Blueprints of the European Union. In the framework of the Strategy, the improvement of the information system and education of servants or employees together with the strengthening of further cooperation with the EU are highlighted, inter alia, as crucial strategic objectives.

3. Description of project

3.1 Background and justification:

During the period when Croatia became a candidate country to the end of 2008 CTA carried out several projects financed from EU preaccession funds that achieved the foreseen results but also helped CTA to identify key points in functioning of Tax Administration that must be in line with EU rules and best practice.

In the field of audit the need to strengthen the audit function of CTA, especially in the field of external audit and combating tax fraud was recognized. European Commission recognises tax fraud as a growing problem that Member States can not act effectively in isolation. In order to prepare audit function to the requirements of EU Common Market, CTA should prepare strategic documents and manuals in accordance with EU rules as well as to implement EU rules in the daily practice. Following that, this project supports strengthening of audit function of CTA and combating tax fraud which is the most significant in the field of VAT.

Bearing in mind the fact that tax frauds is growing problem in the EU, successful battle against it is not possible without effective international cooperation so it is necessary to align legislation and strategical and procedural documents in the field of audit with particular attention to tax fraud.

In this regard CTA has to prepare strategy for the successful combat against tax frauds (carousel, phoenix, missing trader...) and carry out adequate training of tax officials with the purpose of adoption of rules connected with audit of VAT and combating tax fraud within the Common Market with systematic appliance of modern tools and techniques.

For conducting of e-audit there was no legal framework by the end of 2008. From January 1, 2009 new General Tax Act came into force and regulates also e-audit

function in general concerning external audit at taxpayers. On the basis of new legislative framework CTA plans to take the following steps necessary for conducting of e-audit through acquiring appropriate electronic tools and software and through training of the tax auditors on how to use these tools effectively.

A further step is full implementation of an efficient e-audit task force and policy in CTA. This step is quite a large one and it has become an EU common target for all countries among the EU. This task requires a strong action to be led in CTA.

According to the Delegation of the European Commission's proposal it has been foreseen the duration of the project of 12-14 months. Based on the previous activities during the project under PHARE 2005 „Strengthening and enhancement of the Croatian Tax Administration in the field of audit“ as well as on the base of other projects mentioned in linked activities under chapter 3.6. there is a strong need to propose the duration of this project of 18-24 months.

In the Final Report of the project „Strengthening and enhancement of the Croatian Tax Administration in the field of audit“ under chapter 2E-2 - Other results, it was

mentioned that the duration of the twinning was short as well as it had rather heavy schedule. In Report was also written on the base of experience of the experts from counterpart side that they were forced to prepare themselves in a rather short period as well as from the experience of Croatian auditors who participated in project in very short intervals.

Comparing the scope of activities and results from the project mentioned above and other linked projects with the scope of this project which covers almost all audit activities and needs it is obvious that much time for this project is needed than 12-14 months.

This project covers a wide scope of activities from the delivering of strategic documents to the various types of Manuals or Guidelines as well as training component. For strategic documents the management approval is needed that also requires some procedure and adequate time. The Strategy is also the first step after which other steps are coming.

Activities under the project should provide experts and auditors enough time for preparation the documents and analyzing them in the meantime.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

It is anticipated that the project will achieve its purpose considering that the implementation of the project will be conducted by tax experts from one of the member states that posses experience in implementation of the *acquis* especially in the field of audit by modern e-tools and tax fraud.

Wide scope of activities is foreseen that should be finished with the results which will provide the auditors with strategic documents and modern planning and reporting system.

On the other side, the Guideline for methods and techniques in audit, Manual on e-audit and Manual for audit of VAT and combating tax fraud will provide “tools” for auditors based on EU rules and best practice to use them in maintaining audit of taxpayers. Also, training component will provide trained auditors capable to use modern audit tools and techniques who will train other auditors.

The final results under this project will increase efficiency and effectiveness of audit function in whole and will provide trained auditors who can implement wide scope of knowledge concerning audit of specific branches and in the field of VAT audit. That will enable more organised and more efficient combat against tax fraud, especially against VAT fraud. This would also lead to increase the revenue of the state budget.

Benefits from the project will be revealed in administrative and operational qualification of Croatia to implement appropriate measures in the field of external tax audit in terms of common market.

Benefits from the project are expected to be seen in one year from the project completion.

Cross border impact – not applicable

3.3 Results and measurable indicators:

Results:

Component I - Strengthening the CTA audit system as a whole

1. Prepared Strategy for audit of taxpayers
2. Prepared Manual on procedures for planning and doing reports for audit - compatible with EU best practice
3. Prepared Guideline for methods and techniques in audit – on the job
4. Auditors trained in following strategically framework and applying modern methods and techniques in audit - on the job

Component II - Establishing the E-audit function

1. Prepared Manual on e-audit
2. Auditors trained in usage of e-audit tools
3. Study visit carried out in order to get acquainted with e-audit function in practice

Component III - Enhancement of the administrative capacity in the field of audit of VAT

1. Prepared Manual for audit of VAT and combating tax fraud based on EU practice
2. Trained auditors in the field of audit of VAT and fight against fraud
3. Study visit carried out in order to get acquainted with VAT audit function and combating tax fraud in practice

Measurable indicators:

Component I - Strengthening the CTA audit system as a whole

1. Strategy for audit in whole - in appliance
2. Manual on procedures for planning and reporting in accordance with EU best practice
3. Guideline for audit provides auditors usage of modern methods and techniques by audit of taxpayers
4. About 20 auditors trained, capable to train others

Component II - Establishing the E-audit function

1. Manual on E-audit provides auditors appliance of specific E-audit tools
2. Appliance of knowledge in daily job at taxpayers provides more efficiency

Component III - Enhancement of the administrative capacity in the field of audit of VAT

1. Appliance of Manual provides auditors better recognitions of tax fraud as well as successful audit
2. Appliance of knowledge in daily job at taxpayers provides more efficiency

3.4 Activities:

Component I - Strengthening the CTA audit system as a whole

Preparing Strategy for audit of taxpayers

- 1.1. Analyzing of existing legal and organizational framework
- 1.2. Analyzing of statistical and all other relevant data for strategic purpose
- 1.3. Presentation of audit strategies on the bases of the best EU practice
- 1.4. Preparing the Strategy

Preparing Manual on procedures for planning and doing reports for audit - compatible with EU best practice

- 2.1. Reviewing current practice in planning and reporting on audit
- 2.2. Presenting of EU best practice

2.3. Preparing gaps analysis

2.4. Preparing the Draft Manual on procedures for planning and reporting on audit

Preparing Guideline for methods and techniques in audit – on the job

3.1. Analyzing of legal framework

3.2. Presentation of best EU practice on methods and techniques of audit

3.3. Preparing Draft Guidelines on methods and techniques in audit on the bases of concrete examples and supported by judgment of EU Court by particular parts:

- Methods and techniques of audit by different types of taxpayers:

- Multinational companies; Trade sector (trade chains); Production sector (food industry...); Construction; Tourism; Agriculture; Transport services; Taxpayers with cash register/cash flow

Training of auditors in following strategically framework and applying modern methods and techniques in audit - on the job

4.1. Designing training courses and preparation of training materials for modern methods and techniques of audit:

- Multinational companies; Banks, insurance companies and financial institutions (leasing co.); Trade sector (trade chains); Production sector (food industry...); Construction; Tourism; Agriculture; Transport services; Taxpayers with cash register/cash flow

4.2. Carrying out training courses about methods and techniques in audit of taxpayers particularly by types of taxpayers as it is mentioned above.

Component II - Establishing the E-audit function

Preparing Manual for e-audit

1.1. Analyzing of existing legal framework, facilities (software's), and level of knowledge of auditors (analyzing of knowledge of auditors as an activity seems to overlap with the activity training needs analysis)

1.2. Analyzing of existing accounting systems at taxpayers

1.3. Presenting of EU best practice

1.4. Preparing Draft Manual on E-audit

Training of auditors trained in usage of e-audit tools

2.1. Carrying out training needs assessment

2.2. Designing training courses and preparing training materials

2.3. Carrying out training courses based on real cases

Study visit carrying out in order to get acquainted with e-audit function in practice

3.1. Preparing and carrying out study visit on E-audit function

Component III - Enhancement of the administrative capacity in the field of audit of VAT

Preparing Manual for audit of VAT and combating tax fraud based on EU practice

1.1. Analyzing of national legal framework

1.2. Analysis of existing VAT audit procedures and documents produced by linked projects

1.3. Assessment of current procedure in combating tax fraud

1.4. Presenting the obligatory legal framework, EU best practice guides and templates in the field of audit of VAT and combating tax fraud

1.5. Analyzing gaps and discussing the main points of Draft Guideline

1.6. Drafting and finalizing the Manual

Training of auditors in the field of audit of VAT and fight against fraud

2.1. Carrying out training needs assessment

2.2. Designing training courses and preparing materials for training courses

2.3. Carrying out training courses/workshops based on real cases and judgments of the EU court on different topics:

main points of VAT audit function in terms of common market; detection and prevention of VAT fraud; examples of various types of VAT frauds typical for different branches; presenting of different types of “tax avoidance” and “tax evasion” scheme; audit of VAT on services; review of methods used for measuring VAT gap; presentation of best practice in combating tax fraud;

Study visit carrying out in order to get acquainted with VAT audit function and combating tax fraud in practice

3.1. Preparing and carrying out study visit on VAT audit function and combating tax fraud in practice

3.5 Conditionality and sequencing

Conditionality

Croatian authorities will continue to demonstrate commitments to adopt and implement the EU *acquis* and standards in the field of Taxation.

Tasks and responsibilities of all involved parties will be defined until 1Q of 2010 (before the start of tendering procedure).

Sequencing

Phare 2005, Twinning Light Contract “Strengthening and enhancement of the Croatian Tax Administration in the field of audit” was the first step in modernisation of Croatian Tax Administration in the field of audit, particularly in the field of audit of large taxpayers by using modern e-audit tools. This project successfully finished and all expected results are achieved. The project results are as follows:

- E-audit project paper drafted (document about introducing E-audit in Croatian Tax Administration). CTA staff have been introduced to the basic knowledge on usage of electronic tools, on European legislation and preconditions for introduction of E-audit.
- Transfer Pricing Manual prepared. CTA staff have been trained on audit of transfer pricing and thin capitalization.
- Inspectors trained on methods and techniques of large taxpayers audit with the focus on banks, insurance companies and funds.

Component II of the proposed twinning project IPA 2009 will be directly the second step and follow up of the abovementioned Phare 2005 Twinning Light project.

CTA and potential twinning partner will take into account results achieved under the previous project Phare 2005 “Strengthening and enhancement of the Croatian Tax Administration in the field of audit” in order to assure that there will be no overlapping/duplication of activities between these projects.

Regarding the sequence of the components and activities under this project it is crucial that the “Strategy for audit of taxpayers” under Component I “Strengthening the CTA audit system as a whole” is prepared before other activities under Component I and other two Components take place. It is planned that the next activity would be to prepare the “Manual on procedures for planning and doing reports for audit - compatible with EU best practice” also from Component I. After this activity will be achieved, Component II “Establishing the E-audit function” will take place and all other activities from all three components may be parallel carried out.

3.6 Linked activities

CARDS 2004 Twinning “Strengthening the Taxation System in the VAT field to prepare the development of the VIES IT interconnectivity system”:

The project started in January 2006 and ended in October 2007. The purpose of the project was to bring the existing VAT system (legislation and business processes) further in line with the *acquis* and to develop capacity to set up VAT Information Exchange System (VIES). The project is summarized in the three components:

- a. Component 1: Administrative capacity building in the VAT field
- b. Component 2: Establishment of the Central Liaison Office (CLO)
- c. Component 3: Foundation for VIES development

Main results of the project were: Draft of VAT strategy, draft of the new Croatian VAT law, Training Manual in regard with VAT and VIES, draft law amendments of General Tax Act, provisional defining of the CLO organizational structures and functions, provisional working procedures for CLO, Project Quality Plan and User requirement for VIES development.

CARDS 2004 Framework Contract “Assessment and Strategy Development based on Fiscal Blueprint”:

The project started in May 2006 and ended in January 2007. The purpose of the project was to review the existing IT strategy and to develop Business Change Management Plan. Both objectives were completed.

Phare 2005 “Assistance to the Croatian Tax Administration in development of activities proceeding from the Fiscal Blueprints”:

The project started in December 2007 and ended in May 2009.

The purpose of this project was to create preconditions for the introduction and effective management of the VIES system, interfacing the existing National VAT Information System. This was achieved through:

1. VIES Effective Management and Business Support – Twinning

The Project covered IT project management support for the software developments for VIES system, including support to the management of all business and functional aspects of system implementation.

2. VIES Mandatory Developments – Software Development Service Contract

The Project covered the software design, development and implementation of VIES system as well as the training of users and the production of all necessary documentation including user requirements, software installation, system administration and user manuals.

Phare 2005 Twinning Light “Strengthening and enhancement of the Croatian Tax Administration in the field of audit”:

The project started in January 2008 and ended in October 2008.

Under this project officials of Croatian Tax Administration got acquainted with the application of the most appropriate and modern tax tools, techniques and

computer systems for audit of large taxpayers. Officials got acquainted particularly with audit of banks and insurance companies, transfer pricing and thin capitalization as well as meaning, some characteristics and usage of e-audit modern tools (ACL, Excel, ALTO, SAP...). Also, all relevant documentation was finished by the end of project.

Phare 2006 “Strengthening and Enhancement of the Croatian Tax Administration IT function to Achieve the EU Standards in the VAT field“

The project started in February 2009 and it will end in August 2010. The project purpose is to establish functional VIES and VES (VAT on e-services) systems in order to achieve effective communication with IT systems in other member states. This will be achieved through:

1. Project Management – Twinning

The Project will primarily cover IT project management support for software developments for enhanced VIES system and development of VES system.

2. VIES Enhancements + VES Development – Service contract

The project will cover the functioning VIES Enhancement and VES development IT systems for data processing and exchanging of relevant information.

Bilateral cooperation with Dutch Government, Pre-accession short program (PSO) Matra-Flex and PSO – project: “Risk analysis in order to select taxpayers for audit”

The project started on 05 February, 2007 and ended on 25 October, 2007. The purpose of the project was to achieve a selection of taxpayers for audit according to the objective criteria which would result in efficient and professional audit.

Participants have developed a strategy of risk management and procedures for implementation at the various levels of the Croatian Tax Administration. Knowledge, experience and examples have been obtained to introduce risk analysis in order to select tax payers for audits and to train Croatian officials to implement risk analysis.

FISCALIS

The European Parliament and the Council adopted the *Fiscalis 2013* programme. The objective of the *Fiscalis* programme is to help all member states work more closely together against tax fraud, through improved electronic system for information exchange between national administrations, cooperation in investigations, training seminars for tax officials and experts and the exchanges of officials between national administrations. Croatia signed Memoranda of Understanding with the European Commission on 28 August, 2006 which enables Croatian Tax officers to participate in the *Fiscalis* programme.

The Revenue Administration Modernization Project (RAMP) funded by the World Bank

This project started in January 2008 and it will end in June 2013. It consists of the following components:

A. *Organizational Consolidation and Functional Realignment of the Zagreb Regional Office.* (Physically consolidate the tax offices in Zagreb Region into a single modern facility. Reorganize the consolidated office along functional lines. Rationalize and strengthen large taxpayer administration.)

B. *Knowledge and Professional Upgrading of Tax Officials and Stakeholders.* (Strengthen the CTA's human resource management capacity. Upgrade the CTA's training and knowledge-sharing programs. Establish a Training Centre and distance learning facilities.)

C. *Technological Upgrading for Services, Management Information System and TIN Implementation.* (Modernize business processes, including e-Tax functions. Acquire contemporary, integrated Tax Administration application software. Implement appropriate security, business-continuity and disaster-recovery capabilities. Implement an integrated Management Information System.)

Project objectives are to achieve further improvement in efficiency, taxpayer services and tax compliance through capacity building and systems improvement in Croatian Tax Administration.

These objectives will be achieved through the results of following project components:

A. Organizational Consolidation and Functional Realignment of the Zagreb Regional Office.

- Zagreb offices functionally realigned and modernized
- Strengthened LTO operation

B. Knowledge and Professional Upgrading of Tax Officials and Stakeholders.

- Human Resources policies further developed
- Human Resources Management further developed
- Training & Education capacity enhanced

C. Technological Upgrading for Services, Management Information System and TIN Implementation

- Strengthened ICT department
- E-services developed
- Strengthened support for revenue risk management
- Strengthened Management Information System
- Reduced technological and operational risks
- Strengthened inter-agency co-operation in information exchange

3.7 Lessons learned

It is clear from experience gained during implementation of CARDS 2004, Phare 2005 and Phare 2005 Twinning Light projects that there is no possible overlapping of activities between these and all other projects.

Relating to the previous experience gained in implementation of Phare 2005 Twinning Light Project in the field of audit, it was identified a rather heavy schedule of the twinning project comparing duration of the project (6 months of seminars/workshops) as well as for EU experts as for Croatian participants.

Furthermore, a very large quantity of documents was delivered to the Croatian side under the project that required a significant increase of the amount of money for translation/interpretation costs. In many cases the simultaneous translation was needed what required special conference equipment. For that reasons those costs should be foreseen and specified in advance more precisely.

It was also perceived that the crucial importance for the success of the project has a selection of experts as well as from counterpart side as from CTA. The quality of counterpart experts (human and professional) has a large contribution to the success of the twinning.

CTA will secure that adequate staff for the project implementation will be chosen on time.

Interactivity between experts from both sides is very important as well as training based on real examples from the twinning partner practice and best EU practice.

Following the recommendations from Interim Evaluation Report for Public Administration Reform, Public Finance and Statistics sector, which was issued on 5 November 2008, Tax Administration increased administrative capacity of IT sector by recruitment of additional five employees. Moreover, PIU members are constantly trained in order to improve their skills and efficiency.

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING										
			TOTAL EXP.RE	TOTAL PUBLIC EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(e)	EUR (b)=(c)+(d)	EUR (c)	% (2)	Total EUR (d)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (e)	% (3)
Contract 1 - Twinning	X		1 000 000	1 000 000	950 000	95	50 000	5	50 000	-	-	-	
TOTAL IB			1 000 000	1 000 000	950 000	95	50 000	5	50 000	-	-	-	
TOTAL INV													
TOTAL PROJECT			1 000 000	1 000 000	950 000	95	50 000	5	50 000	-	-	-	

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Public** Expenditure (column (b))

(3) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1 - Twinning	2Q/2010	4Q/2010	4Q/2012

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the FA.

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

6.2 Environment

This project does not involve any activities with an environmental impact.

6.3 Minorities

Not applicable.

ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and disbursed per quarter over the full duration of programme
- 3- Description of Institutional Framework
- 4 - Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Reference to AP /NPAA / EP / SAA

Reference to MIPD

Reference to National Development Plan

Reference to national / sector investment plans

- 5- Details per EU funded contract (*) where applicable:

For *TA contracts*: account of tasks expected from the contractor

For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts

For *grants schemes*: account of components of the schemes

For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (**)

For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (**); account of services to be carried out for the *service part* of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and constructing works):

- Rate of return
- Co financing
- compliance with state aids provisions
- Ownership of assets (current and after project completion)

Enhancement of the administrative capacity of CTA in the field of audit		Programme name and number IPA 2009	[Cris number]
Ministry of Finance - Croatian Tax Administration		Contracting period expires: Two years following the date of conclusion of the Financing Agreement	Disbursement period expires: Three years following the end date for contracting
		Total budget: EUR 1 000 000	IPA budget: EUR 950 000
Overall objective	Objectively Verifiable Indicators	Sources of Verification	
To strengthen the Croatian Tax Administration (CTA) functions of tax auditing and battling tax fraud in line with EU best practices.	Budget revenue increased Capability of CTA staff to fulfil EU requirements	Commission reports Regular national reports	
Project purpose	Objectively Verifiable Indicators	Sources of Verification	Assumptions
To enhance the administrative capacity of CTA in the field of audit.	Number of detected and processed incorrectness and tax fraud increased 10% Number of successful audits increased at least by 10% More additional taxes collected Increased discipline by collecting taxes	Final project report Reports on audit Tax payers opinion Stakeholders opinion	Strategic commitment for modernising Tax Administration and its functions Support of management No turnover of staff

Results	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<p>Component I - Strengthening the CTA audit system as a whole</p> <ol style="list-style-type: none"> 1. Prepared Strategy for audit of taxpayers 2. Prepared Manual on procedures for planning and doing reports for audit - compatible with EU best practice 3. Prepared Guideline for methods and techniques in audit – on the job 4. Auditors trained following strategic framework and applying modern methods and techniques in audit - on the job <p>Component II - Establishing the E-audit function</p> <ol style="list-style-type: none"> 1. Prepared Manual on e-audit 2. Auditors trained in usage of e-audit tools 3. Study visit carried out in order to get acquainted with e-audit function in practice <p>Component III - Enhancement of the administrative capacity in the field of audit of VAT</p>	<p>Strategy for audit in whole - in appliance</p> <p>Manual on procedures for planning and reporting in accordance with EU best practice</p> <p>Guideline for audit which provides auditors usage of modern methods and techniques by audit of taxpayers</p> <p>About 20 auditors trained, capable to train others</p> <p>Manual on e-audit provides auditors appliance of specific e-audit tools</p> <p>Appliance of knowledge in daily job at taxpayers provides more efficiency</p>	<p>Project progress reports</p> <p>Reports on audit</p>	<p>Support of management</p> <p>No turnover of staff</p>

<p>1. Prepared Manual for audit of VAT and combating tax fraud based on EU practice</p> <p>2. Trained auditors in the field of audit of VAT and fight against fraud</p> <p>3. Study visit carried out in order to get acquainted with VAT audit function and combating tax fraud in practice</p>	<p>Appliance of Manual provides auditors better recognitions of tax fraud as well as successful audit</p> <p>Appliance of knowledge in daily job at taxpayers provides more efficiency</p>		
Activities	Means	Specification of costs	Assumptions
<p>Component I - Strengthening the CTA audit system as a whole</p> <p><i>Preparing Strategy for audit of taxpayers</i></p> <p>1.1. Analyzing of existing legal and organizational framework</p> <p>1.2. Analyzing of statistical and all other relevant data for strategic purpose</p> <p>1.3. Presentation of audit strategies on the bases of the best EU practice</p> <p>1.4. Preparing the Strategy</p> <p><i>Preparing Manual on procedures for planning and doing reports for audit - compatible with EU best practice</i></p> <p>2.1. Reviewing current practice in planning and reporting on audit</p>	<p>Twinning</p>	<p>EUR 1 000 000</p>	<p>Legal framework prepared and implemented</p> <p>Support of management</p> <p>No turnover of staff</p>

<p>2.2. Presenting of EU best practice and discussing</p> <p>2.3. Preparing gaps analysis</p> <p>2.4. Preparing the Draft Manual on procedures for planning and reporting on audit</p> <p><i>Preparing Guideline for methods and techniques in audit – on the job</i></p> <p>3.1. Analyzing of legal framework</p> <p>3.2. Presentation of best EU practice in methods and techniques of audit</p> <p>3.3. Preparing Draft Guidelines for methods and techniques in audit on the bases of concrete examples and supported by judgment of EU by particular parts:</p> <p>- Methods and techniques of audit by different types of taxpayers:</p> <p>Multinational companies; Trade sector (trade chains); Production sector (food industry...); Construction; Tourism; Agriculture; Transport services; Taxpayers with cash register/cash flow</p> <p><i>Training of auditors in following strategically framework and applying</i></p>			
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<p><i>modern methods and techniques in audit - on the job</i></p> <p>4.1. Preparation of training materials for modern methods and techniques of audit:</p> <p>Multinational companies; Banks, insurance companies and financial institutions (leasing co.); Trade sector (trade chains); Production sector (food industry...); Construction; Tourism; Agriculture; Transport services; Taxpayers with cash register/cash flow</p> <p>4.2. Carrying out training courses about methods and techniques in audit of taxpayers particularly by types of taxpayers as it is mentioned in previous</p> <p>Component II - Establishing the E-audit function</p> <p><i>Preparing Manual for E-audit</i></p> <p>1.1. Analyzing of existing legal framework, facilities (software's), and level of knowledge of auditors (analyzing of knowledge of auditors as an activity seems to overlap with the activity training needs analysis)</p> <p>1.2. Analyzing of existing accounting systems at taxpayers</p> <p>1.3. Presenting of EU best practice</p>			
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<p>1.4. Preparing Draft Manual on E-audit</p> <p><i>Training of auditors in usage of e-audit tools</i></p> <p>2.1. Training needs assessment</p> <p>2.2. Preparing the training materials</p> <p>2.3. Carrying out training courses based on real cases</p> <p><i>Study visit carrying out in order to get acquainted with e-audit function in practice</i></p> <p>3.1. Preparing and carrying out study visit on E-audit function</p> <p>Component III - Enhancement of the administrative capacity in the field of audit of VAT</p> <p><i>Preparing Manual for audit of VAT and combating tax fraud based on EU practice</i></p> <p>1.1. Analyzing of national legal framework</p> <p>1.2. Analysis of existing VAT audit procedures and documents produced by linked projects</p> <p>1.3. Assessment of current procedure in combating tax fraud</p>			
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<p>1.4. Presenting the obligatory legal framework, EU best practice guides and templates in the field of audit of VAT and combating tax fraud</p> <p>1.5. Analyzing gaps and discussing the main points of Draft Guideline</p> <p>1.6. Drafting and finalizing the Manual</p> <p><i>Training of auditors in the field of audit of VAT and fight against fraud</i></p> <p>2.1. Training needs assessment</p> <p>2.2. Preparing materials for training courses</p> <p>2.3. Carrying out training courses/workshops based on real cases and judgments of the EU court on different topics:</p> <ul style="list-style-type: none"> - main points of VAT audit function in terms of common market; detection and prevention of VAT fraud; examples of various types of VAT frauds typical for different branches; presenting of different types of “tax avoidance” and “tax evasion” scheme; audit of VAT on services; review of methods used for measuring VAT gap; presentation of best practice in combating tax fraud 			
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<p><i>Study visit carrying out in order to get acquainted with VAT audit function and combating tax fraud in practice</i></p> <p>3.1. Preparing and carrying out study visit on VAT audit function and combating tax fraud in practice</p>			
			<p>Preconditions</p>

ANNEX II: Contracted and disbursed by quarter for the project, amounts in EUR

Contracted	1st QR 2010	2nd QR 2010	3rd QR 2010	4th QR 2010	1st QR 2011	2nd QR 2011	3rd QR 2011	4th QR 2011	1st QR 2012	2nd QR 2012	3rd QR 2012	4th QR 2012
Contract 1				1 000 000								
Cumulated				1 000 000								
Disbursed	1st QR 2010	2nd QR 2010	3rd QR 2010	4th QR 2010	1st QR 2011	2nd QR 2011	3rd QR 2011	4th QR 2011	1st QR 2012	2nd QR 2012	3rd QR 2012	4th QR 2012
Contract 1						250 000		250 000		250 000		250 000
Cumulated						250 000		500 000		750 000		1 000 000

ANNEX III : Description of Institutional Framework

Concerning current organisation of the CTA, audit function is the task of two levels of organisational units, Central Office and 20 Regional Offices.

Detection of tax fraud and administrative procedure are performed within organisational units that perform regular audit. In case of tax fraud (further) operative procedure has been performed by State Attorney's Office and Ministry of Interior.

At the level of Central Office is organized Division for Audit, which primarily has the role of coordinator, while 20 regional offices operationally carry out an external auditing of tax obligations and contributions of taxpayers, including VAT auditing.

In the Central Office in the Division for Audit currently there are:

1. Department for audit of large taxpayers and financial institutions
2. Department for audit of medium and small taxpayers
3. Department for audit of VAT
4. Department for audit of games of chance

Department for audit of large taxpayers and financial institutions performs administrative and other duties in relation to coordination of execution and execution itself of large taxpayers and financial institutions audit.

Department for audit of medium and small taxpayers performs administrative and other duties in relation to coordination of execution and execution itself of medium and small taxpayers audit.

Department for VAT Audit in Central Office performs administrative and other duties related to proposing of changes in tax policy, tax and other regulations in order to improve tax system and tax collection, systematically monitoring the application of tax regulations, proposing drafting and adoption of the draft instructions on the application of regulations, providing professional assistance and expertise to Regional Offices and undertaking measures in order to act in unified way and giving opinions on the application of regulations in individual cases. Special Department for VAT Audit is established at the level of Central Office and also in the largest Regional Office Zagreb. But in all other Regional Offices separate Departments for VAT Audit are not structured. Department for VAT Audit in Regional Office Zagreb which has 50 tax inspectors performs administrative and other professional tasks related to external audit of assessing, reporting and paying of VAT. In other regional offices external audit of VAT is performed by audit departments that are not specialized for audit of VAT.

Department for audit of games of chance performs administrative and other duties in relation to coordination of execution and execution itself of games of chance audit.

ANNEX IV: Reference to laws, regulations and strategic documents

1. Value Added Tax Act (Official Gazette No 47/95, 106/96, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05, 76/07, General Tax Law-Official Gazette No 127/00, 86/01-correction) available at: <http://regulations.porezna-uprava.hr>
2. Bylaw on Value Added Tax act (Official Gazette No 60/96, 113/97, 7/99, 112/99, 119/99-correction, 44/00, 63/00, 80/00, 109/00, 54/01, 58/03, 198/03, 55/04, 77/04-correction, 153/05, 79/07, 34/08)
3. Profit Tax Act (177/04, 90/05, 57/06)
4. Income Tax Act (177/04, 73/08)
5. General Tax Act (Official Gazette No 127/00, 86/01-correction, 150/02)
6. Law on General Administrative Procedure (Official Gazette No 47/86, 53/91, Decision of Constitutional Court of Republic of Croatia – Official Gazette No 103/96)
7. Tax Administration Law (Official Gazette No 67/01, 94/01, 177/04)
8. Administrative cooperation in the area of VAT (Regulation 1798/2003, Regulation 1925/2004)
9. Council Directive 2006/112/EC
10. Council Directive 2008/8/EC
11. Council Directive 2008/9/EC
12. Council Regulation 143/2008

Reference to AP /NPAA / EP / SAA

Present project will contribute to strengthening the administrative and operational capacity of Croatian Tax Administration as identified in Accession Partnership and NPAA as one of priorities in order to accelerate alignment with the EU requirements.

Reference to MIPD

According to Multi-annual Indicative Programming Document (MIPD) for the Republic of Croatia, as one of strategic objectives is stated “...to further enhance Croatia's ability to assume the obligations of membership by supporting the institutional capacity building for *acquis* transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis*.”

Reference to National Development Plan

Not applicable.

Reference to national / sector investment plans

1. The determination of the Government of the Republic of Croatia to fight against corruption is shown in two key anti-corruption documents: **the Anti-corruption Strategy adopted by the Croatian Parliament on 19 June 2008 and respective Action Plan.**

2. In December 2007 the **Tax Administration adopted the Strategy for the period 2008-2013.**

ANNEX V : Details per EU funded contract

For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts

The experts required should be civil servants/public officials of the relevant MS administration or permanent staff of its authorised mandated bodies (all experts must be administrative practitioners). One expert among the other experts will act as Team leader. The project implementation requires participation of minimum four experts (MS can offer more experts if it is justified) with the following profiles:

Common requirements for all experts:

- Fluency in both written and spoken English
- Computer literacy

Profile and tasks of the Project Leader

The MS Project Leader will comply as nearly as possible with the following profiles:

- University degree
- Minimum 10 years experience in the taxation field in one of the EU Member States
- Preferably a high-ranking official in position to operate at appropriate political level
- Good managerial skills and ability to work in an international environment
- Previous experience in twinning project management would be considered as an asset
- Excellent English language skills
- Good computer skills
- Good communication skills

The MS Project Leader will be responsible for:

- Reviewing and approving the Project Quarterly and Final Reports (co-signed by the BC project leader)
- Reviewing and approving key project outputs such as the situation analysis, and any revisions to the Work plan, according to the European Commission rules
- Monitoring and evaluating the CTA needs and priorities, the quality of the Resident Twinning Adviser's contribution, and that of short term experts and of the Croatian partner institution, project risks, progress against the project budget, benchmarks, outputs and taking any necessary remedial action
- Coaching and mentoring the Resident Twinning Adviser as necessary

Profile and tasks of the Resident Twinning Adviser (RTA)

The Resident Twinning Adviser (RTA) will comply as nearly as possible with the following profiles:

- University degree or equivalent experience
- Minimum 10 years experience in a taxation field in EU Member State (in case of a New Member State, having been involved for at least 4 years in aligning taxation core business to the *acquis communautaire*)
- Minimum 5 years of experience and expertise in taxation field /knowledge of battling tax fraud will be considered as an asset
- Experience and appropriate knowledge in writing strategic documents and carrying out training on methodology of strategy development
- Excellent English language skills
- Good computer skills
- Good communication skills

Profile and tasks of the short-term expertise

The twinning team will be composed as well of at least 3 short-term experts complying as nearly as possible with the following profiles:

- Minimum 5 years experience in an taxation service of an EU Member State (in case of a new Member State, having been involved for at least 3 years on implementing core business in the taxation field in line with the *acquis communautaire*)
- Good knowledge of EU taxation legislation
- Excellent English language skills
- Good computer skills
- Good communication skills
- Experience and appropriate knowledge in EU excise legislation and practices in the field of taxation and fight against tax fraud