1. **Basic Information**

1.1. **CRIS Number**: 2003/004-379/01.04

1.2. **Title**: Full scale modernisation of the fiscal control IT systems

1.3. **Sector**: Taxation

1.4. **Location**: Poland

2. **Objectives**

2.1. **Overall objective**
Strengthening of the treasury control IT systems and its adjustment to the tasks expected after Poland’s accession to European Union.

2.2. **Project purpose/immediate objective**
- More efficient control of the public expenditures: subsidies, donations, EU funds – enlargement of the “Tax Control IT Supporting System”
- More effective audits of international trade
- Security of the data exchange in tax administration.

2.3. **Accession Partnership and NPAA Priorities**

? **Reference to Accession Partnership’ 2001**:  
- Strengthening of the administrative effectiveness, including rationalisation of administrative efficiency, institutional reinforcement in tax area (medium-term priority)
- Creation of the IT system facilitating data exchange with EU and Member States institutions (short-term priority)

? **Reference to the National Programme for Preparation for Membership (NPAA) 2001**:  
Improvement of tax administration functioning is Priority No 10.3 NPAA in scope of taxation; the main objective is preparation of Polish tax administration to co-operation with other member countries’ administrations in the single market framework.

? **Reference to the Regular Report**:  
A need of intensification of works on equipping tax administration with IT equipment.

2.4. **Reference to Preliminary National Development Plan** N/A

2.5. **Cross border effect** N/A

3. **Description**

3.1. **Background and justification**
From the beginning of 1999 the Ministry of Finance of Poland has been working on implementation of the Taxation Reform and Modernization Programme for Central and Eastern European Countries (Fiscal Blueprints). Within the period of 1999 and 2000 the following documents have been prepared: gap analysis, needs analysis and Modernisation Strategy – BCMP (all of these documents have been successively sent to the EC). To achieve this objective, within the Ministry of Finance, there have been a working group appointed to co-ordinate and supervise activities connected with the Strategy preparation. Additionally special sub-groups work on 42 activities described in the Modernisation Strategy (BCMP). Ministry of Finance is making some efforts, which will be useful in preparation “Tax Control IT Supporting System”. The most important are:

? The IT system for tax audit services in tax offices including the basics of selecting entities for tax audits and recording of tax audit findings are developed by the Tax Chamber in Wroclaw in co-operation with the IT Department of the Ministry of Finance, pilot implementation in selected tax offices

? Calculation of tax audit inspectors’ working time developed in co-operation with US Tax Department and its pilot implementation in Poznan Tax Inspection Office
“Tax audit in large taxpayers” programme which includes principles used for selection of large taxpayers for tax audit purposes, introduced in 2000 into tax audit offices.

‘Unrevealed sources of income inspection’ programme introduced into tax audit offices and tax offices in I quarter 2001.

In the financial sector there is an operating WAN network that links distributed tax offices, tax chambers, tax audit offices and custom chambers databases with the Ministry of Finance. In 2001 the study for establishment the Data Processing Centre were commenced in the Ministry of Finance. Ministry of Finance started preparation for centralisation data processing – first module, “Central Registration”, will be prepared in 2002.

Polish tax administration is insufficiently equipped in modern IT tools. Until now the risk analysis to choose entities for tax audit purposes has not been applied, and tax audit inspectors cannot use informational system and, therefore, make their audits more efficient. Preparation for this project implementation has already been started.

The process of POLTAX centralisation, subsequently with Phare 2002 activities, which will develop “Tax Control IT Supporting System”, will allow wider use of IT tools in conducting controls.

Fiscal control, irrespective of tax audits, carries out other activities, like budget expenditure, use of EC funds, state subsidies and donations controls. Phare 2003 project will provide the efficient IT tools for conducting these controls.

IT equipment purchased in the project will allow:
- efficient utilisation of central databases application and use of electronic signature, scanned documents etc.
- easier use of databases thanks to use of notebooks and graphic terminals
- improvement of IT equipment in tax audit offices.

IT equipment purchased in the project will allow efficient utilisation proposed solutions, and subsequently will cause improvement of IT equipment in tax audit offices. Irrespective of Phare funds IT equipment for tax audit offices will be purchased from state budget funds, to the saturation 1 computer for 1 employee.

As the VIES system belongs to the interconnectivity project, which is essential for accession, it will be implemented prior to the date of accession. The preparation for VIES System implementation in Poland is advanced. The prototype of Polish VIES application is prepared. Central Liaison Office will start its operation from the January 2003. The complete readiness to perform its tasks CLO will achieve on the 1st January 2004.

The audit offices will be among the beneficiaries of the VIES system – tax audit offices will have the possibility to obtain the data from the system. Phare 2003 project will enable the development of the VIES system data processing methodology concerning the use of the information received from or provided to the VIES system. As the result risk analysis and selection system of VAT taxpayers co-operating with EU taxpayers will be developed.

3.2. Linked activities

The project continues actions undertaken in the field of tax audits and modernisation of tax administration in relation to Poland’s accession to the European Union. Phare 2001 entitled „Improvement of tax audits system” is directly linked to PHARE 1999 entitled „Tax system and fiscal administration that meet EU membership requirements”. The above projects aim at e.g. improvement of taxpayers’ services, efficient use of budgetary means by tax administration by implementation of risk analysis and increasing efficiency of tax audit inspectors. Results of the above projects will be used to achieve objectives specified in Phare 2002 project. In the Phare 2002 project “Tax Control IT Supporting System” will be elaborated.

In the Phare 1999, 2001 and 2002 Projects basis for modern planning and conducting tax audits will be developed and function of “Tax Control IT Supporting System” will be created.

In completed Phare 1999 project “Improved tax administration” realised with swedish experts, report „Control planning, audit techniques and selection systems” has been formulated.

Phare 2001 will develop tax audits strategy and also will allow for realisation of detailed activities described in the strategy. It is also planned to develop preliminary assumptions for:
- tax audit inspectors’ work efficiency analysis
- periodical evaluation of efficiency of applied control systems and methods
- risk analysis in selection entities for tax audit purposes.

Achievements of Phare 2001 project will settle the base for creation “Tax Control IT Supporting System”.
In Phare 2002 project “Modernisation of the system of tax collection and taxpayers control” “Tax Control IT Supporting System”, based on the solutions applied in EU Countries, will be formulated. It will allow to:

- Improvement of effectiveness of tax audits
- Implementation of standardised tax audit methodology
- Analysis of efficiency of tax audit activities
- Phare 2003 Project will be consequence and supplement of the activities conducted in the previous years. On the base of “Tax Control IT Supporting System" the possibility for more efficient control of budget funds spendings will be developed.

“Tax Control IT Supporting System” will allow to:

- current information about conducted audits
- increased effectiveness of tax inspectors work
- possibility to develop audit programmes
- implementation of tax audit support system
- possibility to conduct analysis and define risk areas
- possibility to programme co-ordinated control actions
- preparation of coherent tax audit database
- elimination of coincidental audits conducted by tax offices and tax audit offices.

3.3. Results
Project implementation, will result in:

- improved state budget funds effectiveness (subsidies etc.)
- increased effectiveness of applied planning methods by utilisation external databases
- increased scope of information available during control activities
- shortened and simplified some tax audit procedures, like choice of entities for control, accumulation, storing and analysis of documentation, drawing up reports
- increased effectiveness of audits of the firms which are subsidiaries of multinational companies and entities co-operating with their EU counterparts, by the access to IT systems, like VIES, AFIS
- protection of data processing and transmitting in “Tax Control IT Supporting System”
- tax audit offices equipped in modern IT tools.

3.4. Activities
Project will be executed in two contracts: technical assistance and purchase of equipment.

Contract 1 Technical assistance - Enlargement and strengthening of “Tax Control IT Supporting System”

- State budget expenditure’s module
  - evaluation of the solutions applied in the scope of control of public funds expenditures (subsidies, EU funds)
  - preparation of framework for the new components of the system; including users’ expectations, legal and technical way of accessing useful data, change in tax audit organization
  - formulation of the definition of the project
  - preparation of the implementation of the new components of “Tax Control IT Supporting System”.

- Access to external databases
  - definition of the possibility and usefulness of external databases utilisation for tax audit purposes
  - formulation of the external databases access rules
  - formulation of the integrated system which enables exchange of information and access to other systems, like VIES, AFIS etc.

- Data protection
  - preparation of the data safety rules in “Tax Control IT Supporting System”
  - implementation of safety rules
  - preparation and implementation electronic signature application in tax audit procedures document circulation

- Supplementary activities
  - Trainings for tax audit staff in the scope of utilisation of the new components of “Tax Control IT Supporting System”.
Contract 2 Purchase of equipment
After implementation in Phare 2002 project “Tax Control IT Supporting System” in all tax audit offices necessary conditions for utilisation new planning methods and control proceedings will be fulfilled. Technical equipment in the tax audit offices and planned purchases within Phare 2001 and 2002 will not assure full utilisation of “Tax Control IT Supporting System”. Within Contract in Phare 2003 the following equipment will be purchased:

- graphic terminals 1,400 units 700,000 €
- laser net printers 500 units 600,000 €
- notebooks 210 units 420,000 €
- servers 40 units 280,000 €
- scanners 17 units 7,650 €.

Total estimated cost of this equipment is 2,000,000 €.

Irrespective of purchase in Phare programmes Ministry of Finance will spend its funds for IT equipment. This purchase will allow in the final stage of Phare 2003 project implementation achievement ratio: 1 PC for 1 tax audit employee.

3.5. Lessons learned
Under the Interim Evaluation Report No R/PL/PAD/01029 recommendations were made which are also relevant to current project. The recommendations mentioned below have been taken into consideration while designing current project:

- Future tax related projects should provide “Users Manuals” for the Tax Administration. Equally important are more simplified guidance manuals for the general public, which should also be accessible through the internet, to help facilitate document processing procedures, and increase accessibility options for the end users
- Seminars, training and workshops should include more practical case studies that can be related to the Polish situation
- Immediate objectives outlined in the project fiche should be appropriately reflected in the Log-Frame Matrix.

4. Institutional framework
Department of Fiscal Control in the Ministry of Finance is the project beneficiary.
Department of Fiscal Control in co-operation with IT Department are responsible for enlargement of “Tax Control IT Supporting System”.
Following the project implementation institutional framework of the tax administration will be strengthened.
The project will affect institutional development and effectiveness of tax inspections. Project implementation will also affect achievement of EU standards in the field of tax audit.

5. Detailed Budget

<table>
<thead>
<tr>
<th>Investment support</th>
<th>Institutional Building</th>
<th>Total Phare</th>
<th>National co-financing</th>
<th>International &amp; Financial Institutions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1: Technical assistance</td>
<td>0</td>
<td>940 000</td>
<td>940 000</td>
<td>50 000</td>
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<tr>
<td>Contract 2: Purchase of equipment</td>
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<td>2 000 000</td>
<td>675 000</td>
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<tr>
<td>TOTAL</td>
<td>2 000 000</td>
<td>940 000</td>
<td>2 940 000</td>
<td>725 000</td>
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</tr>
</tbody>
</table>

The Polish authorities assure that the co-financing is available either through the reserve budget foreseen specifically by the Ministry of Finance for this purpose or through the budget of the relevant Ministry.
6. IMPLEMENTATION ARRANGEMENTS

6.1. Implementing agency
- PAO: Krystyna Gurbiel, Under-secretary of State at the Office of Committee for European Integration, Aleje Ujazdowskie 9, 00-918 Warszawa, Phone 48 22 455 52 41,
- CFCU: Foundation Co-operation Fund, Mr Piotr J. Zaprzalek, Acting CFCU Director, ul. Górnoślaska 4a, 00-400 Warszawa, Phone 48 22 622 88 20, fax 48 22 622 75 65.
- The CFCU is responsible for handling tendering, contacting and payments of contracts on behalf of the Ministry of Finance.

6.2. Twinning
Contact person for the project: Robert Napora, senior specialist in the Department of Fiscal Control, Ministry of Finance ul. Swietokrzyska 12, 00-916 Warszawa, ph.. 48 22 694 4101.

6.3. Non-standard aspects
The project implementation will be performed according to the Phare programming. The implementing tendering procedures will be concordant with “Practical Guide to Phare, ISPA and SAPARD”.

6.4. Contracts
Two contracts are planned:
- Technical Assistance contract: Phare € 940,000 - domestic co-financing: € 50,000
- Technical Equipment purchase of computer hardware: Phare € 2,000,000 - domestic co-financing: EUR 675,000
Both contracts will be concluded on the basis of joint co-financing.

7. IMPLEMENTATION SCHEDULE

- Drawing up ToR: fourth quarter 2003
- Start of program: second quarter 2004
- Date of payment of the last contract: third quarter 2006

8. EQUAL OPPORTUNITY
Equal opportunity will be ensured for use of aid funds. The only criteria of project participation is professionalism and experience in implementation of similar projects.

9. ENVIRONMENT N/A

10. RATE OF RETURN N/A

11. INVESTMENT CRITERIA N/A

12. CONDITIONALITY AND SEQUENCING
Implementation of the project depends on:
- Effective implementation of tasks described in Phare 2001 and 2002 projects, especially part “Tax Control IT Supporting System”
- Poland’s accession to EU with accordance to date set by Polish government
- Successful implementation of use of electronic signature in document’s circulation.

Sequence of proposed activities
- preparation of new components of computer software: „IT tax audit support system”
- purchase of technical equipment
- pilot implementation of the software in the selected office
- preparation for software implementation in the whole country.
Main stages of project implementation

? preparation of ToR for Technical Assistance: fourth quarter 2003
? selection of a tender partner for TA: second quarter 2004
? completion of the TA: fourth quarter 2005
? preparation of ToR for technical equipment: second quarter 2004
? purchase of technical equipment: first quarter of 2005
ANNEX 1 - PROJECT LOGICAL FRAMEWORK MATRIX

PROJECT TITLE: FULL SCALE MODERNISATION OF THE FISCAL CONTROL IT SYSTEMS

Programme number:

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening of the treasury control IT systems and its adjustment to the tasks</td>
<td>Ensuring required institutional level of Polish tax administration meeting EU requirements on taxes</td>
<td>Official publications</td>
<td>Intention to adjust Polish administration to EU requirements fast</td>
</tr>
<tr>
<td>expected after Poland’s accession to European Union</td>
<td></td>
<td></td>
<td>Receipt of technical support in the scope of task implementation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose (immediate objectives)</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>More efficient control of the public expenditures: subsidies, donations, EU funds</td>
<td>Shorter average time of budget inspection, Decreased number of appeals entered by the supervisors of controlled entities</td>
<td>Official publications, Information brochures, Departmental statistics</td>
<td>Cooperation of all institutions involved in project implementation</td>
</tr>
<tr>
<td>– enlargement of the “Tax Control IT Supporting System”</td>
<td>Improved procedure of obtaining information from EU systems, Implemented safety standards in transmission of information</td>
<td></td>
<td>Award of relevant funds for project implementation</td>
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<tr>
<td>More effective audits of international trade, Security of the data exchange in tax</td>
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<tr>
<td>administration</td>
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</table>

<table>
<thead>
<tr>
<th>Results/Products</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of state budget funds effectiveness (subsidies etc.)</td>
<td>Increased effectiveness of so called budget audits, Decreased number of budget audits without results</td>
<td>Official publications, Information brochures, Departmental statistics</td>
<td>Provisions of required funds, Punctual implementation of PHARE 1999 “Strengthened tax administration” and PHARE 2001 “Modernisation of Polish tax administration” programs</td>
</tr>
<tr>
<td>increased effectiveness of applied planning methods by utilisation external databases, increased scope of information available during control activities</td>
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<thead>
<tr>
<th>Activities</th>
<th>Investments</th>
<th>Sources of verification</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>evaluation of the solutions applied in the scope of control of public funds expenditures</td>
<td>formulation of the definition of the project, preparation of the implementation of the new</td>
<td>Project reports, Implementation documentation</td>
<td>Phare 2001 and 2002 realisation, Qualifications of tax administration staff</td>
</tr>
</tbody>
</table>
Preconditions
Effective implementation of tasks described in Phare 2001 and 2002 projects, especially part “Tax Control IT Supporting System”
Poland’s accession to EU with accordance to date set by Polish government
provision of required funds

ANNEXES 2-3-4: DETAILED IMPLEMENTATION CHART, CONTRACTING AND DISBURSEMENT SCHEDULE OF THE PROJECT

PROJECT TITLE: FULL SCALE MODERNISATION OF THE FISCAL CONTROL IT SYSTEMS

Date of Drafting 09.2002
Planning period 2003 - 2006

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</table>
Legend: 

D = design of sub-projects; 
C = tendering and contracting; 
I = contract implementation and payment.