Standard Summary Project Fiche for the Transition Facility

1. Basic information
   1.1 CRIS Number: 2004/016-764.02.02
   1.2 Title: Systemic changes in tax audit
   1.3 Sector: Public finance
   1.4 Location: Slovak Republic

2. Objectives

   2.1 Overall Objective: Modernisation of the tax administration in connection with the EU accession.
   2.2 Project purpose: Increase of tax audit efficiency through introduction of systemic changes
   2.3 Comprehensive monitoring report

Chapter 10: Taxation

As concerns administrative capacity, further extensive efforts should continue to modernise and enhance the efficiency of the Tax Directorate, which is overall weak and suffers from insufficient staffing. Priority should be given to reducing the excessive volume of VAT refunds, and improving tax collection, control procedures and audit functions, also by developing an efficient system of risk analysis. Staff policy and training should be improved.

On administrative co-operation and mutual assistance, Slovakia should take the necessary steps as concerns the establishment of the application for “VAT on e-services”.

3. Description

   3.1 Background and justification:

   The Business Change Management Plan is (BCMP) is considered a basic document as regards the modernisation of the Slovak tax administration, i.e. improvement of its operational capacity, fulfilling relevant regulations of the Council of Europe and implementation of the EU recommendations. The BCMP was developed in 1999 by the Tax Directorate with support of the Technical Advisory Committee (TAC) established by DG XXI of the European Commission. The BCMP determines goals, procedures, responsibilities and timetables for fulfilling established goals. Part of the BCMP is to define, whether the Slovak Tax Administration needs EU assistance for reaching these goals.

   According to the Comprehensive monitoring report of the European Commission on evaluation of accession process of the Slovak Republic into the European Union, issued in November 2003, there is a need to improve the methodology of tax audits.

   The IMF Commission in its evaluation report from July 2003 on the current status of the tax administration of the Slovak Republic in the section describing key areas of the tax administration’s reform with focus on progress reached in the area of tax audit and
in preparation for the EU accession pointed to the unsatisfactory situation in the area of VAT audit and in selection of taxpayers for audit, especially regarding the absence of a risk analysis in the selection of taxpayers for audit. The situation, where VAT refunds exceed domestic VAT paid, was considered the most negative, thus having a negative impact on the development and the level of the Slovak state budget. The Slovak tax administration was recommended to verify the credibility of excessive refunds, especially in risky industrial sectors.

Priority of the tax administration in the area of VAT audit is that every taxpayer, when submitting tax return with excessive refund or own tax liability, goes through a software application of risk analysis in relation to VAT. This software of risk analysis should use the widest possible data and information potential of the existing Tax Information System. Based on the information gained the software application will divide the VAT taxpayers into several risk groups. Subsequently, VAT taxpayers from the group with the highest probability of VAT evasion will be chosen for tax audit.

The development of a software application for risk analysis in VAT audit and its implementation into the Slovak Tax System is one of the topics covered in the planned activities. It covers the presentation of the risk analysis system for VAT audit, the definition of users’ requirements, the IT requirements, the development of software application (on the basis of MS experts’ cooperation with Slovak team of developers) and its implementation into the Slovak Tax System.

Introduction of EDP (electronic data processing) audit will provide a fast review of account books and records, better planning of the audit, improvement of preparatory stage for the audit, systematic approach and reduction of time spent in the taxpayers’ premises. Electronic data processing audit will go through taxpayers’ account books with the aim to detect any discrepancy or faulty records and select areas on which tax auditors should focus during the tax audit.

Twelve licences of the EDP software IDEA were purchased in December 2003 by the Slovak tax administration. 24 auditors were trained. By the end of 2004 the Slovak tax administration will buy another 12 licences and an additional 24 auditors will be trained. The seminars within this Transition Facility project focused on EDP audit should help in training relevant staff in order to be able to perform EDP audits with the purchased SW IDEA on satisfactory level. Based on the recommendation of experts, on the experience gained during the seminars and discussions and analysis of practical experience the Slovak tax administration plans to buy up to 60 licences of EDP software IDEA in the years 2006 - 2007. These licences will be financed from the tax administration’s budget.

Currently, tax audit in the Slovak Republic is mainly performed at the premises of the taxpayer and consists of the preparatory stage, the audit itself and the final stage.

Within the preparatory stage, tax auditors collect information on basic data of the taxpayer (identification data, type of business), submitted tax returns, and review on individual documents in the file of the taxpayer, information on overpayments, arrears, payment orders and payments from the Tax Information System. More detailed data are available only in files of taxpayers stored at local tax offices.

The audit itself is mainly performed via checking the paper accounting documents. Currently, it is not possible to use information technologies, which would enable
targeted checking of documents by selection and which would also result in a reduction of time spent on the audit itself.

The final stage of audit is closely connected with the elaboration of the protocol on the tax audit and its consequent negotiation with taxpayer.

Organization of tax authorities, their status and competence are regulated by the Act No. 150/2001 Coll. on Tax Authorities amending the Act No. 440/2000 Coll. on Financial Audit Administrations amended by later regulations. Currently, tax audit is performed by:

- Local tax offices - small and medium-sized entrepreneurs,
- Large Taxpayers Office – large taxpayers (turnover above 1 billion of SKK), financial institutions and brokers, but only within Bratislava Region
- Units of Tax Audit Performance at the Tax Directorate – large taxpayers (turnover above 1 billion of SKK), financial institutions and brokers; within the other regions
- Department of Detection and Cooperation with Bodies responsible for Penal Proceedings at the Tax Directorate with the national competence, which performs the audit on the basis of request submitted by the bodies responsible for penal proceedings.

The overall number of taxpayers with a turnover above 1 billion of SKK, financial institutions and brokers is approximately 340; 184 of these are within the competence of Large Taxpayers Office. The first stage of the introduction of EDP audit will cover large taxpayers, financial institutions and brokers within the whole area of Slovakia and taxpayers, which are audited by Department of Detection and Cooperation with Bodies responsible for Penal Proceedings at the Tax Directorate.

The procedure of the tax audit performance, the rights and responsibilities of administrator and taxpayer are stipulated by the regulations of § 15 of Act No 511/1992 Coll. on Administration of Taxes and Fees and on Changes in the System of Territorial Financial Authorities amended by later regulations. Since the year 2004, the above-mentioned act also stipulates the obligations of taxpayer to submit, on request of administrator, accounting or other documentation in electronic form in case of accounting kept by computers.

According to the Act No 563/1991 Coll. on Accounting amended by later regulations, which was valid until Dec 31st, 2002, taxpayers were obliged to submit original accounting documents (mainly in paper form). In connection with pre-accession activities and adjustment to international accounting standards, the new Act No 431/2002 Coll. on Accounting has entered into force on January 1st, 2003, according to which the accounting document has to be signed. The signature may either be handwritten signature or in technical form. Both forms are equivalent.

At the same time the Act on Electronic Signature entered into force, on the basis of which the Tax Directorate will introduce a possibility of electronic submission of tax returns via Internet in 2004.

Therefore, it is necessary to resolve the issues of tax audit performance using the EDP audit also for the purposes of introduction of electronic trade.
Audit of VAT excessive refund, which the State is obliged to pay to authorised person – VAT payer, it is audit before payment (refund) of VAT by the State.

VAT audit in the framework of comprehensive audit, i.e. in the framework of audit of all taxes of one taxpayer, it means VAT audit after refund in the case of overpayment refund, or after the payment into the State Budget in the case of tax liability.

Ordinary VAT audit, where VAT for particular taxation period (one year) is audited ex-post, i.e. for a period, for which taxpayer obtained refund from the State or taxpayer paid his tax liability to the State Budget.

VAT audit is currently done either at the Local Tax Office or at the taxpayer's premises. VAT audit concentrates on the verification of the correctness of declared and paid tax, compliance with accounting principles and other attributes regulated by the VAT Act.

The greatest drawback of the Slovak Tax Administration as regards the management of VAT audits and the subsequent selection of taxpayers for audit is the absence of a control system of all VAT payers, especially recipients of excessive refunds before refund from the State Budget. In order to change this unfavourable situation this project has been elaborated.

The introduction of new audit techniques will require increased training of auditors. Apart from the training on the use of EDP software it is necessary to specialize audit teams on audits of different activities of taxpayers.

### 3.2 Linked activities

Technical assistance has been provided to the Slovak Tax Administration within the Phare Programme:

**Project 93 No: SR9302-04-06-L008**
- Project outcomes: management of massive process of the introduction of changes at the Tax Directorate, improvement of language abilities of employees and provision of technical facilities for TIS
- Project inputs: technical and operational assistance, study visits and seminars, intensive development of English language for 7 employees, technical seminars for 150 employees of TD SR and MF SR (future lecturers for similar areas), HW and SW, in total sum 144,000 EUR.

This project is not linked directly to the tax audit.

**Project 99 No: 9913.12 “Strengthening the Institutional and Administrative Capacity of Tax Administration” – total budget: 1,5 MEUR**
- Project outcomes – project was aimed at improvement of indirect taxes collection and consisted of three parts: defining the methodology of indirect taxes collection, improvement of tax inspection and its effectiveness and information for taxpayers.
- Project inputs: seminars, workshops, consultations, study visits and technical assistance
- Connection with the tax audit: Besides seminars, consultations and study visits, activities on software - “Software for Tax Auditors” were carried out in 2002. Above-mentioned software has been launched since August 2003. The aim of the software is to reduce the burden of tax auditors through the automated production of documents related to tax audit performance as well as automated calculations in tax returns after the audit and within the Protocol on Tax
Audit. In 2002 within this project activities within another software - ”Software for Selection of Taxpayers for Audit” were carried out. The software is aimed at the extension and completion of the Tax Information System in order to improve the process of selection of taxpayers for audit and improvement of tax audit effectiveness. In the framework of the area related to the development of annual Control Plans, more than 90 mutually combinable indicators were defined. Final compilations are used as the basis for development of annual Control Plans. As far as selection of taxpayers for VAT audit of particular tax period (either monthly or quarterly) is concerned, there are 45 mutually combinable indicators available and this part of software was launched into operation at the end of the year 2003.

Twinning light project SR 0110 0101 0001 “Establishment of Tax Investigation Office within Tax Administration” with total budget 90 086 EUR was approved in 2002. Project outcomes – introduction of system of information collection and processing, introduction of measures within the anti-fraud combat and introduction of system for control regarding the anti-fraud combat. The project finished in September 2003 and the goals of the project have been reached. Recommendation on the system of collection and proceeding of information, were used by Slovak IT expert of TIO for creating database of fraud cases. Manual for audit procedures has been developed and distributed to tax auditors on local level. During the project training for 127 Slovak experts was provided. Database of tax law failure detected during tax audit has been developed based on the information about French system ARIANE in the Tax Office for selected taxpayers in Bratislava. Process of tax auditors specialization has started and the French system of management agreements at the Tax Office mentioned above has been partly implemented.

Twinning light project SR 0110 0101 0004 – Performance Management in the Slovak Tax Administration with total budget 126,890 EUR
Project outcomes: introduction of performance monitoring in the Slovak Tax Administration, definition of areas to be evaluated, use of IT support for performance monitoring, use of regular performance evaluation results by the managers of the Tax Administration. Work on this project started in September 2003 and anticipated end of the project is April 2004. Since January 2004 implementation of Performance management system in the Slovak Tax Administration has started and Strategy plan of the Slovak Tax Administration for the years 2004 – 2008, Implementation, Communication plan and Manual for performance indicators have been worked out. The first Business Balanced Score Card will be developed and submitted to the management board at the end of April 2004.

3.3. Results

3.3.1 12\(^1\) audit teams will perform EDP audit of taxpayers with turnover more than 1 billion of Slovak crowns in whole Slovakia.
3.3.2 380\(^2\) trained auditors in selected areas of tax audit.
3.3.3 20 trained distrain officers.
3.3.4 Desk control performance is a part of tax audit system within the Slovak tax administration

\(^1\) The Slovak Tax Administration has purchased 12 licenses of EDP software IDEA so far
\(^2\) The summary of participants in the planned seminars
3.3.5. Obtained knowledge and background materials on organisation and structure of the risk analysis in relation to VAT audit and interconnection of the whole system with the Tax Information System

3.3.6 Defined user requirements, criteria and technical requirements for the risk analysis in VAT audit in the Slovak Tax Administration

3.3.7 Developed software application for risk analysis for VAT audit

3.3.8 The implementation of software application for the risk analysis in VAT audit into the Tax Information System and training of tax officials

3.3.9 Improving the audit methodology

3.4. Activities

Twinning

3.4.1 Initial meeting of PL, RTA and selected experts with the management of the Slovak Tax Administration
   2-day discussions for 10 participants

3.4.2. Seminars for tax auditors focused on development in tax audit techniques of direct and indirect taxes, tax audit strategy planning, tax audit specialisation according to the branches, preparation and coordination of specialised audit actions
   Two 5 - day seminars for 20 participants

3.4.3. Seminar for tax auditors focused on organisation and procedures in desk control
   Two 5 - day seminars for 20 participants

3.4.4. Seminars for tax auditors focused on procedures, methods and problems in the area of e-commerce audit, on the way of setting the price usually used on the market between dependent legal entities, the use of arms - length principle, on international accounting standards, on financial derivates, on transfer pricing, on audit of bank institutions, insurance companies, multinational companies and market chains.
   Thirteen 5 - day seminars for 20 participants each (total 260 trained auditors)

3.4.5. Seminars for tax auditors performing EDP audit – EDP audit and the system of its functioning
   Seven 5 - day seminars for 40 participants

3.4.6. Development of software application for risk analysis in VAT audit and its implementation into the Slovak Tax System – presentation on risk analysis system for VAT audit, definition of users’ requirements, IT requirements, development of application and implementation of the risk analysis system into the Slovak Tax System. 2 experts will provide 12 weeks of consultation to the Slovak developers team (employees of Slovak Tax Administration + representatives of the supplier). Slovak team will implement the software into the Tax Information System. During the first phase experts will provide training to Slovak partner and later the Slovaks will train their colleagues.
   12 weeks consultation for team of developers (10 people) and seven 5-day seminars for 40 participants

3.4.7. Seminars for distract officers on the way of tax arrears recording, the way of irrecoverable tax arrears handling and settlement and on mutual assistance in the area of international tax recovery
   One 5-day and one 3-day seminar for 20 participants

3.4.8. Study visits to the EU Member State for participants from the Slovak Tax Administration focused on EDP audit, on VAT risk analysis system. These study visits shall enable different groups of tax auditors gain experience directly in a parallel MS Tax Administration. The participants will already possess working experience in tax audit, thus the visits will create environment rich for discussions
and exchange of experience, which will be a valuable complement to the experts assistance delivered directly in Slovakia and will contribute to the enhancement of the level of tax audits performed in Slovak Tax Administration.

3.4.9. Final meeting – evaluation of the Project

3 days for 15 participants

3.4.10. Meeting of the Steering Committee 8 x 2 days

RTA profile:

Requirements: senior manager of the tax administration with minimum 8 years of experience in the area of tax audit preferably of large companies, specific skills in implementation and project management, managing and organizing human resources, communication skills and fluent English. He is required for the whole period of project implementation. His main role is the coordination of the activities, communication with short term experts, participation in the Steering Committee meetings etc. in compliance with the Twinning Manual.

Duration of the RTA mission – 24 man/months (between January 2005 and December 2006 or according to the signature of the contract).

Requirements for RTA assistant (24 man/months): Academic background, practical experiences with translating and interpreting in English, organisational and communication skills.

Experts’ profiles:

Project leader – senior expert

Requirements: senior expert of the partner administration, practical experience in project management and international cooperation, organizational communication and presentation abilities; fluent English. He will perform according to the Twinning Manual.

Short-term experts – 10 experts (for activity 3.4.2 – 3.4.4)

Requirements:
Academic economic background; communication and presentation abilities; fluent English. Minimum 8 years of experience in one or more of the following areas:

- audit of big companies - banks, insurance companies, multinational companies, market chains, transfer pricing, financial derivates,
- organisation and procedures in desk control,
- procedures, methods and problems in the area of e-commerce audit,
- development in tax audit techniques of direct and indirect taxes, tax audit strategy planning,
- tax audit specialisation according to the branches, preparation and coordination of specialised audit actions,
- methods of setting the price usually used on the market between dependent legal entities, the use of arms - length principle.

Short-term Experts – 2 senior experts (for activity 3.4.5)

Requirements: Academic economic background; minimum 3 years, preferably 5 to 8 years of practical experience within the tax audit using the EDP audit, preferably with several types of
EDP software, experience in the area of audit of big companies, communication and presentation abilities; fluent English.

Short-term Experts – 2 senior experts (for activity 3.4.6)

Requirements: University economic education, minimum 8 years of practical experience in the area of VAT audit, practical use of risk analysis system in VAT audit, IT skills, communication and presentation abilities; fluent English.

Short-term Experts – 2 senior experts (for activity 3.4.7)

Requirements: Academic economic or legal background, minimum 8 years of practical experience within the tax recovery and international tax recovery, communication and presentation abilities, fluent English.

The proposed budget for the twinning project is 930 000 EUR including 5 000 EUR allocated for performing audit at the end of the project, further including adequate amount for organising workshops and seminars (thirty-two weeks of seminars/workshops for 15-40 participants, one seminar of 3 days for 20 participants and 12 weeks consultations for 10 participants) including materials and handouts, interpretation/translation, local travel and contingency and the subsistence costs for BC officials participating on a study visit in the MS administration.

A Steering Committee will be established. The main role of the Steering Committee is the supervision of the project development. Representatives of the beneficiary, partner country (project leaders), RTA, representative of the CFCU and Ministry of Finance of the SR will be the members of SC.

## 3.5. Lessons learned

Within the PHARE Project 99 No. SR 9913.12 representatives of the Slovak Tax Administration obtained initial information on use of specialised software for tax audit. EDP audit is considered a very progressive audit technique and the Slovak Tax Administration wants to use it for audit of selected taxpayers. After the introduction of software for auditors and software for selection of taxpayers for audit it is another tool for increase of tax audits effectiveness.

Within the PHARE project – twinning light “The establishment of the Tax Investigation Office within the Tax Administration” the representatives of the Slovak TA acquired initial information on the need to develop system of risk analysis in VAT audit. As the situation in the area of VAT audit is permanently described by the IMF and EC representatives as unsatisfactory, it is the priority of the Slovak TA to effectively prevent from unjustified payments of excessive refunds through risk analysis.

## 4. Institutional Framework

Organisational structure of the Slovak Tax Administration consists of the Tax Directorate of the Slovak Republic including eight regional branches of the TD SR and Tax Investigation Office, 101 local tax offices and the tax Large Taxpayers Office. The TD SR is subordinated to the Ministry of Finance of the Slovak Republic.
The tax administration is preparing a fundamental change of its organisational structure with focus on management simplification, increase of effectiveness, higher quality of tax audits and tax enforcement. More emphasis will be put on administration and audit of selected taxpayers, specialisation of audit teams and targeted education. The project fully complies with current trends of tax administration development.

Beneficiary institution: Tax Directorate of the Slovak Republic, Banská Bystrica.

5. Detailed Budget /EUR/

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Budget (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative costs (phone, fax, etc.)</td>
<td>5 000</td>
</tr>
<tr>
<td>Travel costs for study visits to the EU Member Country (two visits/5 days for five participants)</td>
<td>7 500</td>
</tr>
<tr>
<td>Organization of seminars</td>
<td>18 000</td>
</tr>
<tr>
<td>Travel costs for Slovak civil servants and Slovak experts travels to seminars within SR (24 000 EUR)</td>
<td>24 000</td>
</tr>
<tr>
<td>Software application development for risk analysis in VAT audit</td>
<td>170 000</td>
</tr>
</tbody>
</table>

National co-financing:
Goals 1-3
- Administrative costs (phone, fax, etc.): 5 000 EUR
- Travel costs for study visits to the EU Member Country: 7 500 EUR
- Organization of seminars: 18 000 EUR
- Travel costs for Slovak civil servants and Slovak experts travels to seminars within SR: 24 000 EUR
- Software application development for risk analysis in VAT audit: 170 000 EUR

Co-financing will be provided from the state budget and secured by the Ministry of Finance.

6 Implementation Arrangements

6.1 Implementing Agency: Ministry of Finance – CFCU, Štefanovičova 5 817 82 Bratislava Contact person: Silvia Czuczorová Tel. 421-2-5958 2546 Fax: 421-2-5958 2559 e-mail: sczuczorova@mfsr.sk

6.2 Beneficiary: Tax Directorate of the Slovak Republic, Banská Bystrica Contact person: Ing. Mária Machová PhD., Director-General Tel. 421-48-449 3105, Fax: 421-48-413 4989

6.3 Contracts:
- Twinning contract € 930 000

7. Implementation Schedule

7.1 Call for Proposals TOR and Project Specification will be processed within two weeks following the approval of the project
7.2 Start of project activity: 1st quarter of 2005
7.3 Project Completion: 4th quarter of 2006

8. Sustainability

The beneficiary guarantees that he has foreseen adequate staff and financial resources to maintain administrative function during the realization of the project.

9. Conditionality and sequencing

IT experts of the Tax Directorate will secure the preparation of the data environment or a data warehouse for interconnection with the application software of the risk analysis for VAT audit before the implementation of the risk analysis system into the Slovak Tax System has started. The datawarehouse software was delivered by a supplier in December 2003. Until July 2004 the datawarehouse is being loaded with actual data and the loading system is going to be on the daily bases. After this period relevant outcomes will be available. Management information system is also under the development.

12 licences of IDEA software are available up to now. 24 auditors had been trained. By the end of 2004 Slovak Tax Administration will buy 12 additional licences and another 24 auditors will be trained. Based on the recommendation of experts, on the experience gained during the seminars and discussions and analysis of practical experience Slovak Tax Administration plans to buy up to 60 licences in the years 2006 – 2007.

Annexes of FICHE PROJECT
1. Logical planning matrix in standard format
2. Detailed implementation chart
3. Cumulative contracting and disbursement schedule for full duration of project (including disbursement period)
## Transition Facility log frame – Annex 1

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR</th>
<th>Project</th>
<th>Programme name and number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systemic changes in tax audit</td>
<td></td>
<td>Programme name and number 2004/016-764.02.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contracting period expires: 15 December 2006</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Disbursement period expires: 15 December 2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total budget (EUR): <strong>1 154 500</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transition Facility budget (EUR): <strong>930 000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of the tax administration in connection with the EU accession.</td>
<td>Increase of the tax revenues for the state budget by 0.5% in comparison with 2003 through support of voluntary compliance with tax obligations</td>
<td>Evaluation report on the activities of the Slovak Tax Administration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of the tax audit efficiency through introduction of systemic changes</td>
<td></td>
<td></td>
<td>Compliance of governmental tax policy with EU goals</td>
</tr>
<tr>
<td></td>
<td>Shortening the time for actual tax audit in taxpayers premises – the year 2006 in comparison with 2004</td>
<td>Evaluation report on the activities of the Slovak Tax Administration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase in findings from tax audit by 10% in comparison with 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Software application for risk analysis in VAT audit developed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Decrease in number of unjustified excessive refunds and correct computation of tax liability the year after implementation of the SW for risk analysis in VAT audit in comparison with 2004</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>Resources</td>
<td>Assumptions</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• Improving the audit methodology</td>
<td>• 12 audit teams will perform EDP audit</td>
<td>• Evaluation report on the activities of the Slovak Tax Administration</td>
<td></td>
</tr>
<tr>
<td>• Tax auditors will perform EDP audit</td>
<td>• 380 trained auditors</td>
<td>• Implementation at the local tax offices and Final Project Evaluation Report</td>
<td></td>
</tr>
<tr>
<td>• Tax auditors are trained in selected areas of tax audit</td>
<td>• 20 trained distrain officers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Distrain officers are trained in selected areas of tax recovery</td>
<td>• Desk control performance is a part of tax audit system within the Slovak tax administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Tax auditors will perform desk control</td>
<td>• Analysis of necessary features and method of organisation and implementation of the risk analysis in VAT audits, possible outputs and data transfer possibilities between taxpayer and the Tax Administration elaborated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Developed risk analysis during VAT audit from a view of organisation and IT support</td>
<td>• User requirements, criteria and technical requirements describing need and method of risk analysis implementation for VAT audit elaborated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Defined user requirements, criteria and technical requirements for the risk analysis application in VAT audit in the Slovak Tax Administration</td>
<td>• Simple software application for risk analysis for VAT audit developed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Development of the risk analysis application for VAT audit</td>
<td>• Software application incorporated into the Tax Information System</td>
<td>• Amendment of the Act No. 511/1992 Coll. in later amendments</td>
<td></td>
</tr>
<tr>
<td>• Implementation of the software application of the risk analysis for VAT audit at the local tax offices</td>
<td></td>
<td>• Information and the system solution of the risk analysis for VAT audit</td>
<td></td>
</tr>
<tr>
<td>• Analysis of necessary features and method of organisation and implementation of the risk analysis in VAT audits, possible outputs and data transfer possibilities between taxpayer and the Tax Administration elaborated</td>
<td></td>
<td>• Preparation of the data environment or a data warehouse for interconnection with the application software of the risk analysis for VAT audit</td>
<td></td>
</tr>
</tbody>
</table>
### 3.4.1. Initial meeting of PL, RTA and selected experts with the management of the Slovak Tax Administration
Discussion, 2 days for 10 participants

### 3.4.2. Seminars for tax auditors focused on development in tax audit techniques of direct and indirect taxes, tax audit strategy planning, tax audit specialisation according to the branches, preparation and coordination of specialised audit actions
Two seminars, 2 x 5 days for 20 participants

### 3.4.3. Seminar for tax auditors focused on organisation and procedures in desk control
Two seminars, 2 x 5 days for 20 participants

### 3.4.4. Seminars for tax auditors focused on procedures, methods and problems in the area of e-commerce audit, on the way of setting the price usually used on the market between dependent legal entities, the use of arms - length principle, on international accounting standards, on financial derivates, on transfer pricing, on audit of bank institutions, insurance companies, multinational companies and market chains.
Thirteen seminars, 13 x 5 days for 20 participants each (total 260 trained auditors)

### 3.4.5. Seminars for tax auditors performing EDP audit – EDP audit and the system of its functioning
Seven seminars, 7 x 5 days for 40 participants

### 3.4.6. Development of software application for risk analysis in VAT audit and its implementation into the Slovak Tax System – presentation on risk analysis system for VAT audit, definition of users’ requirements, IT requirements, development of application and implementation of the risk analysis system into the Slovak Tax System.
2 experts will provide 12 weeks of consultation to the Slovak developers team (employees of Slovak Tax Administration + representatives of the supplier). Slovak team will implement the software into the Tax Information System. During the first phase experts will provide training to Slovak partner and later the Slovaks will train their colleagues.
12 weeks consultation for team of developers (10 people) and seven 5-day seminars for 40 participants

---

<table>
<thead>
<tr>
<th>3.4.6. Development of software application for risk analysis in VAT audit and its implementation into the Slovak Tax System – presentation on risk analysis system for VAT audit, definition of users’ requirements, IT requirements, development of application and implementation of the risk analysis system into the Slovak Tax System.</th>
<th>12 weeks consultation for team of developers (10 people) and seven 5-day seminars for 40 participants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Twinning Covenant in amount of 930,000 EUR</strong></td>
<td><strong>- Securing of co-financing from the Slovak state budget</strong>&lt;br&gt;- Personnel stabilisation in the area of tax audit**</td>
</tr>
<tr>
<td>- Tax Administration experts will be at disposal of the Twinning experts, when consultation is necessary.</td>
<td><strong>- Tax Administration experts will be at disposal of the Twinning experts, when consultation is necessary.</strong></td>
</tr>
</tbody>
</table>
3.4.7. Seminars for distrain officers on the way of tax arrears recording, the way of irrecoverable tax arrears handling and settlement and on mutual assistance in the area of international tax recovery. Two seminars, 1 x 5 days and 1 x 3 days for 20 participants.

3.4.8. Study visits to the EU Member State for participants from the Slovak Tax Administration focused on EDP audit and on VAT risk analysis system. These study visits shall enable different groups of tax auditors gain experience directly in a parallel MS Tax Administration. The participants will already possess working experience in tax audit, thus the visits will create environment rich for discussions and exchange of experience, which will be a valuable complement to the experts assistance delivered directly in Slovakia and will contribute to the enhancement of the level of tax audits performed in Slovak Tax Administration.

3.4.9. Final meeting – evaluation of the Project 3 days for 15 participants

3.4.10. Meeting of the Steering Committee 8 x 2 days

**Basic assumptions**

- Support of the Slovak Tax Administration management
- Creation of working group
- Sufficient number of quality personnel performing tax audits
**TIME IMPLEMENTATION CHART – ANNEX 2**

Project number: 2004/016-764.02.02

Project title: **Systemic changes in tax audit**

<table>
<thead>
<tr>
<th>Component</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>IB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity 1</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity 2</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Activity 3</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Activity 4</td>
<td>x x</td>
<td>x x</td>
<td>x x</td>
</tr>
<tr>
<td>Activity 5</td>
<td>x x</td>
<td>x x</td>
<td>x x</td>
</tr>
<tr>
<td>Activity 6</td>
<td></td>
<td></td>
<td>x x x x x x x x x x x x x x</td>
</tr>
<tr>
<td>Activity 7</td>
<td></td>
<td>x x</td>
<td></td>
</tr>
<tr>
<td>Activity 8</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Activity 9</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Activity 10</td>
<td>x x</td>
<td>x x</td>
<td>x x</td>
</tr>
</tbody>
</table>
CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE – ANNEX 3

CRIS number: 2004/016-764.02.02

Project title: **Systematic changes in tax audit**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>0,93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>0,097</td>
<td>0,205</td>
<td>0,324</td>
</tr>
<tr>
<td>MEUR</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>