ENPI NATIONAL Action Programme 2008 for Azerbaijan

Beneficiary Country: Republic of Azerbaijan

Support to the Ministry of Taxes of Republic of Azerbaijan in the field of Computer Assisted Audit System

TWINNING FICHE

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TWINNING FICHE

by

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The views expressed in this report do not necessarily reflect the views of the European Commission.
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1. BASIC INFORMATION

1.1 Programme: ENPI - National Action Programme 2008 for Azerbaijan
1.2 Twinning Number: AZ09/ENP-PCA/FI/10
1.3 Publication reference: EuropeAid/129634/L/ACT/AZ
1.4 Title: Support to the Ministry of Taxes of the Republic of Azerbaijan in the field of Computer Assisted Audit system
1.5 Sector: Finance
1.6 Beneficiary country: Republic of Azerbaijan

2. OBJECTIVES

2.1. Project Purpose

The purpose of the project is to improve the capacity, tools and efficiency of the Ministry of Taxes in the field of audit through the development and implementation of an electronic audit system.

2.2. Overall Objective(s)

The overall objective is to support the Ministry of Taxes of the Republic of Azerbaijan in developing an e-audit system, in compliance with general EU and international practice.

It aims to streamline and improve the process of risk management and audit processes. There is a need to enhance the capacity of the Ministry of Taxes of Republic of Azerbaijan to cope with the task. Legal approximation with EU legislation is one of the main priorities of the Ministry of Taxes. With regard to Taxation, the EU-Azerbaijan ENP Action Plan sets out the following priorities to be pursued (Priority No.4 of the AP):

- Continue the modernisation, simplification and the use of information and communication technologies by the tax administration;
- Ensure the smooth and transparent enforcement of the Tax Code also by defining all necessary administrative structures, procedures and policies, including the co-operation with the taxpayers and tax compliance, ethics policy, a fiscal control strategy, audit and investigative methods.

As also mentioned in the EU-Azerbaijan ENP Action Plan, new cooperation tools, like Twinning and TAIEX, play an essential role in achievement of the Action Plan priorities. The Twinning instrument, in particular, provides for direct co-operation between EU Member States and administrative bodies of the Republic of Azerbaijan to support institution development activities, and has proved to be especially efficient in areas of expertise required by the beneficiary country.

2.3. Contribution to the Partnership and Co-operation Agreement and the European Neighbourhood Policy Action Plan

Activities will be in accordance with the current Eastern Partnership initiative as good governance in the taxation area included in the context of trade and regulatory approximation according to the Commission Staff
Article 43 of the PCA further specifies: “The Republic of Azerbaijan shall endeavour to ensure that its legislation will be gradually made compatible with that of the Community”. Article 43.2 of the PCA specifically refers to tax legislation.

Through the European Neighbourhood Policy new perspectives of cooperation are opened, including the possibility to provide the Republic of Azerbaijan with support for legislative approximation to meet EU norms and standards through new modalities such as Twinning and TAIEX.

3. DESCRIPTION OF THE TWINNING PROJECT

3.1. Background and justification

3.1.1. Strategic framework/Overall Context

As a response to the new geopolitical situation following its enlargement in May 2004, the European Union adopted a new framework for relations with its neighbours, the European Neighbourhood Policy (ENP). The ENP aims to go beyond the existing Partnership and Co-operation Agreements to offer neighbouring countries the prospect of an increasingly closer relationship with EU. The overall goals are fostering the political and economic reform processes, promoting closer economic integration as well as legal and technical approximation and sustainable development.

The central element of the ENP is a bilateral Action Plan, which clearly sets out policy targets, and benchmarks through which progress with an individual neighbouring country can be addressed over several years. The ENP Action Plan has identified a considerable number of priority areas for trade and market-related regulatory reforms. Taxation is one of these priority areas.

Even though Azerbaijan is not a candidate for EU membership the approximation of its laws and regulations with those of the EU will help to boost the Azerbaijan economy to new levels of competitiveness. With that end in mind, the EU, its Member States and Azerbaijan concluded a Partnership and Cooperation Agreement (PCA) that came into force on July 1, 1999. Under Article 43 of PCA, Azerbaijan shall endeavour to ensure that its legislation will be gradually made compatible with that of the relevant European Union legislation. In the field of taxation, the ENP Action Plan foresees that the Republic of Azerbaijan will “develop and implement a detailed strategy plan for tax management and broaden opportunities for the use of information and communication technologies”.

The current tax system of Azerbaijan has been developed over two periods: (1) During the years 1993 – 2001, the structure of the system, management and regulatory base, human resources and operations were aligned to the principles of a market economy; (2) from 2001, when the multiple tax laws were merged into a single Tax Code, the Tax system of Republic of Azerbaijan has transformed with the following five main strategic directions:

1. Developing a voluntary tax compliance system and ensuring reliable protection of taxpayer rights
2. Strengthening the fight against fraudulent tax activities and tax evasion, establishing the tax administration as a low-risk system
3. Improving the enforced tax collection system and preventing the accumulation of tax debts
4. Developing the management system of tax bodies according to the international standards
5. Building a computer information system meeting the modern requirements and best international practice.
One of the important recent achievements in improving the tax system is the development and implementation of the automated tax information system (AVIS) in the Ministry of Taxes during the period 2005-2007. Starting in 2006, as a result of the implementation of the AVIS system, the tax bodies of Azerbaijan have been transformed into an organization possessing the most up-to-date computer and information technologies amongst the countries with a transition economy.

The relationship with taxpayers was also modernized, with the introduction of a “one - stop-shop” business registration and tax accounting system, the possibility to send tax returns in an electronic format and the establishment of a modern call centre.

The Ministry of Taxes developed a strategic plan for improving the tax legislation and tax administration further for the period of 2009-2012. The major vector of the tax policy strategy is directed at strengthening and developing a voluntary system of tax assessment and payment. One of the key objectives within this strategy is to take full advantage of information technologies to improve its effectiveness and efficiency, notably in the field of fight against tax evasion. Medium-to-large taxpayers are the main targets in this regard.

A recent IMF technical assistance mission (March, 2008), identified the introduction of a Computer Assisted Audit system (e-audit) as one of the key recommendations on implementing a risk management system at the Ministry of Taxes of Azerbaijan. Important attention to e-audit issues is also given by Intra-European Organization of Tax Administrations (IOTA) which includes almost all EU member states.

E-audit is based on extraction and assessment of data from the accounting systems of the taxpayers in order to assess risk of tax evasion and fraud. This audit is performed with the support of specialized software system which operates with a database of cases and rules of accounting data and any relevant information of taxpayers selected. This data base must be customized, taking into account the specific conditions of each country.

3.1.2. Beneficiary Institution

The Ministry of Taxes (MOT) was established on the basis of the State Tax Inspectorate on February 11, 2000, with a decree of the President of the Republic of Azerbaijan.

The MOT of Republic of Azerbaijan consists of a Central Office, Baku city Tax Department, and 12 territorial departments covering 12 mainland regions, and includes the Ministry of Nakhchivan Autonomous Republic. The Ministry of Taxes also includes three main departments outside the Central Office (Special Regime Tax Service Department, Tax Audit Department and the Department for Preliminary Investigation of Tax Crimes) and a Training Centre. The total staff of the Ministry is over 2000 employees.

The practice of e-audit will focus on the large and medium size enterprises, including 161 special tax regime enterprises of the oil production sector (resulting from Production Sharing Agreements). These enterprises are dealt with in the Special Regime Tax Service Department (staff 106). This Department will be the Focal Point of the beneficiary institution for the project implementation.

The purchase of related software licenses will include initial internal training of the Ministry of Taxes employees. The Ministry of Taxes has provisioned sufficient appropriations in its upcoming budgets, so as to ensure a step-by-step development of this system (approximately 50 licenses to be purchased over the project cycle). Subsequently, a “Train-the-Trainer” approach to cascade knowledge will be adopted with the project.

The Ministry will carry out an automated performance measurement of the activities of the project, based on a series of pre-identified benchmarks.


The General Structure of the Ministry of Taxes is shown in Chapter 4 (Institutional Framework) of this twinning fiche.
3.1.3. Description of Project Components

To implement the Project, the following components should be realized:

(1) Development of a legal basis for the implementation of e-audit in Azerbaijan

With the support of the project the legal basis should be developed for the implementation of e-audit, taking into account the legal and technical aspects of (a) the mandatory storage of taxpayer accounting and financial files in electronic form and obtaining access to all data relevant to tax purposes (“tax relevant data”) and (b) development of broad recommendations for the standardization of e-accounting system of taxable companies to meet data conversion of e-audit software.

(2) Determination of an appropriate e-audit system for Azerbaijan

The project will help the MOT in studying the international best practice in e-audit, especially in EU countries, including legislative issues, IT support, and software selection, in order to prepare an appropriate action plan for implementation of e-audit in Azerbaijan and its methodology.

(3) Development of a database for e-audit

The e-audit system operates as a computer system on the basis of a database of cases and rules to identify risks and mitigate them. The project will help the MOT in developing this database. The main objective of the e-audit system is to fight against tax fraud and evasion in large and medium sized companies.

(4) Elaboration of an appropriate e-audit methodology for Azerbaijan (and related training)

Following the analysis of e-audit best practices and choices made on appropriate procedures and software for Azerbaijan, an appropriate methodology will be elaborated, suitable documentation will be prepared and the staff (auditors) of the MOT will be trained in view of its implementation (through train-the-trainer approach).


Specific measures should be adopted and actions undertaken to support the development in large and medium size companies of e-accounting, with a format which is compatible with further processing by the e-audit software introduced with the project. At the same time, the Project should provide recommendations for compatibility of e-accounting with e-returns generation and storage systems in line with implemented e-audit software.

(6) Implementation of e-audit

The Project will support the early phase (pilot) of e-audit implementation in the Ministry of Taxes for the next scaling by the Ministry of Taxes dependent on adoption of relevant legislation and readiness of companies to adopt standard e-accounting systems compatible with e-audit software. This phase will be carried out in line with EU and best international practice in this domain.

3.2 Linked activities (other international and national initiatives)

U. S. Revenue Service rendered technical assistance to the Ministry of Taxes since 2003 through visits of short-term experts working on the preparation of papers related to legislation, strategy and information sources. Since June 2008 to July 2009 there were no less than four short-term visits conducted by two experts to carry out an audit assessment on oil and gas issues. – The IRS experts made a presentation of regular tax audit procedural methodology.
As a result of this activity, the manual step-by-step conventional (mainly paper based) audit (not including electronic audit techniques) for field inspection was developed.

There are no other projects in this area.

3.3. Results

At the completion of this Twinning Project, the following results will be achieved:

**COMPONENT I – DEVELOPMENT OF A LEGAL BASIS FOR THE IMPLEMENTATION OF E-AUDIT IN AZERBAIJAN**

Legal basis for e-audit developed

**COMPONENT II – DETERMINATION OF AN APPROPRIATE E-AUDIT SYSTEM FOR AZERBAIJAN**

Appropriate e-audit system, meeting EU best practice standards, identified and started by the Republic of Azerbaijan.

**COMPONENT III – DEVELOPMENT OF A DATABASE FOR E-AUDIT**

E-audit database developed

**COMPONENT IV – ELABORATION OF AN APPROPRIATE E-AUDIT METHODOLOGY FOR AZERBAIJAN (AND RELATED TRAINING)**

Methodology for e-audit elaborated, methodological documentation prepared. Concerned staff (auditors) trained and able to apply this methodology

**COMPONENT V – DEVELOPMENT OF AN E-ACCOUNTING PRACTICE WITH SUITABLE FORMAT FOR E-AUDIT PROCESSING AMONG LARGE AND MEDIUM SIZE COMPANIES OF THE REPUBLIC OF AZERBAIJAN.** Measures taken for the development of appropriate e-accounting systems and practice among large and medium sized companies of Azerbaijan compatible with e-audit software

**COMPONENT VI - IMPLEMENTATION OF E-AUDIT**

E-audit practice, starting from pilot scale, successfully implemented over most of the medium and large companies in light of step-by-step transformation of tax enforcement system to self-assessment by taxpayers

3.4. Activities

In realisation of activities the project will follow the provisions of the European Commission (DG TAXUD) Fiscal Blueprints, which serves as practical guidelines laying down clear criteria based on EU Best Practise against which a tax or fiscal administration is able to measure its own capacity will be used for carrying out the gap/needs analysis.


According to the provisions of Fiscal Blueprints, Part FB 05, the special short term and long term training program will be undertaken during the project and according to the provisions of Fiscal Blue Prints (Parts FB 07 and 09) computerised tools and techniques based on risks analysis to detect tax fraud and evasion and e-audit methodology will be developed.
In addition to the activities under the six above-mentioned components, the project will organise one study tour to a representative EU member state with a highly developed e-audit system for four (4) persons and a translator/interpreter. The study tour will be for six days.

The project will also organize at least one opportunity for an internship at an EU member state with a highly developed e-audit system. The internship will be for four BC Component MOT experts to observe technical aspects of e-audit, the IT requirements, including database elements and software application for implementation of e-audit methodology for e-audit system application.

This internship will last for three weeks in order for the candidates to receive a broad spectrum of practical knowledge in e-audit processes and procedures.

For implementation of e-audit system in practice, the staff (auditors) of the MOT will be trained (through a train-the-trainer’s approach). At the first step 10 auditors will be selected as core group for training in e-audit. This group will train in e-audit software application up to 50 auditors during the project implementation period.

During the preparation of the contract, and in addition to BC Project Leader counterpart and RTA counterpart the six Component MOT experts from the Ministry of Taxes staff will be appointed to hold special responsibility and provide support to STEs with regard to activities carried out under the described below components.

**RESOURCES AND BENCHMARKS**

**MS:**
- Project Leader (PL)
- Resident Twinning Advisor (RTA)
- RTA Assistant
- Full time Interpreter-translator
- Part time translator during training in e-audit in BC
- Short Term Experts – (STEs)

**BC:**
- BC Project Leader
- RTA counterpart
- Office for the RTA and interpreter-translator Component MOT Expert (as appropriate), conference room as necessary

Location and duration: Baku, 24 months

**BENCHMARKS**

Shown in each component below

3.4.1. Component I: Development of a legal basis for the implementation of e-audit in Azerbaijan

**ACTIVITIES 1**

Assist the MOT to determine legal basis for the development of e-audit in Azerbaijan, including research of experience of other EU member states, development of recommendations to amend or enhance the Tax
Code, Accounting Law and secondary legislation to allow storage and retention of taxpayer accounting and financial files in electronic form and to obtain access to all necessary data used for tax purposes.

**METHOD**

The RTA, the RTA Assistant, RTA Counterpart and Component MOT expert will carry out a detailed analysis of the legal basis necessary to operate the e-audit system, and will assist RTA to prepare recommendations to legislative bodies for appropriate legal changes as necessary.

**RESOURCES AND BENCHMARKS**

- **MS:** RTA, the RTA Assistant, STE
- **BC:** RTA Counterpart, Component MOT Expert
- **Location:** Baku
- **Month:** 2 – 6

**BENCHMARKS**

A Report with a set of proposals concerning appropriate legal changes (necessary to include in Tax Code, Accounting Law and secondary legislation) should be prepared in accordance in the project timetable (Annex 3). The proposals about legal changes should pass through approval by authorities of the relevant governmental bodies starting from the Ministry of Taxes of Republic of Azerbaijan.

**3.4.2 Component II : Determination of an appropriate e-audit system for Azerbaijan**

The main scope of this component is to determine an appropriate e-audit system for the Ministry of Taxes of Republic of Azerbaijan.

**ACTIVITIES 2**

Assist the MOT to identify an e-audit system that will meet best practice standards in EU member states, including legislative issues, IT support and software selection, and prepare report comparing various systems considered, with a recommendation of the software most suitable. For this purpose one study tour to a representative EU member state with a highly developed e-audit system for four persons and a translator/interpreter will be performed.

**METHOD**

The RTA, RTA Assistant, an EU member state STE specialized in e-audit systems along with the RTA Counterpart and the Component MOT expert will carry out a detailed analysis of the need and readiness of the MOT, in accordance with provisions of EU fiscal Blueprint (part FB 09) and will assist the MOT to select the most appropriate software and determine all necessary technical requirements for its successful application to meet their needs to develop e-audit in the Ministry of Taxes of Republic of Azerbaijan. This expert will produce a report indicating which software is recommended.

**RESOURCES AND BENCHMARKS**

- **MS:** RTA, the RTA Assistant, STE
- **BC:** RTA Counterpart, Component MOT Expert
- **Location:** Baku
- **Month:** 5-6
BENCHMARKS

A Report indicating the appropriate software to meet the needs of the MOT and meeting the following quality benchmarks:

- Ability to extract and speed of processing information from different kind of accounting system of taxable companies
- Power of instruments for risk tracking and statistical analysis for detection of fraud activities
- Reliability
- Security
- Options for localization of e-audit software, i.e. adaptation of the software to local needs and language.

The experts of the MOT will benefit from substantial training in the course of the project, especially under Component IV for which they constitute a core group of trainees (see 3.4.4 below)

3.4.3. Component III: Development of a database for e-audit

ACTIVITIES 3

Identify elements necessary for a database to meet the needs of the e-audit system selected in Component II and in compliance with e-audit methodology prepared in component IV. The project will assist the MOT to develop a database with appropriate information to identify fraud and evasion in large and medium companies. The databases shall be compatible with all existing databases and the e-audit methodology prepared under Component IV.

An internship for two expert of the Ministry of Taxes of Republic of Azerbaijan, to relevant Member State administration for three weeks will be performed.

METHOD

The RTA, STE’s, RTA Assistant, the RTA Counterpart and the Component MOT expert will identify the elements of an effective database, assist IT Department to gather any additional information not available on the current database, design the collection method of the data, and ensure that database is compatible with all operating IT systems at the MOT

RESOURCES AND BENCHMARKS

MS: RTA, RTA Assistant, STE’s
BC: RTA Counterpart, Component MOT Expert
Location: Baku
Month: 7-13

BENCHMARKS:

The e-audit system should operate by use of a special computer database of cases and rules to identify risks in tax fraud and evasion. The following benchmarks which reflect of the quality of database for e-audit purposes will be used:

- Reliability
- Security
• Compatibility of database for e-audit with centralized computer information system of MOT (AVIS) in order to extract necessary data about taxpayers from different industries, activities, segments, regions and build risk profiles to detect and measure risks to help in e-audit software application

• Searching and analysis data from other available sources (mass media, internet, etc)

3.4.4. Component IV: Elaboration of an appropriate e-audit methodology for Azerbaijan (and related training)

ACTIVITIES 4

Determine appropriate methodology for system selected in Component II above, create standardized manuals. Conduct training of appropriate MOT personnel in methods to be used in all phases of the e-audit process.

For the appropriate e-audit methodology elaboration purposes, one internship for two experts of the Ministry of Taxes of Republic of Azerbaijan to relevant Member State administration for three weeks will be performed.

METHOD

The RTA, STE’s, RTA Assistant, RTA Counterpart and the MOT expert of Component IV will create standardized manuals and instructions to properly utilize e-audit system, and will conduct training for all persons utilizing any part of the e-audit process.

RESOURCES AND BENCHMARKS

MS: RTA, RTA Assistant, STE’s
BC: RTA Counterpart, Component MOT expert
Location: Baku
Month: 7-15

BENCHMARKS:

Following the analysis of e-audit best practices and choices made on appropriate procedures and software for Republic of Azerbaijan, a methodology will be elaborated for a suitable training- Manual with standardized methodology for e-audit system.

The staff (auditors) of the MOT will be trained in view of its implementation (through a train-the-trainer’s approach). As a first step, 10 auditors will be selected as core group for training in e-audit. This group will train in e-audit software application up to 50 auditors during project cycle.

3.4.5 Component V: Development of e-accounting practices with suitable format for e-audit processing among medium and large size companies in the Republic of Azerbaijan.

ACTIVITIES 5

Identify and develop e-accounting standards, practices and format to be used by medium and large taxpayers for e-audit processing compatible with the e-audit system selected in Component II.

METHOD

The RTA, STE, RTA Assistant, the RTA Counterpart and the Component MOT expert will identify and develop standards and practices, including suitable format of e-accounting and e-returns data generation and
storage systems of large and medium size companies. These practices and format will enable e-audit processing compatible to e-audit system selected in Component II above.

RESOURCES AND BENCHMARKS

MS: RTA, RTA Assistant, STE
BC: RTA Counterpart, Component MOT Expert
Location: Baku
Month: 10-15

BENCHMARKS:
Specific measures should be adopted and actions undertaken to support the development in large and medium companies of e-accounting with a format which is compatible with further processing by the e-audit software identified in Component II and e-accounting standards should meet the following criteria such as:

- Meet international accounting standards
- Ensure easy extraction data and compatibility with e-audit software
- Storage of accounting and financial files in e-format according to law

3.4.6. Component VI: Implementation of e-audit

ACTIVITIES 6

E-audit practice starting from implementation in pilot scale will be implemented over most medium and large companies in light of step-by-step transformation of tax enforcement system to self-assessment by taxpayers.

METHOD

The RTA, RTA Assistant, STE, RTA Counterpart and Component MOT Expert will create an action plan for implementation of pilot phase make adjustments as necessary the e-audit initiatives according to EU and best international practices in this domain.

RESOURCES AND BENCHMARKS

MS: RTA, RTA Assistant, STE
BC: RTA Counterpart, Component MOT Expert
Location: Baku
Month: 16-22

BENCHMARKS

- Preparation action plan to implement e-audit in pilot scale
- Beginning of implementation of pilot activities
- Gathering results of pilot phase to shape and refine full format implementation
- Preparation action plan for full implementation
- Ensuring implementation in line with EU member states and best international practice
3.5. Means/input from MS Partner Administration

3.5.1. Profile and tasks of the Project Leader (PL)

The Member State Project Leader (MS PL) will be expected to devote a minimum of three days per month to the project in his home country. He/she will participate as a representative of the MS partner in the quarterly Steering Committee meetings and bear, together with the Beneficiary Country Project Leader (BC PL), the final responsibility for an efficient and effective implementation of the Twining project.

The main responsibilities of the MS PL are to ensure:

- The overall coordination of the project
- Timely achievement of project results
- The timely input of resources on the MS side

The MS PL shall:

- Be a senior staff member from the MS Tax Administration
- Have a good command of English in word and in writing
- Have extensive experience in project management

3.5.2. Profile and Tasks of the RTA

The Resident Twinning Advisor (RTA) will be based in Republic of Azerbaijan to provide full-time input to the project for the duration of the project. His/her main tasks are:

- to manage the day-to-day coordination and progress of activities of the project in Republic of Azerbaijan.
- to liaise with the BC Project Leader and RTA counterpart

The RTA shall:

- be a civil servant / staff member of a MS tax administration;
- have a university degree in law or economics with a specialization in taxation, or equivalent, and ten years of relevant professional experience;
- be familiar with tax administration and implementation of e-audit systems;
- have an excellent command of written and spoken English. An active and passive command of Azerbaijani and/or Russian would be an asset; experience in Phare / Tacis countries or with similar projects would be an advantage.
- extensive experience in project management

In his daily work in Republic of Azerbaijan the RTA will be supported by an RTA Assistant and an interpreter/translator to be recruited and funded by the project.
3.5.3. Profile and tasks of the RTA Assistant

The Assistant of the RTA will be responsible for providing logistical/administrative support, including the functioning of the project office. The assistant should also provide support to the RTA to facilitate the implementation of the activities of the work plan. She/he will in particular assist in the preparation of working documents, organize and participate in work sessions held with the staff of the MOT, participate in field visits, prepare and assist in the conduct/reporting on PSC meetings and handle all logistic arrangements for seminars and training activities in consultation with RTA counterpart.

The Assistant to the RTA will be of Azerbaijani nationality and work full time, for duration of 24 months in Republic of Azerbaijan and will be based at the MOT in Baku. The Assistant to the RTA will be remunerated through the Twinning budget.

Qualification and skills

- University level education
- Fluency in Azerbaijani and working knowledge of English
- PC Computer literacy with significant knowledge of common software applications such as MS word, excel and power point
- Good inter-personal skills

Professional experience

- At least 3 years of professional experience in audit.
- Knowledge of existing IT system of Ministry of Taxes
- Experience in the functioning of international cooperation project, while not mandatory, is an advantage

3.5.4. Interpreter/Translator

A full time interpreter-translator will also be recruited and funded by the project. This interpreter/translator will perform most of the professional services necessary for the project (e. g. interpretation for missions of short-term experts, translation of documents to and from the Azerbaijani language). For the seminars and the workshops, simultaneous interpreters will be procured and funded by the project as necessary.

The Interpreter/Translator shall:

- have relevant certification as a interpreter/translator
- two years of professional experience in an international project

3.5.5. Profile and Tasks of the short-term experts

The STE's shall have:

- A university degree in a relevant subject;
- A minimum of three years experience in their respective field;
- An excellent command of written and spoken English, an active and passive command of Azerbaijani and/or Russian would be an asset; experience in Phare/Tacis countries as well as in other tax administration reform projects would be an advantage.

To achieve the results and carry out the activities planned, the following short term experts’ (STEs) assistance is needed:
### Type of expert Tasks

<table>
<thead>
<tr>
<th>Type of expert</th>
<th>Tasks</th>
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<tr>
<td><strong>STEs for Component I: Development of a legal basis for the implementation of e-audit in Republic of Azerbaijan</strong></td>
<td><strong>Component I</strong>&lt;br&gt;  - Determination of legal changes in the Tax Code necessary for the implementation of e-audit, taking into account the legal and technical aspects, including potential sanctions and enforcement of legal provisions related to:&lt;br&gt;    - Mandatory storage of taxpayer accounting and financial files in electronic form&lt;br&gt;    - Gaining access to all data relevant to tax purposes&lt;br&gt;    - Data protection related to taxation&lt;br&gt;    - Banking secrecy regulations&lt;br&gt;    - Commercial secrecy regulations</td>
</tr>
<tr>
<td><strong>STEs for Component II: Determination of an appropriate e-audit system for Republic of Azerbaijan</strong></td>
<td><strong>Component II</strong>&lt;br&gt;  - Transfer knowledge on existing e-audit methodologies in EU member states regarding benchmarks and methodologies of:&lt;br&gt;    - IT support&lt;br&gt;    - Software selection&lt;br&gt;  - E-audit system selection recommendation made&lt;br&gt;  - Assistance in preparation of Action Plan for implementation of e-audit in Republic of Azerbaijan&lt;br&gt;  - Assistance in workshop in BC concerning its e-audit implementation, methodology and practice for up to 10 people&lt;br&gt;  - Assistance in one study tour to a representative EU member state with a highly developed e-audit system for four persons and a translator/interpreter</td>
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<tr>
<td><strong>STEs for Component III: Development of a database for e-audit</strong></td>
<td><strong>Component III</strong>&lt;br&gt;  - Assistance in creation of:&lt;br&gt;    - Database of cases and rules for use in e-audit processing will:&lt;br&gt;      - support Risk Analysis of tax cases to identify tax fraud and evasion and,&lt;br&gt;      - include all large to medium taxpayers relevant information&lt;br&gt;    - Ensure compatibility of existing MOT software with new e-audit software&lt;br&gt;  - Assistance in support and design of an internship for two person, in conjunction with the internship shown in Component IV, will be arranged to provide practical knowledge in the operation and functions of the e-audit system selected in Component II. This will enable a better understanding of the processes and procedures for implementing the new e-audit system in Republic of Azerbaijan</td>
</tr>
<tr>
<td><strong>STEs for Component IV: Elaboration of an appropriate e-audit methodology for Republic of Azerbaijan (and related training)</strong></td>
<td><strong>Component IV</strong>&lt;br&gt;  - Following selection of e-audit software, provide assistance and creation of:&lt;br&gt;    - Suitable methodology will be elaborated&lt;br&gt;    - Suitable manual and other documentation prepared&lt;br&gt;  - Core group of Auditors (up to 10) will be trained on methodology of e-audit in order to cascade this knowledge to other auditors up to 50 during project cycle&lt;br&gt;  - Assistance in support and design of an internship for two person will be arranged to provide practical knowledge in the operation and functions of the e-audit system selected in Component II. This will enable a better understanding of the processes and procedures for incorporation the e-audit methodology and training manuals in the Ministry of Taxes of Republic of Azerbaijan</td>
</tr>
</tbody>
</table>
### STEs for Component V: Development of e-accounting practices with suitable format for e-audit processing among medium and large size companies in Republic of Azerbaijan

<table>
<thead>
<tr>
<th>Component V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propose measures to be adopted and actions to take to:</td>
</tr>
<tr>
<td>- Support development and use of standardized e-accounting in large to medium companies to meet data extraction and data conversion to e-audit software in line of international standards of accounting</td>
</tr>
<tr>
<td>- Support development of a format of e-accounting which is compatible with e-audit processing</td>
</tr>
<tr>
<td>- Support compatibility of e-accounting with e-returns generation and storage systems in line with the new e-audit software</td>
</tr>
</tbody>
</table>

### STEs Component VI: Implementation of e-audit

<table>
<thead>
<tr>
<th>Component VI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare action plan to implement e-audit in pilot scale</td>
</tr>
<tr>
<td>Prepare action plan for full implementation</td>
</tr>
<tr>
<td>Begin implementation of pilot activities</td>
</tr>
<tr>
<td>Ensure implementation in line with EU member states and best international practice</td>
</tr>
</tbody>
</table>
4. INSTITUTIONAL FRAMEWORK

The beneficiary will be the Ministry of Taxes of the Republic of Azerbaijan.

The General Structure of the Ministry of Taxes consists of the following:

Departments within Central Office of Ministry of Taxes:
- Apparatus of the Ministry of Taxes
- Tax Policy and Strategic Research Main Department
- State Registration of Legal entities and Economical Analysis Main department
- Internal Security Main Department
- Taxpayers Services Department
- Collection Enforcement Department
- Department of cash operations control
- Legal Support Department
- International Relations Department
- Finance-Economy Department
- Personnel and human resources Department
- Tax Audit Main Department (Policy, Methodology and Coordination)

Departments outside of Central Office of Ministry of Taxes:
- Special Regime Tax Service (former Large Taxpayers) Department
- Tax Audit (Operational) Department
- Baku City Tax Department (with 3 branches)
  Department of Preliminary investigation of Tax Crimes
- Training Center
- 12 Territorial Departments
  Ministry of Autonomous republic of Nakhchivan, including city tax department and 6 district branches

The detailed structure is in Annex 1.
5. **BUDGET**

The budget available is € (Euro) 1 000 000

6. **IMPLEMENTATION ARRANGEMENTS**

6.1. Implementing agency responsible for tendering, contracting and accounting

The implementing/contracting agency is:

Delegation of the European Commission to the Republic of Azerbaijan  
Head of Operations Mr Jean-Louis Lavroff

11th floor, Landmark III  
96 Nizami Street  
Azerbaijan - AZ1010 BAKU

Tel.: +994 12 497 20 63 / 64 Fax: +994 12 497 20 69

E-mail: Jean-Louis.LAVROFF@ec.europa.eu

6.2. Main counterparts in the BC

The counterpart in the Republic of Azerbaijan will be the Ministry of Taxes of Republic of Azerbaijan.

6.2.1. **BC Project Leader**

The BC Project Leader will be:

Mr. Asaf Asadov  
Advisor to the Minister of Taxes  
AZ 1073, Baku, Landau Street, 16  
Republic of Azerbaijan  
(99412)438-8254  
E-mail: asaf.asadov@taxes.gov.az

6.2.2. **Counterpart to the Resident Twinning Advisor**

The counterpart to the Resident Twinning Advisor will be:

Mr. Ilqar Suleymanov  
Head of Analytic Analysis Division
6.2.3. Project Component MOT Experts

Component MOT Experts for each of the six project components will be appointed in the apparatus of the Ministry of Taxes.

The BC Project Leader, RTA Counterpart and the six Component MOT Experts constitute altogether, the Project Working Group. The members of this Working Group will be the main interlocutors of the MS partner(s) during the preparation of the twinning contract and for the implementation of the project.

Within the Ministry of Taxes a specific working group of seven persons has been set up to supervise the development and implementation of this twinning project. It is headed by Dr. Asaf Asadov, Advisor to the Minister. Also, a fully equipped office for the Twinning Project is set. There is an additional conference room with presentation and translation facilities.

6.3. Steering Committee

Every three months, a Steering Committee will assess the progress of the project, verify the achievements of the outputs and mandatory results and discuss any other which might affect a smooth implementation of the project. The exact composition of the Steering Committee is to be defined in the Twinning Contract. However, the following persons should at least be members: BC Project Leader, MS Project Leader, BC counterpart to the RTA, RTA, representative of the Twinning Programme Administration Office, representative of the EC delegation. Representatives of other state authorities may be invited to participate as observers in the Steering Committee meetings at the discretion of the Steering Committee members. Beyond this coordination mechanism, informal contacts with other projects, and donors, for exchange of information on respective work programmes, etc. are encouraged so as to ensure the best synergy.

7. IMPLEMENTATION SCHEDULE (INDICATIVE)

7.1. Launching of the call for proposals

December 2009

7.2. Indicative start of project activities

October, 2010
7.3. Action's implementation period

24 months

8. SUSTAINABILITY

Long term benefits from this Twinning will be a strengthened Ministry of Taxes. However, the need to perform this approximation will not cease after the project completion. This is why the project is not focused on carrying out approximation, but on developing capacity within the Ministry of Taxes for this endeavour. Measures taken to strengthen project sustainability include:

- Recommendations for change of the Tax Code to provide a legal basis for the implementation and use of e-audit
- E-accounting standards recommended for use of large to medium taxpayers which are compatible with e-audit processing
- Identification of appropriate software for e-audit in Republic of Azerbaijan
- Training selected auditors on use of e-audit software and methodology
- Training Trainers to cascade methodology to auditors, including new MOT employees
- Development of e-accounting practices compatible with e-audit software.

9. CROSSCUTTING ISSUES

In project implementation activities, each Twinning partner is required to comply with the equal opportunities requirements of the European Union. This will be in particular the case in selecting the EU experts and for the recruitment of experts to staff the unit created with the project.

10. CONDITIONALITY AND SEQUENCING

An open and constructive cooperation by the MOT staff members involved in the project will be critical to make the Twinning project a success. Furthermore, support from the Ministry of Taxes leadership as some elements of the project are sensitive in nature.

ANNEX 1: Diagram of Central Office of Ministry of Taxes
ANNEX 2: Logical Framework Matrix
ANNEX 3: Indicative Implementation Chart
**LIST OF ABBREVIATIONS AND DEFINITIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>BA</td>
<td>Beneficiary Administration</td>
</tr>
<tr>
<td>BC</td>
<td>Beneficiary Country</td>
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<tr>
<td>E-audit</td>
<td>The electronic audit is computer assisted audit system where electronic records are taken, converted and tested to complete all or part of the audit</td>
</tr>
<tr>
<td>Electronic Records</td>
<td>Account books and accounts stored in an electronic format</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECD</td>
<td>EC Delegation</td>
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<tr>
<td>ENP</td>
<td>European Neighbourhood Policy</td>
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<tr>
<td>ENPAP</td>
<td>European Neighbourhood Policy Action Plan</td>
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<tr>
<td>ENPI</td>
<td>European Neighbourhood and Partnership Instrument</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
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<td>MS</td>
<td>Member State</td>
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<tr>
<td>PAO</td>
<td>Programme Administration Office</td>
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<tr>
<td>PCA</td>
<td>Partnership and Cooperation Agreement</td>
</tr>
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<td>PL</td>
<td>Project Leader</td>
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<tr>
<td>BC PL</td>
<td>Beneficiary Country Project Leader</td>
</tr>
<tr>
<td>MS PL</td>
<td>Member State Project Leader</td>
</tr>
<tr>
<td>BC counterpart to the RTA</td>
<td>Beneficiary Country Counterpart to the Resident Twinning Advisor</td>
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<td>PSC</td>
<td>Project Steering Committee</td>
</tr>
<tr>
<td>RTA</td>
<td>Resident Twinning Advisor</td>
</tr>
<tr>
<td>STE</td>
<td>Short-Term Expert</td>
</tr>
<tr>
<td>TAIEX</td>
<td>Technical Assistance and Information Exchange</td>
</tr>
<tr>
<td>TAXUD</td>
<td>Commission’s Taxation and Customs Union Directorate-General</td>
</tr>
</tbody>
</table>
ANNEX 1 Structure of the Ministry of Taxes

- Central office of Ministry of Taxes
  - Department of Preliminary Investigation of Tax Crimes
  - Ministry of Taxes of Nakhchivan AR
  - Baku City Tax Department
  - Training Centre
  - 12 Territorial Tax Departments:
    - Tax Audit Department
    - Special Regime Tax Service Department
  - City tax department and 6 district branches
  - 3 branches
Support to the Ministry of Taxes of the Republic of Azerbaijan in the field of Computer Assisted Audit system
## ANNEX 2: Logical Framework Matrix

<table>
<thead>
<tr>
<th>Intervention logic</th>
<th>Benchmarks</th>
<th>Sources of information</th>
<th>Assumptions (external to project)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Objective</td>
<td>The overall objective is to support the Ministry of Taxes of the Republic of Azerbaijan in developing an e-audit system, in compliance with general EU and international practice</td>
<td>E-audit system developed, installed, and in use at the Ministry of Taxes of the Republic of Azerbaijan in accordance with timetable</td>
<td>Project Implementation Progress report available for Twinning Projects National Coordinator and for monitoring by the EU relevant body</td>
</tr>
<tr>
<td>Project Purpose</td>
<td>The purpose of the project is to improve capacity, tools, and work of the Ministry of Taxes in the field of audit by development and implementation of electronic audit</td>
<td>Project successfully completed by end of Twinning Project in Ministry of Taxes</td>
<td>Project Implementation Progress report available for Twinning Projects National Coordinator (the Ministry of Economical Development of Republic of Azerbaijan) and for monitoring by the EU relevant body</td>
</tr>
<tr>
<td>Mandatory Results (Components)</td>
<td>Draft of Proposals concerning amendments of relative legislature (Tax Code, Accounting Law, etc.) prepared in accordance with the timetable, and sent to relevant government bodies</td>
<td>Activities reflected in the Project Implementation Progress report available for Twinning Projects National Coordinator (the Ministry of Economical Development of Republic of Azerbaijan) and for monitoring by the EU relevant body.</td>
<td>Legal basis for e-audit implementation adopted by Parliament and secondary legislation issued by regulatory body (Cabinet of Ministers of Republic of Azerbaijan). Training delivered, use of e-audit system institutionalized</td>
</tr>
<tr>
<td>For Component 1 mandatory results are: Legal basis for e-audit developed</td>
<td>Recommendations made for standardization of e-accounting systems which meet data conversion requirements of e-audit software prepared and presented to appropriate bodies (Ministry of Taxes, Ministry of Finances and Cabinet of Ministers) in order to adopt the relevant regulations</td>
<td>For Component 2 mandatory results are: Study of existing abilities, data base systems, and procedures of e-audit</td>
<td>Current Tax Code, Accounting Law and related regulations will be amended and adopted by the Parliament of the Republic of Azerbaijan. Knowledge of e-audit systems in use in EU member states is</td>
</tr>
<tr>
<td>Intervention Logic</td>
<td>Study of existing abilities, data base systems, and procedures of e-audit</td>
<td>Report of comparison of e-audit systems, indicating the use in EU member states is</td>
<td></td>
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<tr>
<td>Sources of information</td>
<td>Assumptions (external to project)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumptions (external to project)</td>
<td>Legal basis for e-audit implementation adopted by Parliament and secondary legislation issued by regulatory body (Cabinet of Ministers of Republic of Azerbaijan). Training delivered, use of e-audit system institutionalized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For Component 3 mandatory results are:</td>
<td>Prepare data collection instruments to gather elements critical for operation of new (e-audit) system</td>
<td>Report of Project group on identification of key elements necessary for creation of database for e-audit. Data collection tools and methodology prepared. Data collection tools in use at MOT, data being collected</td>
<td>Knowledge of specifications of new (e-audit) system, required data elements, capacity, risk criteria and data elements is critical to operate the new e-audit system</td>
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</tr>
<tr>
<td>e-audit database developed</td>
<td>Populate new database with all necessary information, including rating scores and list of high risk taxpayers for different industries, segments, regions, known schemes of evasions from closed cases, etc. in order to properly function</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>most appropriate e-audit software for Republic of Azerbaijan will be reflected in the Project Implementation Progress report available for the Twinning Projects National Coordinator (The Ministry of Economical Development of Republic of Azerbaijan) and for monitoring by the EU relevant body</td>
<td></td>
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<tr>
<td></td>
<td>through study tour and internship, and SWOT analysis of practice of implementation of different software of e-audit in EU member states tax administrations prepared in accordance with the EU Fiscal Blueprint</td>
<td></td>
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<tr>
<td></td>
<td>Action Plan with benchmarks of quality, quantity and time prepared to monitor implementation of e-audit system in Republic of Azerbaijan.</td>
<td></td>
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</tr>
<tr>
<td>Intervention logic</td>
<td>Benchmarks</td>
<td>Sources of Information</td>
<td>Assumptions (external to project)</td>
</tr>
<tr>
<td>For Component 4 mandatory results are:</td>
<td>Prepare suitable documentation to reflect those best practices. Selection and purchase of e-audit software licenses to be applied in Ministry of Taxes of Republic of Azerbaijan. Train core cadre of trainers (up to 10) to conduct training classes for other auditors (up to 50 auditors during project cycle) on new e-audit methodologies</td>
<td>Manual of e-audit methodology prepared, approved and implemented by decree of Minister of Taxes Train-the-Trainer program prepared and delivered Checking ability of trained auditors to apply e-audit software in selected case studies</td>
<td>Written manuals in use of new e-audit system, including best practices from EU member states, will be available to insure standardized application of methods nationwide Training of other auditors at MOT will be delivered by core cadre of trainers</td>
</tr>
<tr>
<td>Methodology for e-audit elaborated, methodological documentation prepared. Concerned staff (auditors) trained and able to apply this methodology</td>
<td>Recommendations for standardized e-accounting requirements for processing taxpayer accounting data in line with e-audit system requirements for taxpayer accounting data processing elaborated</td>
<td>Recommendations adopted by the relevant government bodies (the Ministry of Taxes, the</td>
<td></td>
</tr>
<tr>
<td>Development of appropriate e-accounting systems and practice among large and medium-sized companies of Azerbaijan compatible with e-audit software</td>
<td>Requirements of new e-audit software will be developed as part of regulations concerning implementation of e-audit prepared by project and approved by the relevant government bodies (the Ministry of Taxes, the Ministry of Finances and the Ministry of Economical Development). Accounting standards will follow recommended International Accounting Standards in financial accounting by large and medium-size companies.</td>
<td>Recommendations including new measures in accounting systems for large and medium-size companies in the proper format for new e-audit software prepared, issued by regulating body (the Cabinet of Ministers of Republic of Azerbaijan).</td>
<td>Ministry of Finances and the Ministry of Economical Development</td>
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<tr>
<td><strong>Intervention Logic</strong></td>
<td><strong>Benchmarks</strong></td>
<td><strong>Sources of Information</strong></td>
<td><strong>Assumptions (external to project)</strong></td>
</tr>
<tr>
<td>For Component 6 mandatory results are: e-audit practice, starting from pilot scale, successfully implemented over the most medium and large companies in light of step-by-step transformation of tax enforcement system to self-assessment by taxpayers</td>
<td>Make preparations for pilot phase of new e-audit system among large and medium-size taxpayers. Gather results of pilot phase of e-audit implementation to shape and refine total implementation of e-audit. Prepare for implementation among most medium and large companies of new e-audit software after successful completion of pilot phase.</td>
<td>Action plan prepared. Report on results of pilot phase of e-audit implementation prepared. Begin action plan for full implementation of new e-audit system.</td>
<td>Legal basis for implementation of e-audit system recommended, accepted and ready to be introduced</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td><strong>Activity 1:</strong> Help MOT determine legal basis for development of e-audit in Azerbaijan including research of experience of other EU member states, development of recommendations to amend or enhance the Tax Code, Accounting Law and secondary legislation to allow storage and retention of taxpayer accounting and financial files in electronic form and to obtain access to all necessary data used for tax purposes.</td>
<td>Report indicating proposals concerning appropriate legal changes (necessary to include in Tax Code, Accounting Law and secondary legislation) should be prepared in accordance with the project timetable (Annex 3) and proposal about legal changes should pass through approval by authorities of the relevant governmental bodies starting from the Ministry of Taxes.</td>
<td>Activities reflected in the Project Implementation Progress report available for Twinning Projects National Coordinator (the Ministry of Economical Development of Republic of Azerbaijan) and for monitoring by the EU relevant body.</td>
</tr>
<tr>
<td>Intervention Logic</td>
<td>Benchmarks</td>
<td>Sources of Information</td>
<td>Assumptions (external to project)</td>
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<tr>
<td><strong>Activity 2:</strong> Help MOT to determine e-audit system that will meet best practice standards in EU member states, including legislative issues, IT support and software selection, and prepare report comparing various systems considered, with a recommendation of the software most suitable.</td>
<td>Report indicating appropriate software to meet the needs of the MOT from point of view of the following quality benchmarks: - Ability to extract and speed of processing information from different kind of accounting system of taxable companies - Power of instruments for risk tracking and statistical analysis for fraud activities detection - Reliability - Security - Localization of e-audit software, i.e. adoption software for local needs and language.</td>
<td>Report of comparison of e-audit systems, indicating the most appropriate e-audit software for Republic of Azerbaijan will be reflected in the Project Implementation Progress report available for the Twinning Projects National Coordinator (The Ministry of Economical Development of Republic of Azerbaijan), and for monitoring by the EU relevant body.</td>
<td>Knowledge of e-audit systems in use in EU member states is critical background for success of project. Familiarity with MOT IT system, support and software would be helpful.</td>
</tr>
<tr>
<td><strong>Activity 3:</strong> Identify elements necessary for a database to meet the needs of the e-audit system selected in Component II and in compliance with e-audit methodology prepared in component IV. The project will help MOT develop a database with information appropriate to identify fraud and evasion in large and medium companies, yet is compatible with all existing databases and e-audit methodology prepared in Component IV.</td>
<td>The e-audit system should operate by using of a special computer database of cases and rules to identify risks in tax fraud and evasion. The following benchmarks which reflect of quality of database for e-audit purposes will be: - Reliability - Security - Compatibility of database for e-audit with centralized computer information system of MOT (AVIS) in order to extract necessary data about taxpayers from different industries, activities, segments, regions and build risk profiles to detects and measure risks to help in e-audit software application. - Searching and analysis of data from other available sources (mass media, internet, etc.).</td>
<td>Report on identification of key elements necessary for creation of database for e-audit. Data collection tools and methodology prepared. Data collection tools in use at MOT, data being collected.</td>
<td>Knowledge of current MOT IT system in use, including capacity, data elements, specifications, will be necessary in order to ensure new e-audit compatibility. Knowledge of specifications of new (e-audit) system, required data elements, capacity, risk criteria and data elements in use in the EU Member States is critical to operate the new e-audit system.</td>
</tr>
<tr>
<td><strong>Activity 4:</strong> Following the analysis of e-audit best practices, the main objective of the project is to follow up on the e-audit project for the Ministry of Taxes of the Republic of Azerbaijan.</td>
<td>Manual of e-audit methodology prepared and implemented by experts and training of other auditors at the Twinning Projects National Coordinator (The Ministry of Economical Development of Republic of Azerbaijan).</td>
<td>Training of other auditors at the Twinning Projects National Coordinator (The Ministry of Economical Development of Republic of Azerbaijan).</td>
<td>Knowledge of current MOT IT system in use, including capacity, data elements, specifications, will be necessary in order to ensure new e-audit compatibility. Knowledge of specifications of new (e-audit) system, required data elements, capacity, risk criteria and data elements in use in the EU Member States is critical to operate the new e-audit system.</td>
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</tbody>
</table>
**Intervention Logic**

<table>
<thead>
<tr>
<th>Activity 5: Identify and develop e-accounting standards, practices and format to be used by medium and large taxpayers for e-audit processing compatible with the e-audit system selected in Component II.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources of information</strong></td>
</tr>
<tr>
<td>e-audit system requirements for taxpayer accounting data processing elaborated.</td>
</tr>
<tr>
<td>Recommendations including new measures in accounting systems for large and medium size companies in the proper format for new e-audit software prepared, issued by regulating body (the Cabinet of Ministers of Republic of Azerbaijan)</td>
</tr>
<tr>
<td><strong>Assumptions (external to project)</strong></td>
</tr>
<tr>
<td>Recommendations adopted by the relevant government bodies (the Ministry of Taxes, the Ministry of Finances and the Ministry of Economical Development)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activity 6: E-audit practice starting from implementation in pilot scale will be implemented over most medium and large companies in light of step-by-step transformation of tax enforcement system to self-assessment by taxpayers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources of information</strong></td>
</tr>
<tr>
<td>Action plan prepared</td>
</tr>
<tr>
<td>The Project will prepare a report on results of pilot phase of e-audit implementation prepared</td>
</tr>
<tr>
<td>Legal basis for implementation of e-audit system recommended, accepted, and ready to be introduced</td>
</tr>
</tbody>
</table>

| **Benchmark** |
| Specific measures should be adopted and actions undertaken to support the development in large and medium companies of e-accounting with a format which is compatible with further processing by the e-audit software identified in Component II and e-accounting standards should meet the following criteria such as: |
| - Meet to international accounting standards |
| - Ensure easy extraction data and compatibility with e-audit software |
| - Storage of accounting and financial files in e-format according to law |

| **Assumptions (external to project)** |
| Recommendations adopted by the relevant government bodies (the Ministry of Taxes, the Ministry of Finances and the Ministry of Economical Development) |

| **Intervention Logic** |
| Determine appropriate methodology for system selected in Component II above, create standardized manuals. Conduct training of appropriate MOT personnel in methods to be used in all phases of the e-audit process |

| **Sources of information** |
| decree of Minister of Taxes of Republic of Azerbaijan. |
| Train -the -Trainer program prepared and delivered |
| Checking ability of trained auditors to apply e-audit software in selected case studies |

| **Assumptions (external to project)** |
| Written manuals in use of new e-audit system to insure standardized application of methods nationwide |

- Prepare action plan to implement e-audit in pilot scale |
- Begin implementation of pilot activities |
- Gather results of pilot phase to shape and refine full format implementation |
- Preparation action plan for full implementation |
- Ensuring implementation in line with EU member states and best international practice
Clarifications to columns in the table

Intervention Logic

OVERALL OBJECTIVE: Objective beyond the immediate scope of the project, to which the project contributes.

PROJECT PURPOSE: The immediate objective that will be entirely achieved through the implementation of the twinning project.

MANDATORY RESULTS: Results that will be achieved as a result of groups of actions within the project (limit this to 5-10 relatively high-level results).

ACTIVITIES: Numbered lists of Activities, each of them contributing to the achievement of one of the mandatory results.

Benchmarks

How will the achievement of the results at each level of the project (i.e. from Overall Objective down to Activities) be measured?

Make sure that the benchmarks always define the following:

1. Quantity
2. Quality
3. Target Group
4. Time
5. Place

Sources of Information

How will the Project partners and the administrative office know that the benchmarks have been met? For every level, list sources of information, (e.g. reports, surveys, Official Journal, Commission Regular Report).

The sources should be specified for each of the mandatory results and Activities.

Assumptions

Specify at each level the external conditions related to the project that must be fulfilled in order to guarantee its success.

The table should be read as follows: if these assumptions are fulfilled and the activities are carried out, then the relevant mandatory results will be achieved.

Draft Twinning Project Fiche -10.07.2007: “Support to Ministry of Taxes of the Republic of Azerbaijan to draft a Twinning project fiche in the field of Computer Assisted Audit system
## ANNEX 3. Indicative Detailed Implementation Chart / Time table

### Months

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