

**“Project on tax administration reforming”
Grant No. H810-TJ**

Financial statements

*For the year ended 31 December 2015
with independent auditors' report*

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Independent auditors' report

To the Management of the Project "Project on tax administration reforming"

We have audited the accompanying financial statements of "Project on tax administration reforming" (the "Project"), which comprise the statement of cash receipts and payments, the statement of funds by project components, the statement of applications, the statement of special account for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information (the "financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Grant Agreement No. H810-TJ between the Republic of Tajikistan and the World Bank, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2015 in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Grant Agreement No. H810-TJ between the Republic of Tajikistan and the World Bank.

Ernst & Young LLP

Paul Cohn
Audit Partner

30 June 2016

STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2015

In US dollars

	Notes	2015		2014	
		For the period	Cumulative	For the period	Cumulative
Cash balance as at 1 January					
Grant No. H810-TJ		806,770	–	1,145,863	–
Other income		1,006	–	–	–
Total balance as at 1 January		807,776	–	1,145,863	–
Funds					
Grant No. H810-TJ		2,942,769	4,242,769	–	1,300,000
Other income		1,642	2,648	1,006	1,006
Total funds received	6	2,944,411	4,245,417	1,006	1,301,006
Expenses incurred					
Goods, non-advisory services, trainings and seminars and additional operating expenses		(3,272,689)	(3,765,645)	(338,819)	(492,956)
Total expenses	5	(3,272,689)	(3,765,645)	(338,819)	(492,956)
Forex gain/(loss)		174	(100)	(274)	(274)
Cash balance at 31 December					
Grant No. H810-TJ		476,370	–	806,770	–
Other income		3,302	–	1,006	–
Total cash as at 31 December	4	479,672	–	807,776	–

Signed and approved for issue on 30 June 2016

Director

Solehzoda A.

Chief Accountant

Aminov N.

The accompanying notes on pages 5 to 8 are an integral part of these financial statements.

STATEMENT OF FUNDS BY PROJECT COMPONENTS

For the year ended 31 December 2015

In US dollars

<i>Project components</i>	<i>2015</i>		<i>2014</i>	
	<i>For the period</i>	<i>Cumulative</i>	<i>For the period</i>	<i>Cumulative</i>
Institutional development	325,754	407,862	60,266	82,108
Operational development	28,903	28,903	–	–
Information technology infrastructure modernization	2,542,418	2,639,826	48,124	97,408
Project management	375,614	689,054	230,429	313,440
Total expenses by components	3,272,689	3,765,645	338,819	492,956

Signed and approved for issue on 30 June 2016

Director

Solehzoda A.

Chief Accountant

Aminov N.

The accompanying notes on pages 5 to 8 are an integral part of these financial statements.

STATEMENT OF APPLICATIONS

For the year ended 31 December 2015

In US dollars

<i>Sources of financing</i>	<i>Applications</i>	<i>2015</i>	
		<i>Goods, non-advisory services, trainings and seminars and additional operating expenses</i>	<i>Total</i>
Grant No. H810-TJ	8	624,725	624,725
	9	198,822	198,822
	10	70,211	70,211
	11	79,642	79,642
	12	532,924	532,924
	13	608,822	608,822
	14	39,272	39,272
	15	788,351	788,351
Total		2,942,769	2,942,769

<i>Sources of financing</i>	<i>Applications</i>	<i>2014</i>	
		<i>Goods, non-advisory services, trainings and seminars and additional operating expenses</i>	<i>Total</i>
Grant No. H810-TJ	n/a	–	–
Total		–	–

Signed and approved for issue on 30 June 2016

Director

Solehzoda A.

Chief Accountant

Aminov N.

The accompanying notes on pages 5 to 8 are an integral part of these financial statements.

STATEMENT OF SPECIAL ACCOUNT

For the year ended 31 December 2015

In US dollars

Special account	Grant No. H810-TJ
Currency	US dollars
Bank account	22696840700068
Bank	National Bank of Tajikistan
Bank's location	23/2 Rudaki str., Dushanbe, Tajikistan

<i>Description</i>	<i>US dollars</i>
Balance as at 1 January 2014	1,141,313
Less: amount of eligible expenditures paid during the current period	(338,024)
Return of imprest to the special account	1,706
Balance as at 1 January 2015 (Note 4)	<u>804,995</u>
Reimbursement of expenses during the reporting period (Note 6)	1,621,494
Less: amount of eligible expenditures paid during the current period	(1,982,682)
Less: transfer to a treasury account in local currency	(5,827)
Balance as at 31 December 2015 (Note 4)	<u><u>437,980</u></u>

Signed and approved for issue on 30 June 2016

Director

Solehzoda A.

Chief Accountant

Aminov N.

In US dollars

1. General information

According to the Agreement between the Republic of Tajikistan and International Development Association (“IDA”) dated 14 November 2013, the IDA provided a Grant at the amount of USD 18,000,000 to the Republic of Tajikistan. The Grant was provided for modernisation and strengthening of tax administration to increase its efficiency and performance in providing services to general public of Tajikistan together with reducing the administrative barriers to private sector companies in discharging tax obligations.

The Grant was provided for implementation of Project on Tax Administration Reforming (hereinafter the “Project”).

Purpose of the Project

Project Development Objective (PDO) is the reforming of tax administration system to improve the efficiency of tax collection to increase the level of voluntary tax compliance and improve the quality of services to taxpayers. In particular, the Project is aimed at:

- (i) reduction of administrative expenses associated with tax collection to provide the Tax Committee operating efficiency;
- (ii) increase the efficiency of Tax Committee in fighting against tax evasion and reducing the shadow economy;
- (iii) reducing relationship between tax officials and taxpayers to reduce bribes opportunities and the creation of conditions to improve voluntary tax compliance;
- (iv) providing quality services to taxpayers, which will reduce the tax burden associated with tax compliance, thus contributing to improvement of business environment and competitive growth.

The Project comprises the following components:

Component 1. Institutional development

Institutional development enables the Tax Committee to develop and implement clear strategic plan, as well as to restructure provincial tax authorities subdivisions to increase the efficiency of the new automated environment. To achieve more efficient human resource management, Employees Information Database (EID) will be purchased, which will contain information about all employees, including the position, qualifications, place of employment, salary level, work period and attendance, performance measurement, additional payments and benefits, reports, recruitment, training, and will also have a self-service portal for employees and the ability to generate special messages or reports. Human resources development will be supported by strengthening the potential of the Institution of Advanced Training for tax inspectors, located in Dushanbe, formation of four regional accounting offices equipped by modern facilities and teaching aids, which will be able to provide distance learning, e-learning and e-testing. As a part of the Project, trainings programs will be developed to conduct regular courses for newcomers and officials with continuous record of service. Moreover, monitoring system for management will be developed that will allow evaluating the efficiency of the whole tax management system.

Component 2. Operational development

Strengthening the system related to execution of tax compliance is the cornerstone of effective tax management. This component will be based on modernization of business processes to increase efficiency of self-estimation system. As a part of this component, the capacity of Ministry of Finance as related to tax policy analysis will be increased; the skills of Tax Committee inspectors, especially the personnel of Large Taxpayers Inspection (LTI), will be developed in the sphere of audit and detection of tax fraud, mostly among large taxpayers; the potential of personnel as related to tax enforcement will be strengthened; internal controls and internal audit systems will be improved; taxpayers servicing system will be modernized by establishment of modern call processing center and help will be rendered in establishment of independent tax issues request system, as well as the database to track appeals.

In US dollars

1. General information (continued)

Purpose of the Project (continued)

Component 3. Infrastructure and system modernization

As a part of this component, information and communication technologies will be improved in Tax Committee to automate the process of daily tax declarations processing, calculation of taxes and desk check; implement automated risk management system and purchase Integrated Tax Management System (ITMS) that will support all business functions including: user interaction management system, processing of tax declarations, accounting, processing of payment documents, enforcement to meet the requirements (including tax enforcement and registration avoidance), objection and appeals, audit, risk evaluation, reporting preparation, document management, data and intellectual properties storage devices, electronic document management system and portal interface. One of the mandatory requirements is an ability to create new screen contents, generate reports and modify parameters used in the course of taxation and preparation of statements. In the course of implementation of this component, assistance will also be provided in creation of the center for processing and storage of primary and continuous data, which will be furnished with equipment, which is able to support such functions as ITMS, Integrated Management System (IMS) and EID. These events will enable to distribute information posted on the web site, provide the tax payers with an electronic access to tax information and promote voluntary tax compliance.

Component 4. Project management and change management

Implementation of this component will enable to improve the potential of the Tax Committee, which is necessary to ensure timely and quality implementation of the Project in accordance with the requirements of the governing documents of the World Bank. As a part of this component, finances will be allocated to hire several national consultants who will assist in procurements, management of the Project finances and technical implementation of other three components of the Project. The finances of this component will also be assigned to cover the current expenses associated with implementation of the Project.

Project management

The Project is implemented by the Project implementation group under the Tax Committee attached to the Government of the Republic of Tajikistan.

The Project validity period is from 7 February 2013 till 31 December 2017.

2. Basis of preparation

These financial statements are prepared in accordance with the International Public Sector Accounting Standard (“IPSAS”) *Financial Reporting under the Cash Basis of Accounting* issued by the Public Sector Committee of the International Federation of Accountants, and relevant profits of the Grant No. H810-TJ.

The Project’s approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These financial statements consist of:

- Statement of cash receipts and payments;
- Statement of funds by project components;
- Statement of applications;
- Statement of special accounts;
- Notes to the financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these financial statements is US dollars.

In US dollars

3. Summary of significant accounting policies

Cash method of accounting

Financial statements was prepared and presented based on cash method of accounting. Cash method of accounting is the accounting principle, according to which changes in the financial position of the entity are recognized only at the time when cash is paid or obtained. Financial statements prepared based on cash method presents information on the source of cash, cash use purposes and cash balances as at the reporting date. The key measurement in the financial statements is cash balance and cash changes.

Accounting for foreign currency transactions

Foreign currency transactions are initially recorded in the functional currency at the official rate of the National Bank of the Republic of Tajikistan (hereinafter, the “NBRT”) ruling at the transaction date.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate settled by the NBRT on a reporting date of financial statement.

All translation differences arising upon repayment or restatement of monetary items are included into the statement of cash receipts and disbursements.

Non-monetary items that are measured in terms of historical cost in a foreign currency are presented using the exchange rates as at the dates of the initial transactions.

In preparing financial statements, the following foreign exchanges rates to Tajikistan somoni set by NBRT were used:

31 December 2015	6.9902
31 December 2014	5.3079

Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits on current and interest bearing accounts.

Taxes

Calculation and payment of income tax from income of local employees and consultants as well as insurance payments to the Social Fund is carried out in accordance with requirements and rates as determined in the Tax Code of the Republic of Tajikistan.

Project expenses

Expenses are recorded in the period when they were actually paid.

Sources of funds

Financing of the Project is carried out by the IDA by replenishing special bank accounts or direct payment to the ultimate supplier of goods and/or services.

4. Cash and cash equivalents

As at 31 December, cash and cash equivalents comprise:

	<i>2015</i>	<i>2014</i>
Special account in foreign currency	437,980	804,995
Imprest amount in foreign currency	31,850	–
Transit account in national currency	5,828	1,775
Tender account in national currency	2,252	325
Tender account in foreign currency	1,050	681
Cash	712	–
Total	479,672	807,776

In US dollars

5. Project cumulative expenses

Project expenses on major categories are presented in the Statement of cash receipts and payments. Project expenditures on major components are presented in the statement of funds by project components. Project expenditures based on sources of financing are presented as following:

<i>Sources of financing</i>	<i>2015</i>		<i>2014</i>	
	<i>For the period</i>	<i>Cumulative</i>	<i>For the period</i>	<i>Cumulative</i>
Grant No. H810-TJ	3,272,689	3,765,645	338,819	492,956
Total	3,272,689	3,765,645	338,819	492,956

6. Funds

In 2015, financing was presented by the following reimbursement methods:

<i>Financing method / sources of financing</i>	<i>2015 Grant No. H810-TJ</i>
Reimbursement of expenses	1,621,494
Direct payments	1,321,275
Total	2,942,769

In 2014, financing was presented by the following reimbursement methods:

<i>Financing method / sources of financing</i>	<i>2014 Grant No. H810-TJ</i>
Reimbursement of expenses	–
Total	–

7. Undrawn funds

As at 31 December 2015 the undrawn part of Grant is equal to USD 12,365,947 (2014: 15,991,219 USD).

8. Legal cases

There were no legal cases relating to the Project.

9. Events after reporting period

On 24 February 2016 according to request #16 the World Bank provided funds in the amount of 240,923 US dollars.

On 5 April 2016 according to request #17 the World Bank provided funds in the amount of 44,600 US dollars.

On 29 April 2016 according to request #18 the World Bank provided funds in the amount of 377,913 US dollars.

In US dollars

Appendix 1. Reconciliation of the amounts provided by the project management unit and refunded by the World Bank

For the year ended 31 December 2015:

<i>Categories of expenditures</i>	<i>Applications</i>	<i>Tax Committee under the Government of the Republic of Tajikistan</i>	<i>World Bank</i>	<i>Variance</i>
Repayment of the advance	6	79,264	–	79,264
	7	28,636	–	28,636
		<u>107,900</u>	<u>–</u>	<u>107,900</u>
Grant No. H810-TJ	8	624,725	624,725	–
	9	198,822	198,822	–
	10	70,211	70,211	–
	11	79,642	79,642	–
	12	532,924	532,924	–
	13	608,822	608,822	–
	14	39,272	39,272	–
	15	788,351	788,351	–
Total		<u>2,942,769</u>	<u>2,942,769</u>	<u>–</u>

For the year ended 31 December 2014:

<i>Categories of expenditures</i>	<i>Applications</i>	<i>Tax Committee under the Government of the Republic of Tajikistan</i>	<i>World Bank</i>	<i>Variance</i>
Grant No. H810-TJ				
Goods, advisory services, including training, operating expenditures and audit	2	69,420	–	69,420
	3	84,721	–	84,721
	4	238,662	–	238,662
	5	81,248	–	81,248
Total		<u>474,051</u>	<u>–</u>	<u>474,051</u>