

**“Tax Administration Reform Project”  
Grant No. H810-TJ**

**The project financial statements  
for the year ended December 31, 2018**

**and independent auditors’ report**

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

The following statement, which should be read in conjunction with the independent auditors' responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the project financial statements of the Project "Tax Administration Reform Project", Grant No. H810-TJ (the "Project").

Management is responsible for the preparation of the project financial statements that present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

In preparing the project financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the project financial statements; and
- preparing the project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will continue its activity for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Republic of Tajikistan, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.

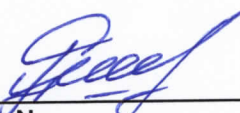
The project financial statements for the year ended December 31, 2018 were approved and authorized for issue on May 3, 2019 by the management of the Project.

On behalf of the Management:

  
**Solekhzoda A.**  
Director

May 3, 2019  
Dushanbe, Republic of Tajikistan



  
**Aminov N.**  
Chief Accountant

May 3, 2019  
Dushanbe, Republic of Tajikistan



## INDEPENDENT AUDITORS' REPORT

To the management of the Project "Tax Administration Reform Project" under the Tax Committee of the Government of the Republic of Tajikistan and the State Committee on Investments and Government Property Management of the Republic of Tajikistan:

### Report on the project financial statements

#### Opinion

- [1] We have audited the project financial statements of the Project "Tax Administration Reform Project" (the "Project") which comprise the summary of funds received and expenditures paid and the summary of expenditures paid by project components for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information (the "project financial statements").
- [2] In our opinion, the accompanying project financial statements present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

#### Basis for opinion

- [3] We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the project financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

- [4] Without qualifying our opinion, we draw attention to Note 2 to the project financial statements which describe the basis of accounting. These project financial statements were prepared for complying with the appropriate World Bank Guidelines and Financing agreement requirements.

#### Other matter

- [5] The project financial statements are prepared to assist the Project to comply with the requirements of the World Bank. As a result the project financial statements may not be suitable for another purpose.



**Responsibilities of management and those charged with governance for the project financial statements**

- [6] Management is responsible for the preparation and fair presentation of the project financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of the project financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibilities for the audit of the project financial statements**

- [7] Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit 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.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- [8] We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Baker Tilly Klitou and Partners*

**Baker Tilly Klitou and Partners SRL**

Chisinau, Republic of Moldova  
May 3, 2019




**"TAX ADMINISTRATION REFORM PROJECT"**  
**GRANT NO. H810-TJ**

**SUMMARY OF FUNDS RECEIVED AND EXPENDITURES PAID**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
*(in US dollars)*

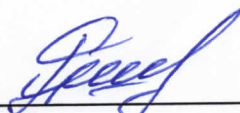
	Notes	For the year ended December 31, 2018	For the year ended December 31, 2017	Cumulative
Opening balance	4	649,280	1,255,723	-
<b>Funds received</b>				
Grant No. H810-TJ	5	1,933,127	575,977	10,267,282
<b>Total funds received</b>		1,933,127	575,977	10,267,282
Other income		191	2,675	9,870
<b>Total receipts</b>		1,933,318	578,652	10,277,152
<b>Project expenses</b>				
Goods, works, non-consulting services, consultants' services, training and incremental operating costs	6	1,874,642	1,184,330	9,567,551
<b>Total project expenses</b>		1,874,642	1,184,330	9,567,551
Foreign exchange loss		191	765	1,836
Other expenses		2,205	-	2,205
<b>Closing balance</b>	4	705,560	649,280	705,560

On behalf of the Management:

  
**Solekhzoda A.**  
**Director**

May 3, 2019  
Dushanbe, Republic of Tajikistan



  
**Aminov N.**  
**Chief Accountant**

May 3, 2019  
Dushanbe, Republic of Tajikistan

The notes on pages 7-12 form an integral part of the project financial statements. The independent auditors' report is on pages 3-4.




**"TAX ADMINISTRATION REFORM PROJECT"**  
**GRANT NO. H810-TJ**

**SUMMARY OF EXPENDITURES PAID BY PROJECT COMPONENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
*(in US dollars)*

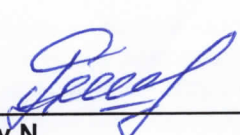
	For the year ended December 31, 2018	For the year ended December 31, 2017	Cumulative
Component 1: Institutional	-	688,147	1,938,464
Component 2: Operational	-	159,627	1,112,416
Component 3: ICT Infrastructure and system modernization	1,663,879	61,396	4,935,798
Component 4: Project management and change management	210,763	275,160	1,580,873
	<u>1,874,642</u>	<u>1,184,330</u>	<u>9,567,551</u>

On behalf of the Management:

  
**Solekhzoda A.**  
**Director**

May 3, 2019  
Dushanbe, Republic of Tajikistan



  
**Aminov N.**  
**Chief Accountant**

May 3, 2019  
Dushanbe, Republic of Tajikistan

The notes on pages 7-12 form an integral part of the project financial statements. The independent auditors' report is on pages 3-4.

**"TAX ADMINISTRATION REFORM PROJECT"**  
**GRANT NO. H810-TJ**

**NOTES TO THE PROJECT FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
*(in US dollars)*

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**1. GENERAL INFORMATION**

According to the Financing Agreement between the Republic of Tajikistan and International Development Association (the "IDA") dated November 14, 2012, the IDA provided a Grant No. H810-TJ in the amount of 11,900,000 Special Drawing Rights to the Republic of Tajikistan.

The Grant was provided for the implementation of the Project "Tax Administration Reform Project" (the "Project").

Effective date of the Project is February 7, 2013. Project completion date is December 31, 2019.

**Project purpose**

The objective of the "Tax Administration Reform Project" (the "Project") is to reform the tax administration in order to (i) enhance the level of voluntary compliance; (ii) strengthen the effectiveness of the Tax Committee to fight tax evasion, (iii) strengthen the institutional and human capacity in order to improve the professionalism of tax officials and reduce the avenues for corruption; and (iv) modernize the processes that would help reduce administrative cost for the government and compliance burden for taxpayers.

The Project comprises the following components:

- Component 1: Institutional development;
- Component 2: Operational development;
- Component 3: ICT Infrastructure and system modernization;
- Component 4: Project management and change management.

***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 (the "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 (the "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.



### **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 (the "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 (the "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 Management is implemented by the Project Implementation Unit (the "PIU") within the scope of the Tax Committee under the Government of the Republic of Tajikistan.

Duration of the Project is from February 7, 2013 till December 31, 2017. During 2017 the Project was extended till December 31, 2019.

## **2. PRESENTATION OF THE PROJECT FINANCIAL STATEMENTS**

### **Basis of preparation**

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis approach income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received or provided.

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 project financial statements consist of:

- Summary of funds received and expenditures paid;
- Summary of expenditures paid by project components;
- Notes to the project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these project financial statements is US dollars (the "USD").

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Cash basis of accounting

The project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the Project. The project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the project financial statements is balances of cash and changes therein.

#### Foreign currency

Operations in foreign currency initially are counted in functional currency by the currency exchange rate settled by the the National Bank of Tajikistan (the "NBT") on a date of operation.

Funds received are translated into US dollars at official exchange rate of Special Drawing Rights (the "SDR") at the date of funds receipt. All payments made in local currency are translated into US dollars at the official exchange rate defined by the NBT, at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the NBT.

All foreign exchange differences resulted from maturity or recounting are included in the summary of funds received and expenditures paid.

Non-monetary items are valued according to their historic cost in foreign currency, which are recalculated on rates of the initial operation date.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term. Balances of advances paid to employees at the end of the period are also part of closing cash position.

#### Taxes

Calculation and payment of personal income tax and social security contributions from income of staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Republic of Tajikistan and relevant legislation of the Republic of Tajikistan.

#### Project expenses

The expenses are recorded in the period when they were actually paid.

#### Sources of funds

The funds were provided by the World Bank to the Project by advance, replenishment of designated account or through direct payment to the end supplier of goods and/or services.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2018 and 2017 comprise:

	Currency	December 31, 2018	December 31, 2017
Designated account	USD	110,574	635,233
Tender account	USD	7,405	7,405
Transit account	TJS	586,653	446
Tender account	TJS	236	2,403
Advances paid to employees	USD	-	3,793
Cash on hand	USD	692	-
		<u>705,560</u>	<u>649,280</u>



## 5. FUNDS RECEIVED

The fund received are presented by the following financing methods:

	For the year ended December 31, 2018	For the year ended December 31, 2017	Cumulative
Reimbursement of expenses	386,854	575,977	5,036,668
Advance	758,400	-	2,640,350
Direct payment	787,873	-	2,590,264
	<u>1,933,127</u>	<u>575,977</u>	<u>10,267,282</u>

## 6. PROJECT EXPENSES

The Project expenses on major categories are presented in the statement of cash proceeds and disbursements. The Project expenses by components are presented in the statement of funds by project components. Breakdown of project expenses by nature is presented as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	Cumulative
Goods	1,664,228	547,598	5,924,082
Consultants' services	73,392	540,237	2,767,147
Payroll and related taxes	45,945	65,138	464,379
Trainings	70,854	13,514	282,717
Audit	8,824	6,000	34,512
Translation services	3,049	439	29,746
Business trip	571	8,416	21,654
Communication	6,370	-	14,085
Advertising expenses	162	1,021	8,576
Bank fees	761	1,341	7,575
Stationery	486	223	5,627
Postal services	-	-	1,663
Other	-	403	5,788
	<u>1,874,642</u>	<u>1,184,330</u>	<u>9,567,551</u>

## 7. FINANCIAL POSITION

Financial position as at December 31, 2018 and 2017 comprise:

	December 31, 2018	December 31, 2017
<b>ASSETS AND EXPENDITURES</b>		
Cash and cash equivalents	705,560	649,280
Cumulative expenses	9,567,551	7,692,909
Foreign exchange loss	1,836	1,645
Other expenses	2,205	-
<b>TOTAL ASSETS AND EXPENDITURES</b>	<u>10,277,152</u>	<u>8,343,834</u>
<b>FINANCING</b>		
Funds received	10,267,282	8,334,155
Other income	9,870	9,679
<b>TOTAL FINANCING</b>	<u>10,277,152</u>	<u>8,343,834</u>

## 8. WITHDRAWAL APPLICATIONS

Withdrawal applications for the year ended December 31, 2018 comprise:

Application n	Value Date	Advance payment	Direct payment	Goods, works, non-consulting services, consultants' services, training and incremental operating costs	Total
29	January 19, 2018	-	-	386,854	386,854
30	November 29, 2018	758,400	-	-	758,400
31	December 28, 2018	-	787,873	-	787,873
		<u>758,400</u>	<u>787,873</u>	<u>386,854</u>	<u>1,933,127</u>

## 9. STATEMENT OF DESIGNATED ACCOUNT

Statement of designated accounts for the year ended December 31, 2018 comprise:

<b>Bank</b>	National Bank of Tajikistan
<b>Currency</b>	US Dollars
<b>Bank account</b>	22696840500068
<b>Bank's location</b>	27/2 Rudaki str., Dushanbe, the Republic of Tajikistan
<b>Balance as at January 1, 2018</b>	<u>635,233</u>
Advance	758,400
Reimbursement of expenses	386,854
Transfer between accounts	<u>5,350</u>
<b>Total funds received to the designated account</b>	<u>1,150,604</u>
Expenses paid	1,650,805
Transfer between accounts	<u>24,458</u>
<b>Balance as at December 31, 2018</b>	<u><u>110,574</u></u>

## 10. UNDRAWN FUNDS

As at December 31, 2018 undrawn funds are presented as follows:

	<b>Grant No. H810-TJ in SDR</b>
Approved financing amount	11,900,000
Disbursed during the period from July 13, 2011 to December 31, 2018	<u>7,305,642</u>
Undrawn financing amount	<u><u>4,594,358</u></u>
Financing received as at January 1, 2018	5,923,553
Disbursed in 2018	<u>1,382,089</u>
Financing received as at December 31, 2018	<u><u>7,305,642</u></u>



## 11. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan.

Contract value of obligations valid as at December 31, 2018 was as follows:

Counterparty	Contract No.	Currency	Contract value	Paid up to December 31, 2018	Remaining amount to be paid
IUnetworks (Armenia)	TJTARP/G/ICB-09	USD	4,675,953	1,255,469	3,420,484
FG Group Ltd	TJTARP/G/NCB-07	USD	648,918	64,886	584,032
Vostok Ltd	TJTARP/G/NCB-06	USD	272,885	264,001	8,884

## 12. LEGAL CASES

There were no any legal claims related to the Project.

## 13. EVENTS AFTER THE REPORTING DATE

During 2019 until the date of issue of these project financial statements the World Bank provided financing to the Project as follows:

Financing method	Value Date	Application	Grant No. H810-TJ
Direct payment	March 29, 2019	32A	635,290
Reimbursement of expenses	April 18, 2019	33	845,443
			<u>1,480,733</u>

As at the date of issue of the project financial statements no other significant events or transactions occurred, except for the events or transactions described above.