



RISK BASED AUDIT CAPACITY NEEDS ASSESSMENT

REPORT

FINAL

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REPORT

FINAL

USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

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DELOITTE CONSULTING LLP

USAID/CAUCASUS

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DATA

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ABSTRACT

The Government of Georgia has recently approved a new Revenue Code, which went into effect January 1, 2011. The new Code introduced a new tax regime, allowing the State Revenue Service (SRS) many new authorities. In addition, the SRS and the Audit department have undergone a change in leadership as of January 2011, and are seeking to utilize this new vision and authority to conduct more effective audits. Although not utilized, many tools have recently been introduced into the Audit Department, such as risk based audit selection systems, Field Audit, and Large Taxpayer Inspectorate. As approximately half the population of Georgia is located in Tbilisi, the Tax Department is based mostly in Tbilisi, with regional Service Centers scattered around the country.

In an effort to address inadequate audit activities, the Tax Department has withdrawn field audit activities, conducting all audits as desk audits from Headquarters. The Tax Department has also eliminated the Large Taxpayer Unit, distributing the auditors among the many desk audit units at Headquarters. No audits are conducted from the regional Service Centers. Tax returns selected for audit activity are personally identified by the First Deputy Head of Tax Department, as he is unsure of the effectiveness of the Audit Selection System installed at the Revenue Service. All cases appealed from the Audit Department are personally reviewed by the First Deputy Head of Tax Department before being sent to the Appeals Department.

It is the desire of the Tax Department to begin anew with appropriate processes and procedures, organizational separation, and proper IT support. To this end a Risk Based Audit Capacity Needs Assessment was performed. Laws, background information, and reports of other advisory bodies were utilized. Interviews of Heads of Departments in key positions and business leaders were conducted to determine their vision of an effective, fair, and efficient Audit Department for Georgia. This report covers the entire Audit Department, and includes relations with and dependency upon Revenue Service Departments (such as IT or Human Relations).

ABBREVIATIONS

| | |
|-------|--|
| BPR | Business Process Review |
| GBCR | Georgia Business Climate Reform (USAID Project) |
| EU | European Union |
| HR | Human Resources |
| IFC | International Finance Corporation (World Bank) |
| ITD | Information Technology Department |
| LTI | Large Taxpayer Inspectorate |
| MoF | Ministry of Finance |
| RBA | Risk Based Audit |
| RS | Revenue Service |
| TD | Tax Department of the State Revenue Service |
| TIN | Taxpayer Identification Number |
| USAID | United States Agency for International Development |

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I. EXECUTIVE SUMMARY

The Revenue Service (RS) is committed to introducing Risk Based Audit, (RBA) but due to the recent introduction of a new tax law, the centralization of audit in headquarters, and turnover in personnel, the RS has recognized that now is the opportune time to design and introduce efficient and effective tax audit processes.

We realize the problems faced in the State Revenue Service are many, but the political will of the organization, not demonstrated in the past, must be constant and long lasting in order to make possible a successful evolution to a modern tax administration. Previous recommendations by international tax administration experts (World Bank, European Commission, IMF, and USAID) to assist the SRS have been introduced, but not fully implemented. In some instances, initiatives have even been reversed and radical approaches such as outsourcing audits have been considered. This is very troubling, highlighting the importance of ascertaining their political will to change the institution in an orderly, prioritized manner to implement our recommendations. For example: the installation of a Risk Based Audit Selection System, prepared in conjunction with EU and Georgia Business Climate Reform, and installed in 2006 is not being utilized. In addition, the Large Taxpayer Inspectorate has been disbanded, and Field Audits have been temporarily reassigned to Desk Audits. No Field Audits are conducted nationwide. Reinstitution of these initiatives will show determination to improve the Tax Department, and will require little assistance to accomplish.

In common with most functions in the Revenue Service, the Audit Department needs to be reorganized. There is no clear separation between policy operations to be carried out at Headquarters and field operations, such as desk audits and field audits. There is no effort to set out an annual Audit Plan, taking into consideration resource analysis, stratification of taxpayers according to size, and risk factors. Although available, the lack of managerial attention to such tools as benchmarking in revenues assessed, cases closed, insufficient coverage, resource allocations, work measurement, strategic planning, etc. is worrisome.

Based on our analysis of the activities of the Audit Department, the following recommendations are offered:

- Structure and Organization of the Audit Department:
 - Reorganization of the Tax Audit Department to clearly separate policy from operational responsibilities.
- Human Resources
 - Hiring practices, personnel issues such as position descriptions, promotion practices, and performance evaluations should be created and discussed with the employees on a periodic basis, providing clarity of expectations and performance. Payroll issues such as pay, bonus, quotas and other incentives must be documented and discussed with the employee
 - We recommend that a curriculum be developed for training all employees, managers and new auditors alike, along with continuous and specialized training for their career path.
- Risk Based Audit Ranking System

- All newly instituted audits must be selected on the basis of the risk ranking. Results of audits must be used to test the validity of the risk score and the RBAR system
 - The risk criteria should be refined through an annual assessment performed by the Audit Department. This activity should be performed before the annual risk revision that leads to Audit Planning and Resource Allocation (mentioned below).
- Field Audit
 - Reinstitute Field Audits, utilizing Risk Based Audit Selection System upon a stratified inventory, and appropriate field audit techniques as specified in the Audit Manual recommended in Article 7.
- Large Taxpayer Inspectorate:
 - RS institutes the Division of Special Cases (LTI) and resume activity of auditing the largest taxpayers.
- Audit Planning and Resource Allocation
 - At Tax Department Headquarters, (policy level), place responsibility to set out strategies for audit within a risk based compliance program that supports voluntary compliance by taxpayers.
 - This department will establish responsibility for inventory (case) analysis, resource analysis and audit planning and determine coverage of taxpayers selected for audit within each strata of taxpayers.
- Audit Procedures and Audit Manual
 - Conduct a thorough business process analysis of the current audit processes, formulate new processes including recommendations from a tax audit expert, as appropriate, for best practices and adherence to international auditing standards and procedures.
 - Prepare an Audit Manual for Large Taxpayer, Field Audit and Desk Audit procedures using new processes.
- Management Tools:
 - Management Tools should be refined and utilized to manage resources and results.
 - Targets and baselines must be identified to assist operational Managers to accomplish those goals set out in the resourced audit plan.
 - Training in use of management tools
- Tax Administration Advisor
 - Oversee proper sequencing of assistance
 - Ensure institutionalization of products and training

Recommended Next Steps for Audit Department:

- Demonstrate political will to implement recommendations by reinstating use of Risk Based Audit Selection System, Large Taxpayer Inspectorate, and Field Audits
- Once completed and approved, institutionalize new audit processes and procedures, including creation of a proper annual audit plan
- Utilize management reports to best focus resources and measure effectiveness
- Institute Training Center with curriculum to meet needs of Tax Department

Recommended EPI Project Actions

- These recommendations will require long-term coordination assistance from a tax administration expert, as well as several short term specialized tax guidance
- Support recommendations to greatly enlarge assistance to Revenue Service with separate Project or, at a minimum, a separate component
- See action plan that lays out the time lines needed to implement these recommendations (“Appendix B: Additional Information”).

II. APPENDICES

A. FINDINGS AND RECOMMENDATIONS

B. ADDITIONAL INFORMATION

A. FINDINGS AND RECOMMENDATIONS

STRUCTURE AND ORGANIZATION OF THE AUDIT DEPARTMENT: ROLES AND RESPONSIBILITIES CLEARLY DEFINED

- 1.0 Significant changes were made to the audit function by gathering all field and LTI audit activity into the headquarters Audit department without providing a clear separation of Headquarters policy and direction. Although customs audits are now included those activities will be addressed in a separate report.
- 2.0 Operational activities are currently dominating the Audit Department to the preclusion of policy guidance. Involvement of policy personnel into operations does not clearly separate policy or procedural responsibilities from execution activities. The Head of the Audit Department and the Deputy Head are involved in selecting cases for audit without reference to the Risk Based Audit (RBA) selection scoring lists, receiving cases for audit activity and assigning those cases to the Divisions. The Deputies are also personally involved in quality review of appeal cases.

Although there is a Mission Statement on the Ministry of Finance website, which does include some particular objectives for the Revenue Service, in general plans lack specific targets or measures and have open timescales. There does not appear to be any department that sets goals or performance measures. Within the RS, there is no resourced Audit Plan and a properly stratified case inventory, which would meet the overarching Mission Statement of the Ministry of finance. Results are monitored but not measured against targets, baselines, or goals.

The Main Legal Division does create audit procedures; however, they pertain to specific cases, rather than guidance requiring auditor judgment. Use of these procedures is not mandatory, although they are provided by electronic means to the auditors.

All hiring, training, and human resource and Information technology issues are handled by the RS. These activities directly impact the quality and skills of auditors, which will be discussed later in this report.

ISSUE

Policy decisions, strategic planning, creation of an annual audit plan based on available resources and their allocation to a stratified inventory of cases, creation of manuals for standardized procedures, quality review activities should be the responsibility of the Head of Department and the Deputies. This is not done as managers are all involved in operational activities.

Separate operational divisions should carry out audits and deal with the public according to the policies and procedures set by the appropriate headquarters departments, and approved

by Head of Department and Deputies. This is not done, with audits, etc., being carried out at Headquarters by policy level personnel.

Suggestions by international donors for a functional organization, including a Strategic Planning Department and a Change Management Unit (CMU) previously provided to the RS and the Audit Department have not been instituted. The current organizational structure does not clearly separate these roles.

RECOMMENDATION

Reorganization of the Tax Audit Department to clearly separate policy from operational responsibilities.

HUMAN RESOURCES

Currently, auditors are from diverse backgrounds, which may or may not include law or accounting. There are no position descriptions, no performance standards or evaluation, no promotion criteria. All bonuses and promotions are purely subjective.

Initial training is given to all employees, where they study tax law. These trainees become Auditor Assistants and they will shadow experienced auditors for a period. All assistant are tested, some pass and a few fail to become auditors.

There is no curriculum for audit training or defined career path to become a senior or chief auditor.

ISSUES

There are two issues: 1) position descriptions and evaluations, pay and incentives, and 2) training.

Lack of written position descriptions, written guidelines for bonus payments and promotion standards is not best practice; clarity of expectations and standards helps employees and managers charged with personnel decisions.

Lack of quantified evaluation guidelines or promotion standards leads to informal selections based on a manager's judgment. This is purely subjective and not best practice.

Lack of clarity on incentive awards can be a disincentive to those not receiving them if the basis of bonus is purely subjective.

RECOMMENDATIONS

Hiring practices, personnel issues such as position descriptions, promotion practices, and performance evaluations should be created and discussed with the employees on a periodic basis, providing clarity of expectations and performance. Payroll issues such as pay, bonus, quotas and other incentives must be documented and discussed with the employee

Lack of formal classroom specialist training leads to lack of professionalism in performance of duties and could risk placing auditors into fields where they are not prepared (banking, hospitals, law, etc.).

Lack of continuing education to explain law changes etc., for each discipline is also worrisome.

We recommend that a curriculum be developed for training new auditors along with continuous and specialized training for their career path.

RISK BASED AUDIT RANKING SYSTEM

The EU recently created a computerized selection system for audit that ranks taxpayers according to risk of error. A score is determined for each taxpayer. All taxpayers are then ranked in order of risk. The purpose of ranking list is to identify taxpayers who are most likely to have made an error, and guide audit selection. The Administrative Division of the RS (located outside the audit function) is currently producing ranked lists to guide the Audit Department in the selection of taxpayers for audit. It does not appear that the Audit Department uses the list of selected taxpayers in a focused way. Instead, the Deputy Head of Department personally selects returns for audit and assigns them to Audit Divisions for action. The Audit Department is involved in creation and refinement of the selection criteria but it does not trust the program.

ISSUES

The Risk Based Audit Ranking System is currently not fully utilized by the Audit Department because of distrust of the criteria used to produce risk scores. No effort has been made to validate the criteria used and institutionalize the process.

RECOMMENDATIONS

All newly instituted audits must be selected on the basis of the risk ranking. Results of audits must be used to test the validity of the risk score and the RBA system. The risk criteria should be refined through an annual risk assessment performed by the Audit Department. This activity should be performed before the annual risk revision that leads to Audit Planning and Resource Allocation (mentioned below).

FIELD AUDIT

As stated above, no regular field audits are currently being performed in Georgia. All Field audit activity in the surrounding offices in the country has ceased. All audits are now conducted out of the Headquarters offices as Desk Audits. This is a recent initiative and the RS plans to resume Field Audit operations as soon as proper Audit Manuals and procedures are in place. The pace of reintroduction of Field audit will be slow, as qualified auditors are identified, and proper procedures are outlined. Two field audits have recently been started. The rationale for discontinuing field audits was the lack of adequate manuals, proper audit techniques, and the opportunities for corruption. It is felt that this action has greatly curbed those opportunities.

ISSUE

Lack of audit coverage outside Tbilisi and of the businesses in Tbilisi by Field Auditors ignores the benefits of observation by auditors of business practices, assets, and lifestyle of the taxpayer, removing an opportunity to detect additional tax due. This also leaves a large segment of taxpayers without coverage and therefore without the presence of the RS which in itself is a deterrent to tax evasion.

RECOMMENDATION

Recommendations include reinstating Field Audits, utilizing Risk Based Audit Selection System upon a stratified inventory, and establishing appropriate field audit techniques as specified in the Audit Manual recommended in Article 7.

LARGE TAXPAYER INSPECTORATE

In most countries worldwide, the largest 20% of all taxpayers contribute roughly 80% of revenues. This principle is helpful in allocating and targeting audit resources to assure the bulk of the revenue. IMF and OECD research back up this principle. Therefore, the main audit activity and focus should be on the largest taxpayers, and Large Taxpayer Inspectorates should be created to provide total coverage of that segment of taxpayers. .

Although once operational, the LTI has been disbanded; the auditors have been distributed to other audit divisions in Headquarters offices and are reduced to performing the document matching duties of a Desk Audit. There are plans to re-create this unit, calling it the Directorate of Special Cases. The stated purpose of that Directorate is to audit the largest taxpayers in the country. The Directorate now appears on organization charts but there is no office space allocated or personnel assigned.

ISSUE

The majority of cases audited appear to be smaller cases, producing small amounts of revenue. Audit activity is, therefore, not focused on those largest or riskiest taxpayers who will produce the most revenue.

RECOMMENDATION

It is our recommendation that the RS institutes the Division of Special Cases (LTI) and resume activity of auditing the largest taxpayers.

AUDIT PLANNING AND RESOURCE ALLOCATION

Currently, there does not appear to be an effort to plan audit coverage according to a stratified (or segmented) and fully resourced plan.

The RS does possess tools to accomplish case stratification, resource allocation, and planning using the risk ranking. Audit planning should include analysis of resources as well as inventory. Inventories of cases should be stratified at the headquarters level according to risk or size. Coverage of each group or level then can be determined utilizing what resources are available, concentrating most audit activity at the top of the strata to ensure maximum revenue. All strata should have some audit coverage to maintain presence at all levels of economic activity to prevent and deter fraud or evasion.

The Risk based Audit Selection System, although operational does not appear to be fully utilized. Currently, audit selection is subjective and not constrained. This manual selection of audits has produced a disproportionate and inappropriate number of audits of small to medium taxpayers and at the same time a lost opportunity to detect additional revenue

Best practice mandates that taxpayers should be stratified according to risk or size of entities. The largest 20% of taxpayers in any country will produce 80% of revenue. Thus, the lowest 80% of taxpayers will not produce sufficient tax to warrant intense activity in those strata of taxpayer. This is borne out in this country by statistics gathered by the World Bank for 2009: Large Taxpayer Inspectorate collected 50% of revenues while Tbilisi Regional

Center collected an additional 35%. The remaining population of taxpayers could be stratified into medium size taxpayer and smaller taxpayers each producing correspondingly smaller revenue. The current practice to target lower strata of taxpayers results in less tax and is often seen as harassment, producing ripple effects of ill will.

Risk Management, as practiced worldwide, is the concept of identification of risks of underpayment of taxes, and utilizing resources in order to maximize revenue. It is the practice of gaining the most revenue for the least cost, and it is not done haphazardly or subjectively. It also meets the fundamental objective of ensuring compliance through the delivery of targeted programs for services and enforcement.

ISSUES

Planning is critical, with audit activity concentrated within those largest taxpayers known to produce revenue with coverage of the remaining strata reduced accordingly. The responsibility for planning and the ability to stratify and analyze inventory (cases available for audit) including the use of the Risk Management Selection System as a tool, compare with resources available to perform those audits does not appear to operate under these principles at the Tax Department.

RECOMMENDATIONS

It is recommended to place responsibility at Tax Department Headquarters, (policy level) to set out strategies for audit within a risk based compliance program that supports voluntary compliance by taxpayers. Responsibility should be established for inventory (case) analysis and audit planning at the Tax Department Headquarters, which will determine coverage of taxpayers selected for audit within each strata of taxpayers.

AUDIT PROCEDURES AND AUDIT MANUAL

There are currently three levels of audit at the Audit Department: Large Taxpayer Inspectorate, Field Audit, and Desk Audit. Basic operational procedures do exist, but there is no Audit Manual to guide the auditors in their work, only specific audit examples. As a result, audits are conducted inconsistently, and penalties are applied indiscriminately with no regard to circumstances or gravity. These penalties are the most common reason for disagreement and appeals. The Head of Audit Department is frustrated at the lack of standards and guidance to auditors, which would: 1) ensure uniform treatment of taxpayers and 2) adhere to auditing and accounting best practice. Accordingly, the Audit Department has decided to abandon the LTI and to temporarily cancel all Field Audits because of this disarray and the possibility of corruption in such an environment. At present, all audit activity is reduced to a desk audit; no audits are conducted outside of the Tbilisi headquarters. Records are seized from taxpayers, brought to headquarters to be input into a database, and then the records are sent to auditors who try to match records (documents) and who can inspect the taxpayer records if necessary. Although it does appear that corruption has been largely controlled, hardships are incurred by the business community and by employees alike by these auditing practices. For example, the Revenue Service is seen as oppressive with “surprise audits,” seizure of books and records, long delays in closing audit activity, closing businesses, and even taking company officials to jail, mostly within the small – medium strata of taxpayers. The function of Quality Review of cases is not performed unless the case decision is appealed, and then it is performed by the First Deputy of the Audit Department.

The situation has resulted in boxes and bags of taxpayer records piled in corridors and around desks of auditors, with field auditors staying in the office to perform desk audits, and

with the Large Taxpayer auditors, who are the most highly trained employees being scattered among the several Audit Divisions, also consigned to desk audit activity.

It is acknowledged that significant effort will be needed to properly document processes and map current processes, eliminate duplications, level the number of approvals necessary, establish routing of casework, compare this map to best practices, and prepare manuals providing standardized instructions. The RS has requested assistance in documenting work processes to create an effective and efficient Audit Department, and in creating an Audit Manual to guide auditors in their work. The RS wants to begin this activity as soon as possible.

Efforts are underway to create an automated audit tracking system, which will allow capture of time, review of case on line by managers, creation of decision letters, etc. This is not yet operational, but is planned.

The RS is considering outsourcing a business process review of the actions taken in the conduct of a tax audit (all levels – Large Case, Field, and Desk) and the resulting creation of an audit manual for each level. This action is being considered by large accounting firms in Georgia.

The RS is further discussing with professional accounting firms the possibility of outsourcing audit work, effectively making them an arm of the government.

ISSUE

No audit manuals exist which proscribe appropriate actions to be taken in conducting a tax audit. No guidance is given to document the path of the audit process from beginning to end, (assignment to groups, assignment to auditors, planning process of the audit including identification of specific issues or purpose of the audit), standardized audit reports setting out the issue examined, taxpayer position, conclusions, and tax consequences. Neither are prescribed pathways defined to determine how the Audit Department would proceed from assignment of a case through audit, to review, to closure, and audit techniques for specific industries are lacking.

The Tax Department is sensitive to the lack of training in audit techniques, which has led to the alarming decision of disbanding Field Audits and Large Taxpayer Inspectorate. The Tax Department urgently requests assistance to document processes and train auditors in proper professional audit techniques.

Should the RS outsource the business process analysis and creation of an audit manual to local professional accounting companies, this action would be welcomed. If this analysis and creation of a manual is not outsourced, it is still critical that the RS create them in order to resume proper audits using proper methods and consistent procedures.

Although considered by many other countries, outsourcing of the client-facing activity of audit has been determined to have grave considerations of disclosure, privacy, attest issues, legal issues, confidentiality, access to government data, etc. Rigid ethical and integrity standards of professional accounting firms prohibit assuming the audit function of a tax department because of all the problems listed above. In addition, the burden of taxpayers to pay the large hourly fees of the professional accounting services is enormous, and would harm the business environment. These issues should be carefully considered by the Revenue Service.

RECOMMENDATIONS

Recommendations include conducting a thorough business process analysis of the current audit practices including recommendations from a tax audit expert, as appropriate, for best practices and adherence to international auditing standards and best practice for processes. An audit manual should also be prepared for Large Taxpayer, Field Audit and Desk Audit procedures.

MANAGEMENT TOOLS

Best practice dictates that management tools include periodic gathering of performance data for each operational unit, function, directorate and the entire administration. This data is important as it allows managers at all level to review time utilization and achievement against plans and performance measures. For audit, this would cover the number of open cases, news cases, and closed cases along with, time spent, revenue assessed, and reason for assessment.

There are several tools currently available to Management to assist in managing inventory of cases and personnel. There are monthly reports specifying revenue collected and number of cases closed.

In the past the LTI captured time per audit, documented daily by the auditors. Today, time utilization of the auditor and time per case is not documented. Also critical is inventory management by group and stratification. This is not performed, goals are not set for each stratum, nor are coverage and duration targets set. Benchmarks need to be set for duration, revenue assessed, and time expended.

ISSUE

It is important to target resources to the areas of greatest risk secure additional revenue for the least cost. Best practice would dictate that cost of auditing, which includes time, size and risk be considered to target those taxpayers who will produce the largest amount of tax. Larger taxpayers should have higher coverage than smaller taxpayers. Due to the lack of performance targets and expected revenue outcome for each stratified group, these commonly practiced and proven rules are not observed in Georgia, and revenue is not assessed at the most least to the government.

Utilizing Tax Department 2010 data, 777 cases were closed consisting 64 desk audits, 470 planned audits, and 243 special audits, which included surprise audits. The Tax Department used approximately 300 auditors, who were normally working in teams with an assistant and an official. Thus, three people were used when one would do. If we consider productivity, each auditor only produced 2.59 cases in a year, which covered all types of audits.

Using the same data, there were several statistical outliers (spikes in data that are not normal or normally recurring results) that should be analyzed. Normal activity, not considering those outliers show unsurprising results.

| | |
|------------------------------------|-------------|
| Total revenue assessed for 2010: | 427,783,052 |
| Revenue Assessed without outliers: | 107,957,585 |
| Of those, | |
| Special cases completed: 243 | 63,300,070 |

| | | |
|-----------------------|-----|------------|
| Tax per case: 282,590 | | |
| Planned Audits: | 310 | 43,046,303 |
| Tax per case: 138,859 | | |
| Desk Audits: | 15 | 1,591,212 |
| Tax per case: 106,081 | | |

That coverage is dismal, and revenues were missed by failing to fully use resources and require greater production.

Recommendations

Management Tools should be refined and utilized to manage resources and results. Targets and baselines must be identified to assist operational Managers to accomplish those goals set out in the resourced audit plan. In addition, training in the use of revised management tools should be given.

B. ADDITIONAL INFORMATION

LIST OF DOCUMENTS REFERENCED

| Year of Document | Title of document, Author |
|------------------|--|
| 2010 | Order N 248 of the Minister of Finance, On approving the Regulations of the Revenue Service, a Legal Entity of Public Law |
| | USAID Business Climate Reform Final Report |
| 2009 | Fiscal Blueprint 2009 for Georgia Tax Administration, European Union |
| 2010 | Georgia - Diagnostics and Needs Assessment of the Revenue Administration World Bank |
| 2011 | Audit Department Regulations |
| 2011 | Field Audit Program guidelines |
| 2010 | Tax Code |
| 2009 | Georgia Business Climate Reform |
| 2011 | Georgia Pocket Tax Guide |

LIST OF PERSONS INTERVIEWED

| Name | Organization | Role |
|----------------------|---------------------|--|
| Rezo Ormotsadze | USAID | EPI Project Deputy COTR |
| Steve Wade | EPI Project | Chief of Party |
| Chris Thompson | EPI Project | BEE Component Leader |
| Natalia Beruashvili | EPI Project | BEE Component Deputy Leader |
| Jaba Ebanoidze | Revenue Service | Head |
| Lili Begiashvili | Revenue Service | Deputy Head |
| Paata Kiladze | Revenue Service | Head of Audit |
| Georgi Areshidze | Revenue Service | 1 st Deputy Head of Audit |
| Valeri Tukhareli | Revenue Service | Head of Audit Operations |
| Teimuraz Tsertsvadze | Revenue Service | Head of Legal Division |
| Roman Chkhenkeli | Revenue Service | Head of Administrative Division |
| Irakli Gvaramadze | Revenue Service | Head of the Main Audit Department |
| Zviadi Chunashvili | Revenue Service | Head of Division of Enforced Collection |
| Givi Chanukvadze | Revenue Service | Head of international Relations & Project Development Division |
| David Tomadze | Ministry of Finance | Head of Office of Tax Appeals |
| Giorgi Pertaia | Ombudsman | Senior Advisor to Prime Minister |
| Nicole Jordania | AmCham | Acting Executive Director |

| Name | Organization | Role |
|---------------------|---------------------------------|---|
| Ted Jonas | AmCham | Tax and Investment Committee |
| George Asatiani | Business Association of Georgia | Executive Director of BAG |
| Andrew Coxshall | KPMG | Managing Partner |
| Kaha Rukhadze | KPMG | Tax Division Manager |
| Zurab Lalazashvili | BDO LLC | Managing Partner/ Accountants and Auditors Federation |
| Giorgi Kverkheldize | BDO LLC | Tax Manager |
| Katevan Abuseridze | BDO LLC | Tax Manager |
| Zviad Lobjanidze | BDO LLC | Senior Tax Specialist |
| Mary Daushvili | Revenue Service | Deputy Head of Administrative Department |
| Mamuka Lashkhia | Revenue Service | Head of Risk Management Division |

AUDIT DEPARTMENT ACTION PLAN

| AUDIT DEPARTMENT | Action Name | Action Type | Duration | Start Date | End Date | Con or CONe | Name (if known) |
|--|-------------|-------------|----------|------------|------------|-------------|---|
| 1.0 Structure and Organization of Tax Department/ Roles and Responsibilities | | STTA | 20 | 7/1/2011 | 8/1/2011 | CONe, CON | TBD |
| 2.0 Human Resources/ Staff Development | | | | | | | |
| 2.1 Human Resources/position descriptions, bonus and promotion criteria, etc. | | STTA | 40 | 8/1/2011 | 10/1/2011 | CONe, CON | TBD |
| 2.1.1 Workshop for managers in staff appraisals | | STTA | 3 | 10/2/2011 | 10/5/2011 | CONe, CON | TBD |
| 2.2 Staff Development/Training needs assessment - Audit Department | | STTA | 30 | 5/1/2011 | 6/15/2011 | CONe, CON | TBD |
| 2.2.1 Audit Curriculum Development | | STTA | 9 | 6/15/2011 | 7/1/2011 | CONe, CON | TBD |
| 2.2.2 Curriculum Workshop | | STTA | 1 | 7/1/2011 | 7/1/2011 | CONe, CON | TBD |
| 3.0 Risk based audit ranking | | | | | | | |
| 3.1 Program exists, Ensure program is being used in Audit Department | | STTA | 2 | 7/1/2011 | 7/2/2011 | CONe | TBD could be same as LTI or field audit expert, done in conjunction with other work |
| 3.2 Assist in evaluation and refinement of ranking program | | STTA | 8 | 11/1/2011 | 11/15/2011 | CONe | TBD |

| AUDIT DEPARTMENT | Action Name | Action Type | Duration | Start Date | End Date | Con or CONe | Name (if known) |
|--|---|-------------|----------|------------|-----------|-------------|--------------------------------------|
| 4.0 Field Audit | | | | | | | |
| | 4.1 Activity recently curtailed: ensure Tax Department reinstates activity | STTA | 5 | 7/7/2011 | 7/14/2011 | CONe, CON | TBD, could be the same as LTI expert |
| 5.0 Large Taxpayer Inspectorate | | | | | | | |
| | 5.1 Develop methodology of LTI | STTA | 20 | 7/14/2011 | 8/1/2011 | CONe, CON | TBD |
| | 5.2 Create training module on methodology | STTA | 10 | 8/1/2011 | 8/15/2011 | CONe, CON | TBD |
| | 5.3 Training(Workshop) in Methodology | STTA | 5 | 8/15/2011 | 8/5/2011 | CONe, CON | TBD |
| 6.0 Audit Planning and Resource Allocation | | | | | | | |
| | 6.1 Assist in creation of Annual Audit Plan | STTA | 20 | 8/1/2011 | 9/1/2011 | CONe, CON | TBD |
| | 6.2 Audit Planning and Resource allocation Workshop | STTA | 3 | 9/1/111 | 9/4/2011 | CONe, CON | TBD |
| | 6.3 Develop methodology for allocating cases and resources to groups. Define IT solutions | STTA | 15 | 9/5/2011 | 10/1/2011 | CONe, CON | TBD |

| AUDIT DEPARTMENT | Action Name | Action Type | Duration | Start Date | End Date | Con or CONe | Name (if known) |
|---------------------------------------|---|-------------|----------|------------|------------|-------------|-----------------|
| | 6.4 Evaluate results of Risk Based Audit Selection System, refine selection criteria using results of actual audits | STTA | 15 | 11/1/2011 | 11/21/2011 | CONe, CON | TBD |
| 7.0 Audit Procedures and Audit Manual | | | | | | | |
| | 7.1 Detailed business process analysis and preparation of new process using best practice | STTA | 120 | 5/1/2011 | 11/1/2011 | CONe, CON | HICSD |
| | 7.2 Develop Audit Manuals based on new process | STTA | 60 | 1/1/2012 | 3/1/2012 | CONe, CON | HICSD |
| | 7.3 Provide workshop in creation and update of Audit Manuals | STTA | 5 | 3/1/2011 | 3/5/2011 | CONe, CON | HICSD |
| | 7.4 Develop 2 trade sector specific guidance chapters, to be approved by RS. Incorporate audit technique modules prepared by local expert | STTA | 60 | 5/1/2011 | 7/1/2011 | CONe, CON | HICSD |
| | 7.5 Develop training modules in preparation of Audit Manuals , conduct workshop | STTA | 20 | 11/1/2011 | 12/1/2011 | CON | HICD |

8.0 Management Tools

| AUDIT DEPARTMENT | Action Name | Action Type | Duration | Start Date | End Date | Con or CONe | Name (if known) |
|------------------|--|-------------|----------|------------|------------|-------------|------------------|
| | 8.1 Develop baselines, case assignment mechanisms, time expended and time in process measurements, etc. | STTA | 40 | 10/1/2011 | 12/1/2011 | CONe, CON | TBD + Neli Baeva |
| | 8.2 Workshop to teach Managers use of new reports (2 days + prep) | STTA | 10 | 12/1/2011 | 12/15/2011 | CONe, CON | TBD |
| | | | | | | | |
| 9.0 | Tax Administration Change Management Expert | | | | | | |
| | 9.1 Tax Administration official with broad experience to oversee, and properly sequence the assistance delivered. Ensure institutionalization of methods and practices | LTTA | 240 | 7/1/2011 | 7/1/2012 | CONe | TBD |

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