**Summary of the audit report: Effectiveness of the Tax Administration of the Republic of Slovenia in the execution of modernisation of the Slovenian duties collection information system and decreasing the number of duty sub-accounts**

The Tax Administration of the Republic of Slovenia (hereinafter: the Tax Administration) is responsible for collecting taxes, fees and other compulsory levies (hereinafter: duties). These are the revenue of the state budget, municipal budgets, the Health Insurance Institute of Slovenia, the Institute for Pension and Disability Insurance of Slovenia (hereinafter: duties recipients) and indirectly of the European Union budget. In order to improve its operations, the Tax Authority decided to modernise the Slovenian duties collection information system. It used this opportunity to implement also a second project aiming at lessening taxpayers’ administrative burdens by decreasing the number of duty sub-accounts.

In a performance audit of these two projects the Court of Audit of the Republic of Slovenia (hereinafter: the Court of Audit) has established that in the period between 1st of January 2007 and 16th of April 2014 (hereinafter: the audited period) the Tax Administration had not been effective in managing either of the projects.

The modernisation of the Tax Authority’s duties’ collection information system had brought about some improvements and had also enabled implementation of the second project - decreasing the number of government duty sub-accounts. Despite these successes, the combined projects of modernisation and decreasing the number of duty sub-accounts, had created severe difficulties for the Tax Authority, the taxpayers, duties recipients and other stakeholders.

The initial investment documentation for the project of modernising the duties collection information system was compliant with regulatory requirements however it was not possible to ascertain the soundness and the validity of some of its assumptions.

On the basis of public procurement procedures conducted in 2009, the Tax Authority acquired the new duties-collection information systems for the amount of 21,516,000 euros. Later on it had signed a few annexes to the original contract in the total amount of 1,919,601 euros or 76.5 percent of the original contract value. Additionally in 2012 and 2013 the tax authority had contracted 3,168,943 euros worth of maintenance and development services from one other contractor and had paid out 1,206,617 euros or 38.1 of the initial project value by the 31st of December 2013.

The Tax Authority had finished the first of the three planned phases of the duties collection information system modernisation, including information system support for the value added tax collection, central tax accounting, taxpayer relationship management and management of taxation related infringements (penalties and the dunning, duties’ collection enforcement management). Additionally the Tax Authority had developed information system support for a newly introduced tax on high-value real-estate and made preparations for future support of a planned general real-estate tax, neither of which the Tax Authority could have had foreseen or planned for. The Tax Authority had planned to finish the modernisation of information support for collection of other types of duties and for tax inspection by the end of 2013, but it had suspended the project in May 2012. By the end of the audited period, the Tax Authority had neither a formalised plan nor a cost estimate for completing the project of modernising the duties collection information system, despite its enormous importance to the revenues of the duties recipients.

The initial documentation for public procurement had contained several functionality requirements, which had not been implemented or were implemented but not in use. On the other hand even before the first phase of the project was finished and the initial version of the duty information system was ready for operation, the Tax Authority had paid for several licences and additional functionalities it had not originally planned. Some of these additions were due to legislative changes that could not have been foreseen, but for some of them there was a risk they were not justified. Additional licences and functionalities, some of them implemented even before the duty information system had gone into operation, had contributed to the project costs increase.

Suspension of the project incurs additional costs on the Tax Authority, which is now paying licence fees and maintenance for the new duties collection information system as well as licence fees, maintenance and even additional development of existing information solutions, which it planned to abolish. The Tax Authority must rely on technologically inferior information solutions, deficiencies of which were an important reason for the project of modernization.

The Tax Authority has spent all resources planned for contracted maintenance services for paying licence fees, while the actual maintenance services were paid from development services funds.

The adoption of centralised duties accounting had enabled the project of decreasing Tax Authority’s more than 3,000 duty sub-accounts. Before the 1st of October 2011 taxpayers had to pay each type of duty into a special duty sub-account, which caused additional administrative burdens and costs. With the implementation of the new information system, the Tax Authority replaced more than 3,000 duty sub-accounts with just three accounts (one for state budget, the Health Insurance Institute of Slovenia the Institute for Pension and Disability Insurance of Slovenia each) and 210 municipal sub-accounts. Due to limitations of the previous information solutions the Tax Authority could not test the behaviour of the information system in these new circumstances. The change caused errors in operations of the new information system, resulting in significant discrepancies of the data on recipients’ revenue between the Tax Authority and the Public Payment Administration of the Republic of Slovenia. Revenues of individual recipients for the years 2012 and 2013 were not reported correctly, requiring later compensations and reconciliations. Belated recording of accounts payable, payments, compensation, payment reversals and other errors led to discrepancies in data of the Tax Authority and numerous taxpayers. By the end of the audited period, some for these errors had not yet been full rectified.

The Tax Authority had not maintained adequate supervision over the contractor for the modernization of the duty information system. Although project experts’ references were crucial for the selection of this particular contractor, some of these experts had not been participating on the project by the end of the audited period any more. The contractor had on the other hand hired a number of sub-contractors, whose expertise, experience, fluency in Slovenian language or understanding of the Slovenian tax environment the Tax Authority never checked. Despite the fact, that the Tax Authority was dissatisfied with several sub-contractors, it had only once requested one of their employees to be replaced.

The Court of Audit of the Republic of Slovenia required from the Tax Authority to *implement several corrective measures* and provided further *recommendations* to improve its effectiveness in project management and its internal control environment.

Ljubljana, 31 July 2014