1. BACKGROUND

The Republic of Croatia received a Loan from the International Bank for Reconstruction and Development (IBRD) towards the Croatian Tax Administration, Department for European Integrations and International Cooperation (hereinafter: CTA). The objective of the Revenue Administration Modernization Project in Croatia (hereinafter: RAMP) is to achieve further improvements in efficiency, taxpayer services, and tax compliance through capacity-building and systems improvement in the Croatian Tax Administration (CTA). This will be accomplished by supporting the implementation of the CTA strategic plan for tax modernization and subsequent incremental refinements over five years.

CTA employed consultants in order to provide technical assistance for different areas of modernization including (1) business process analysis and reengineering of core operational and headquarter functions and also (2) organizational development by establishing of national LTO. Efficient and optimal application of the results of these projects is limited by current information system capability and its readiness to flexible support changes in the organization and processes.

CTA is preparing project for introduction of the compliance risk management system, reengineered and paperless audit case management system and as a baseline for both of them enterprise data warehouse. This change will avail risk based management of the whole tax administration, its core processes and in some way efficient resource management.

At the same time CTA is planning implementation of the better change management processes and introduction of needed organizational changes by establishing special division for strategic management, including change management and risk management units.

RAMP conceptual planning document\(^1\) identified needs for CTA organizational restructuring by modernizing its structure, especially at the local level, through functional and geographical consolidation of local offices(also IMF review\(^2\)) and improving capacity in the large taxpayer units in audit, monitoring and investigation, improvements of information management by improving information flows between regional and local offices, re-engineering business processes to meet EU requirements, strengthening IT capacity to support new business processes; improving systems architecture to accommodate the need for data sharing and information exchange, establishing a data

\(^1\) PROJECT INFORMATION DOCUMENT (PID) at http://documents.worldbank.org/curated/en/2006/11/7487657/croatia-revenue-administration-modernization-project

\(^2\) IMF mission in CTA report, July 2012
warehouse, a document management system, and develop the software for the Government Gateway\(^3\), and setting up disaster recovery systems.

These components are partially implemented due to different reasoning, but also because of the shortage of CTA IT/IS capacity, current unusual outsourcing arrangement with semi-public agency for business information systems (APIS) and non-standard internal IT organizational approached.

Due to the limitation of CTA IT/IS to support planned, already started or partially implemented changes, there is raising needs for assurance of proper level of IT/IS support.

The CTA has developed its business strategy for period 2011-2015 with clear statement of needs of development supporting strategies. Some of them (HRM, training) are developed and publicly published while IS development strategy is not prepared yet.

Consequences (pain points) of not having established IT strategy and proper governance model are:

- Business frustrations with failed initiatives, raising IT costs and perception of low business value
- Significant incidents related to IT-related business risk, such a data lost or project failure
- Outsourcing service delivery problems such as agreed-on service level not being consistently met
- Failure to meet regulatory and contractual requirements
- IT’s limitations of the organization’s innovation capabilities and business agility
- Regular audit findings about poor IT performance or reported quality of service problems
- Hidden and rogue IT spending
- Duplication and overlap between initiatives or wasting resources
- Insufficient IT resources, staff with inadequate skills or staff burnout/dissatisfaction
- IT-enabled changes frequently failing to meet business needs and deliver late or over budget
- Multiple and complex IT assurance efforts
- Top level management or senior managers who are reluctant to engage with IT, or a lack of committed and satisfied business sponsor for IT
- Complex IT operational model

Different triggers in internal (for example organizational changes by establishing LTO) and external environment (for example joining EU or introduction of real estate tax) can be used as “wake-up-calls” (where pain points are being experienced) or an expression of the improvement opportunity.

2. **BACKGROUND SPECIFIC TO THE ASSIGNMENT**

2.1. **The Client**

The legal framework for Croatia’s tax administration is set out in the General Taxation Act, the Tax Administration Act, and the various substantive tax laws. The General Tax Act regulates the relationship between taxpayers and tax authorities by setting out the general administrative procedures of the tax system (including jurisdiction, maintenance of books and records, filing tax returns,}

\(^3\) The Government Gateway is part of the e-Croatia initiative.
payment of the assessed tax, audit, enforced collection, penalties, and disputes resolution). The Tax Administration Act establishes the CTA’s organizational structure as well as the special obligations, responsibilities, and authorities of tax administration officials. The substantive tax laws (e.g., income tax, profit tax, value-added tax) establish the administrative procedures that are specific to each tax.

The Croatian Tax Administration (CTA) is a subordinate agency under the Ministry of Finance. The CTA has primary responsibility for the assessment and collection of national and local taxes, as well as social insurance collections (i.e. approximately 70% of total revenues). The CTA employs approximately 4,300 staff in one hundred twenty local offices, twenty regional offices and the Central Office. The CTA is headed by a Director General, with a Headquarters unit in Zagreb. The largest regional office in Zagreb accounts for three quarters of total revenues administered by the CTA.

The Croatia Tax Administration (CTA) was established in 1994 as an administrative organization within the Ministry of Finance whose primary responsibility is to apply Croatia’s tax related revenue legislation. Over time, the CTA’s revenue collection responsibilities have gradually been extended and now cover all national and local taxes (other than excises and international duties and taxes), social insurance contributions, and a large number of levies, fees, and charges.

The organization is headed by a Director General who holds a position of State Secretary and is appointed by and reports to the Minister of Finance. The CTA’s approximately 4,300 staff is assigned to an office network comprising a headquarters with 247 staff, and twenty regional offices and subordinate local offices. The Zagreb offices account for 1237 staff.

The Central Office, located in Zagreb, is responsible for developing national policies and programs, and is organized mainly according to tax administration function. The Director General is supported by twelve assistant directors each of whom oversees one of the agency’s twelve divisions. The CTA plans to restructure its headquarters organization—in terms of its organizational structure, staffing, and management processes—to enhance its capacity to manage national operations and support the implementation of its modernization strategy.

The CTA’s twenty regional offices are responsible primarily for conducting field audits and criminal tax investigations executing the more severe collection enforcement actions, and supervising the branch offices. As in the case of Central Office, regional staff are organized into units based on tax administration function.

In 2005, special arrangements were introduced for administering large taxpayers in Zagreb and four other regions. At present, the large taxpayer offices function independently of each other essentially constituting special units reporting to various regions within the region/branch structure. This arrangement prevents the CTA from managing large taxpayers on a national basis, which is especially problematic for related commercial groups and multi-branch enterprises. Special office for administering largest taxpayers at the national level is under implementation and will be implemented before start of this project. This office and one selected regional office will platform for piloting of this project.

Local offices collect and process tax returns and payments from individuals and legal entities and also conduct desk reviews of tax returns, provide taxpayer services, and initiate initial enforcement actions. In most local offices, staff are organized into teams with each tax officer assigned a set of taxpayers for whom they provide a range of tax administration functions (assistance, assessment, desk review, initial enforcement). The non-functional organization and the multiplicity of local offices lead to significant efficiency losses.
2.2. Business Objectives of the Purchaser

The CTA has primary responsibility for registration, assessment, audit, collection and enforced collection of taxes and other public levies, which are, pursuant to the provisions of separate regulations, within the CTA's scope of authority. The CTA's primary responsibility includes the activities pertaining to PIN, a unique personal identifier, whose primary purpose is the IT exchange of information for the purposes of the CTA and other government bodies. Due to its scope of work, the CTA has a sizeable base of various data collected from different sources (tax applications and other systems reachable by the means of PIN). However, the CTA still does not have a systematic compliance risk management system, which would enable the CTA to use the available data adequately and provide decision making support in taxation procedures.

Bearing in mind the basic responsibility of the CTA, the current compliance risk management system can be described as follows:

2.2.1. Registration of taxpayers

In the registration of new legal entities, the registration body / Commercial Court and others connects to the PIN system and at the moment of registration the information on the newly registered legal entity are exchanged with the PIN system. Due to the IT exchange of data, the CTA obtains information about the registration of a new legal entity in real time (within a few seconds). The information is forwarded to the Register of Taxpayers, a user of the PIN system, in the form of a notification from the PIN system. The clerks have to update the received information with additional data in line with the provisions of the valid regulations pertaining to the facts about legal entities (companies) that should be treated as legal entities as of the moment of their establishment. Therefore, there is no risk of lack of information on new legal entities in their capacity of new taxpayers.

However, the procedure is different for natural persons becoming taxpayers (sole proprietors/craftsmen, freelance professions). They have to approach the CTA's local office and register within 8 – 30 days after they obtain authorization to carry out a business activity. Other persons becoming taxpayers on other grounds, i.e. business activities should register within the same deadline. At present, there is no system installed for an automated update of information about new taxpayers.

The audit system is based on the monitoring of decisions on business activities issued by competent authorities, i.e. by monitoring of taxpayers' business activities and their behavior. The mandatory first on-site visit to the new taxpayers has been introduced for the purpose of observing taxpayers' business activities and collecting information thereon. In view of the above described procedure of taxpayer registration in the Register of Taxpayers, there is a risk concerning the timeliness of registration of natural persons in the Register of Taxpayers and, consequently, a risk of adequate monitoring of taxpayer status acquisition and assessment of tax and other public levies liabilities.

Natural and legal persons are registered in the Register of Taxpayers with the Personal Identification Number (PIN). The PIN was newly introduced for both natural and legal persons, with effect from 1 January 2009 (Official Gazette 60/2008 of 9 May 2008) and it is the basic personal identifier of any person, not only in tax registers but in other official records as well. Legal provisions on the mandatory application of PIN created IT preconditions for, inter alia, the IT exchange of data between tax and other registers. These preconditions for IT exchange of data enabled the automated update of data on taxpayers in tax registers, as described below.
For the update of taxpayers' identification data, the information from the PIN system is used, i.e. the system generates notifications on all changes in real time. The notifications received by the Register of Taxpayers automatically change the majority of data in the Register of Taxpayers, but some of the information received via notifications have to be updated by the staff (e.g. address of domicile, seat). Certain changes limit further actions in any tax application until the very update of the changes. Unlike the identification data, the information in the Register of Taxpayers on taxpayers' liabilities (filing tax forms, proxies, etc.) have to be updated separately by the employees, using facts from taxation procedures and submitted tax returns.

Based on the PIN system, a procedure of monitoring taxpayers' business activities and their behavior has been developed, by recording information on taxpayers outside the tax applications. The above mentioned information and the information collected during the first on-site visits to taxpayers (including further visits aimed to establish taxpayer's tax strength), combined with the information from tax registers, should enable the CTA to conduct a systematic and automated monitoring of taxpayers and consequently to initiate particular taxation procedures. The fundamental goal of the CTA is to act in a timely manner in order to ensure fairness, effectiveness and efficiency in taxation procedures.

2.2.2. Assessment of taxes and other public levies

The assessment of taxes and other public levies from the CTA's scope of authority is carried out based on the following:

- submitted tax returns
- exchange of information with other institutions
- monitoring potential taxpayers' business activities and their behavior

Taxpayers are required to file with the tax authorities properly completed tax returns (forms) within defined deadlines. Some examples of forms are: VAT form, profit tax form, income tax form, real estate transfer tax form, etc. The CTA monitors the compliance with the submission of tax returns requirement mainly by means of information on liabilities entered into the Register of Taxpayers. In that respect, it is necessary to underline once again the importance of timely update of information on taxpayers in order to be able to monitor the timely submission of tax returns.

CTA does not have specific business processes and procedures to ensure that all expected tax returns have indeed been received on time and to notify non-compliant taxpayers immediately if they fail to meet a filing deadline. Tax officials of CTA are performing auditing by means of data monitoring of a taxpayer in the Tax administration information system.

The CTA has invested a lot of effort in the development of e-Tax (ePorezna) as part of the e-Government initiative in order to make the submission of tax returns as simple and taxpayer-friendly as possible. Although the use of e-Tax services offers many advantages for both the taxpayers and the CTA, e-Tax has currently only about 15% active users compared to the total number of currently registered taxpayers. It is expected that the amendments to the legislation as of 1 January 2012 will increase the number of active users to about 30,000. Currently there is no obligation for all taxpayers to file any tax return electronically. However, as a result of legislative changes, large and medium-sized taxpayers under the Profit Tax Act will be obliged to file their annual corporate profit tax returns electronically as from 1 January 2011.
The CTA will further encourage the taxpayers to use e-Tax services, because such filing method is not only taxpayer-friendly, but also time saving for the CTA's employees who could use the spared time to observe the taxpayers' business activities.

Despite all efforts that the CTA has undertaken to develop eTax, the reason for the relatively low number of eTax users is primarily due to taxpayers’ mentality that is not in favor of electronic submission of forms but rather prefers personal submission of forms at the local offices of the Tax administration.

Taxes and other public levies assessed by taxpayers and declared in their tax returns (with the exception of annual income tax return) fall within the category of tax assessment via tax return acceptance (self-assessment). CTA will assess tax liability by their decision, (reassessment), only if the data declared in submitted tax returns are deemed to be incorrect, (due to mistakes or fraud). It is the CTA's stand that for the purpose of their timely actions such a system should be established which would, at the moment of receiving tax returns and in line with predefined rules, enable the comparison of data from tax returns with data already available in the system, thus facilitating the immediate selection of tax returns requiring special attention or declaring data that are different from those already available in other applications of the tax system.

Unlike the submission of tax returns, certain taxes and other public levies are assessed by means of information already available in the data bases owned by other state administration bodies. For example, the Ministry of Interior (MoI) is the owner of information about the owners of motor vehicles; Croatian Pension Insurance Institute and Croatian Health Insurance Institute are owners of information about insured persons and insurance status (commencement, expiration, change of type of insurance) of particular insurances. A procedure for the exchange of information from these institutions with the CTA has been already established. Upon receipt, the CTA's employees verify and process information in the CTA's IT system. The information is used for the purpose of calculation of taxes and/or contributions for the taxpayers liable thereto. The exchange of information between the CTA and other state administration bodies are not completely automated, which is the reason for delays in processing. Bearing in mind the existing preconditions for automated data exchange (all systems communicate via PIN), an overview of existing tax assessment processes and of inefficiencies in procedures should reveal the areas of assessment risk or of risk to timely assessment of taxes or other public levies.

Furthermore, the CTA is responsible for assessing tax for all individuals who are taxpayers notwithstanding whether they are registered or non-registered taxpayers, based on the economic approach principle. Therefore, the CTA has to ensure permanent monitoring of the behavior of individuals who are potential taxpayers. Grey economy is a problem for the economy of the Republic of Croatia. Not only that it decreases the state budget revenues, but it also de-motivates the compliant taxpayers. Therefore, the CTA has to find out the methods for observing business activities of potential taxpayers, mainly through the information exchange systems, partially through the PIN system and in cooperation with other institutions, in order to be able to identify such persons, register them in the Register of Taxpayers and take other actions with regards to the sanctions for their behavior and assessment of appropriate tax liabilities.

As for tax assessment procedures, it is very important that the CTA has the possibility to access financial data on business entities (natural and legal persons carrying out a business activity) from banks, including transactions and account balances.
According to current regulations, banks are required to submit data to the CTA on the transactions and account balances of all domestic and foreign currency accounts of legal persons and natural persons. This does not apply to transactions on current accounts and savings deposits, regardless of the amount of transaction. This data is submitted through the available information technologies monthly or quarterly, cumulative for the period from 1 January to the last day of the reporting period, and on the specific demand by the Tax Administration in other deadlines.

ISTA (IT system of the Tax Administration) is connected with FINA and other institutions that are required to exchange information’s necessary to the CTA. FINA conducts the national clearing system and collects all payments from the banks, and necessary data is delivered to the ISTA. Once in the database these data are then available to the CTA's employees. For the purpose of adequate assessment of tax liabilities, the CTA aims to establish the systematic comparison of data on declared income and revenues with turnover on all accounts, and issue warnings on deviations from defined business rules.

2.2.3. Tax Audit

Tax audits are conducted on the basis of an Annual Tax Audit Plan or upon referrals from the government bodies or state administration bodies, including CTA's local offices, CTA's central Office, State Attorney's office, MoI, Croatian Government, etc.

The Annual Tax Audit Plan defines the number of taxpayers according to type (legal entities, natural persons) which will undergo audit, as well as the type of tax that will be audited (e.g. value added tax, profit tax, mandatory contributions, etc.). The selection of taxpayers for audit in the Annual Tax Audit Plan is determined based on the existing risk analysis system, taking into account that there is no adequate automated support for processing of risks.

In drafting the annual tax audit plans we identified the following risk-prone taxpayers:

- newly established taxpayers
- taxpayers who do not submit or irregularly submit tax returns and reports
- non-compliant taxpayers
- taxpayers from certain industries (construction, real estate, catering, trade)
- taxpayers who report losses year after year and still survive on the market
- taxpayers with no staff yet generating significant turnovers on their gyro-accounts
- taxpayers subject to mergers, divisions and acquisitions
- taxpayers who frequently change their business address, etc.

One of specific tax audit risks pertains to value added tax and the most frequently identified risks include:

- refund of value added tax
- misuse of 0% tax rate
- fictitious export
- entrepreneurs who are not registered in the Value Added Tax Register and issue invoices with value added tax
- taxpayers who do not carry out any supplies and yet declare input tax, etc.

Automated support to risk processing, recognition of risk-prone taxpayers, classification of taxpayers in predefined risk categories based on their behavior and determination of risk level based on historic data are the goals that the CTA wants to achieve.
2.2.4. **Enforced Collection**

The enforced collection procedure is carried out in the CTA's local and regional offices in line with the enforced collection methodology. The procedure involves the control of tax arrears by the CTA clerks and preparation of reports using the CICSX applications. The enforced collection process also includes the observation of bankruptcies and liquidations, based on the publication of information from the PIN system.

In enforced collection procedure taxpayers can request for a payment in installments or payment deferral. Such taxpayers' requests can be either accepted or denied, based on a detailed verification of relevant facts.

A write off of tax debts is also possible, but the procedure depends on the information about taxpayers' assets and it requires the connection of the system with external institutions by means of the Register of data relevant for taxation.

An enforced collection specific risk pertains to the timeliness of the procedures, which depends on certain amount of debt as well as to the timeliness of the enforced collection procedure, including bankruptcy, which depends on taxpayer’s behavior. Connecting data that would, as recognized cases, initiate timely enforced collection procedures, could improve enforced collection procedures and increase their efficiency.

2.2.5. **Reporting System**

The current reporting system is based on three reporting categories:

- Reporting from the CICSX applications
- Reporting from Cognos application
- Reporting upon specific requests

Reports from CICSX applications are generated on the basis of predefined and generated statistical reports, which are updated on daily, weekly or monthly basis.

The statistical reports are generated from the forms entered into the system, registered debits and credits by:

- organization
- years
- type of taxes
- type of taxpayers
- business activities
- other attributes

The major insufficiency of reporting from CICSX application lies with the fact that it is based on predefined reports which are parameterized, but no possibility of extracting data into other formats (Excel).

Reporting from Cognos application is carried out in two ways:

- By means of reportNet (predefined and generated reports)
- By means of OLAP cube (by selection of defined dimensions)
Reporting upon specific requests means that a report is defined based on requestor’s requirements, which are then delivered to APIS-IT for programming.

These are prepared when demanded by a specific tax procedure, which is not predefined. For example: when enforced collection is needed for a specific tax payers group and according to specific criteria. Reports result with lists for further enforcement procedure.

Some examples:

- Merging data of CTA, REGOS, HZMO, HZZO, FINA and reporting of assessing and payment of contributions
- Merging data of CTA and FINA and reporting of tax status of blocked entities
- Merging data of CTA and FINA and reporting of tax status of entities with missing annual financial reports
- Reporting about real estate transactions bought with CHF credits

### 2.3. Current IS Applications

Because of the complexity of the infrastructure in the Tax administration (Central office, Regional offices, tax offices), and the large amount of transactions as well as the required maintenance and development of the IT system of the Tax Administration (ISTA) which was developed by APIS-IT, the Tax Administration has outsourced most of its IT tasks to external partners.

The Information System of Tax Administration was developed by APIS IT as a custom made solution based on Tax Administration requirements. The ISTA applications are developed and maintained since 1987. and cover almost the whole core business of Tax administration (Primary and auxiliary Registers, Tax assessment, Tax (and Customs) accounting, Tax audit, Enforcement, Violations, External registers, Obligatory Contributions, Bankruptcy Proceedings, Reporting & BI system, data exchange with other institutions, etc.). Development, implementation and subsequent maintenance of ISTA includes adaptation and/or integration of existing systems and products, and involves activities: project management, pre-analysis, feasibility studies, proof of concept, analysis, design, graphical design, programming, testing, installation, customization, hosting, documentation, training. ISTA is based on IBM zSeries 10 using CTS (CICSX) as transaction server with DB2/IMS as databases. Part of the applications was developed using SOA (Service Oriented Architecture) and EDA (Event Driven Architecture) with portal technologies as the strategic platform for the future development.

The e-Porezna (development and maintenance also by APIS-IT) application system uses the PKI (Public Key Infrastructure) technology for the identification/authorization of the user and the electronic signing of forms. The ePorezna application system allows taxpayers to electronically submit forms as well as the insight into their taxpayer account. Forms available for submitting electronically are Value Added Tax forms, Corporate Income Tax form, and Income Tax form. Additionally, application allows users to monitor submitted forms by checking its status and to manage user rights for using application.

The VIES system (VAT Information Exchange System), which was developed in the scope of the obligatory development of the Republic of Croatia in the process of preparation for the accession to the European Union, is based on the SOA methodology (Service Oriented Architecture) and relational

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4 APIS-IT d.o.o. is a CTA main IT outsourcing partner
data base and as such it represents a new direction in the development of the IT system of the Tax Administration, allowing the fulfillment of obligations of RH after the accession into EU.

The application for the issuance of PIN and the integration of PIN into systems of different administrations was developed by the main partner of the Tax administration APIS-IT and it is based on the same technologies as the VIES system. The system and the PIN application will enable a better exchange of information between administrations and it will help to increase the efficiency of the tax system as well as the collection of tax revenues. The applied EDA approach, in conjunction with the SOA processes in the OIB system represents an advanced architecture which can respond to business requirements for change and system expansion. This approach has been implemented in all segments of the architecture by implementation of open and accepted standards. Inter-institutional interaction uses XML and Web services standards, including those related to security and web management (Web Services, WS-SEC, WS-DSIG, WS-XENC, WSN). An important role in the architecture has implementation of Web services Notification standard, which represents the main mechanism of non-invasive and flexible interaction between institutions, SOA solutions WS-BPEL, SCA, J2EE, JMS, JSR-168 portlet standard.

![Diagram of ISTA with current application subsystems](image)

### Scheme 1: ISTA with current application subsystems

#### 2.4. Size and volume of the ISTA system

The following table presents volume of the CTA IS and its environment.
<table>
<thead>
<tr>
<th>Collected revenue</th>
<th>Taxes and contributions (eur)</th>
<th>15.000.000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers</td>
<td>Natural persons</td>
<td>3.500.000</td>
</tr>
<tr>
<td></td>
<td>Companies</td>
<td>200.000</td>
</tr>
<tr>
<td></td>
<td>Sole Entrepreneurs</td>
<td>300.000</td>
</tr>
<tr>
<td>Tax offices</td>
<td>Regional</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Local</td>
<td>105</td>
</tr>
<tr>
<td>Users</td>
<td>Employees</td>
<td>4.600</td>
</tr>
<tr>
<td></td>
<td>Field auditors (inspectors)</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>Desk auditors</td>
<td>3000</td>
</tr>
<tr>
<td>Documents</td>
<td>Received (returns, declaration…)</td>
<td>5.000.000</td>
</tr>
<tr>
<td></td>
<td>Issued (decisions, letters, certi…</td>
<td>10.000.000</td>
</tr>
<tr>
<td>Payments</td>
<td>Daily or monthly or annualy</td>
<td>20.000.000</td>
</tr>
<tr>
<td>Tax accounts</td>
<td>Different accounts</td>
<td>189</td>
</tr>
<tr>
<td></td>
<td>Number of records in tax accounting (annualy)</td>
<td>80.000.000</td>
</tr>
<tr>
<td>Different sources</td>
<td>data sources (look separate table for distribution of data by business area)</td>
<td>850</td>
</tr>
</tbody>
</table>

Table 1: size and volume of the ISTA system

3. OBJECTIVE

The objective of the assignment is to help the CTA develop a Long Term (5 year) IT/IS Modernization Strategy and Plan that is cognizant of the CTA current human resources, its business needs going forward, and the relevant constraints to restructuring and re-skilling staff and management to meet the CTA’s evolving business needs and environment.

Due to the limitations of CTA IT/IS in supporting planned, already started or partially implemented changes, a significant strategic question arises regarding how to provide adequate IT/IS support for the planned development of the CTA.

The CTA has developed its business strategy for the period 2011-2015 with a clear statement of needs for developments that support key strategies. Some strategies (HRM, training) have been completed and published but IS development strategy has not yet been prepared.
The potential consequences (pain points) of not having established an IT strategy and proper governance model are:

- Business frustrations with failed initiatives, raising IT costs and perception of low business value
- Significant incidents related to IT-related business risk, such as data lost or project failure
- Outsourcing service delivery problems, such as agreed-on service level not being consistently met
- Failure to meet regulatory and contractual requirements
- IT’s limitations are constraining the organization’s innovation capabilities and business agility
- Regular audit findings about poor IT performance or reported quality of service problems
- Hidden and rogue IT spending
- Duplication and overlap between initiatives or wasting resources
- Insufficient IT resources, staff with inadequate skills or staff burnout/dissatisfaction
- IT-enabled changes frequently failing to meet business needs and delivered late or over budget
- Multiple and complex IT assurance efforts
- Top level management or senior managers who are reluctant to engage with IT, or a lack of committed and satisfied business sponsor for IT
- Complex IT operational model

Different triggers in internal (for example organizational changes by establishing LTO) and external environment (for example joining EU or introduction of real estate tax) can be used as “wake-up-calls” (where pain points are being experienced) or improvement opportunities.

It is now proposed to launch a major IT development project that would provide the minimum necessary IT/IS platform to support the CTA’s modernization plans. This project would also enable planned investments in risk analysis and e-learning to be adequately supported in the CTA’s IT systems.

Modern tax administrations and their managers/executives strive to:

- maintain quality information to support business needs
- generate business value from IT-enabled investments to achieve strategic goals and realize business benefits through effective and innovative use of IT
- achieve operational excellence through reliable and efficient application of technology
- optimize cost of IT service and technology

The main objective of this project is the assessment of the current IT in CTA and preparation of the transformation plan for IT, fully aligned with the CTA needs.

This will be assured by establishing a strategic planning process and governance model for IT, which is critically important for making sound IT investment decisions, garnering support for IT projects and providing IT as a strategic asset of the CTA.

4. **SCOPE OF THE WORK AND OUTPUTS**

The project should be implemented in eight groups of processes (phases) with the main activities:
1. Planning the Plan
2. Reviewing of CTA Business Strategy
3. Assessing the Current IT Situation
4. Proposing a New IT Situation
5. Performing a Gap Analysis
6. Proposing a Strategic Vision and Governance Model
7. Build a Strategic Decision Making Framework
8. Publish, Promote and Maintain IT Strategy

Every phase should consist of different steps.

### 4.1.1. Planning the Plan

The planning stage should be performed in 4 main steps with sponsorship of the most important constituent, senior management:

1. Set Strategic Planning Goals
2. Establish a Planning Group
3. Hold a Kick-off Meeting
4. Create a Preliminary Report

In this stage the whole project will identify:

- (who) stakeholders,
- (why) goals,
- (what) scope and
- (when) timeframe.

### 4.1.2. Reviewing of Business Strategy

The CTA developed a strategy for the period 2011-2015 which is published on the CTA web site. With the passage of time, changes in the environment and the need for development of an aligned IT strategy, this CTA strategy should be reviewed and possible updates proposed.

Completing alignment of business and IT strategies is critical to the success of the CTA’s modernization plans.

### 4.1.3. Assessment of the Current IT Situation

This stage should map the particulars of CTA organizational structure and business strategy. IT infrastructure should be analyzed.

Assessment may be performed in 4 steps:

1. Document IT Organizational Infrastructure
2. Document Hardware and Software Infrastructure
3. Audit Current IT Projects
4. Understand the IT Environment

This stage will produce:

- a map of who does what in the IT department(s), documenting:
service providers and key vendors,
- IT resources in and outside IT department(s)
  - view software, hardware, network and vendors inventory
  - analyze current IT expenditures, assess ongoing IT projects and review change management processes
  - identify important industry trends and assess suitability for CTA purposes

4.1.4. Proposing a New IT Situation

During this stage the new future IT situation will be defined by:

1. Analysis of Strengths and Weaknesses through identification of specific issues for strategy and governance, including:
   a. IT issues,
   b. the management view of IT Issues and
   c. a governance maturity model
2. Brainstorming of Technology Opportunities with the purpose of identifying various options for CTA IT in the future involving a wide circle of stakeholders.
   a. strategic approach should be non-restrictive against any specific technology/platform and allowing for competitive acquisition of subsequent elements of the solutions,
   b. the solutions should be proposed in variants including open standards and open source approaches and
   c. the objective should be to make the Client of specific vendors or technologies.
3. Documenting Summary of project ideas including rough cost estimation.

4.1.5. Performing a Gap Analysis

Gap analysis should assess:

- The gap between current IT operational goals and corporate strategy and
- The gap between current infrastructure and the proposed future situation.

Documented gaps will ignite specific strategic project plans.

4.1.6. Propose a Strategic Vision and the Governance Model

A good IT strategy will align closely with CTA business strategy and vision. It will also help focus the entire organization on specific IT goals and create “one vision for all”.

This stage will be performed in 3 steps:

1. Holding a Vision Meeting With Stakeholders
2. Establishing a Strategic IT Vision
3. Proposing a Governance Structure

4.1.7. Building a Strategic Decision Making Framework

This stage is focused to establishing of strategic framework for decision-making process.

Results of this stage should be achieved through 4 steps:

1. Setting strategic goals and measures
a. Financial (budgeting, purchasing, TCO),
b. Organizational (staffing, training, management/reviews, technical skills, efficiency and effectiveness),
c. Technology operations (help desk, SLA & uptime, security, disaster planning/business continuity planning, asset management, policies)
d. IT user/taxpayers service (SLA, user satisfaction),
e. IT governance (Project approval methods/process, business/IT alignment, business partnership, top management commitment, project portfolio management, outsourcing / insourcing)…

2. Performing a budget analysis
3. Identification of different options on a high level
4. Prioritization of Projects

4.1.8. Publish, Promote and Maintain IT Strategy

The final stage part of the strategic planning will be:

- The formal adoption of the strategy, following
- Agreement presentation by senior management and
- Development of business aligned IT change management plan.

At this stage:

- IT the organizational structure should be adjusted and implemented, and
- IT strategic governance established including
  - A steering committee,
  - A prioritization matrix and
  - An initial set of prioritized projects.

5. QUALIFICATIONS REQUIRED

A. The Consultant

The Consultant shall have demonstrated experience and expertise in the field of IT Strategy planning, IT management, Outsourcing management, Information System development, Change Management, IT governance and IT audit, preferably in revenue administrations.

1. Qualification requirements for the consulting firm

   General:
   - At least 5 years of experience in consulting to public agencies in the area similar to this assignment, preferable in the revenue administrations.

   Specific:
   - Similar experiences in the EU countries are advantage.
B. The Consultant’s Team

Minimally the Consultant’s team shall include the following members with the respective qualifications.

All team members mobilized under this contract must:

- Be proficient in English
- Have excellent Communication and Analytical Skills
- Be proficient in report drafting, and
- Have excellent team working abilities

Knowledge of Croatian language would be an advantage.

Experiences in EU Member States would be an advantage

General qualifications of consultants for the preparation IT modernization strategy are:

- IT audit and assurance professionals with good understanding of strategic planning, IT governance, Project management, Outsourcing business models and Enterprise information system implementation processes.
- 10 years of general professional experiences in the area of IT
- 15 years of experiences in working or consulting for the enterprises with the IT of similar scale to the CTA

Specific qualifications:

- At least 5 years of management or consulting to the management of the tax administration information technology / system
- Tax administration strategy planning experiences

At least one team member should be IS/IT certified auditor.

The profiles of the key experts for this contract are as follows:

1. **Senior IT strategy planning expert (Team Leader)**

   **Qualifications and skills**

   - University Degree in Economics, IT, Public administration, Business Administration or other discipline relevant to the project;

   **General professional experience**

   - IT audit and assurance professionals with good understanding of strategic planning, IT governance, Project management,
   - 15 years of general professional experiences in the area of IT
   - 10 years of experiences in working for or consulting to the enterprises with the IT of similar scale to the CTA
Specific professional experience

- Minimum 5, preferably 10 years of experience in IT governance, Project Management, Outsourcing, Quality Assurance and Enterprise information system acquisition and implementation in public sector

2. **Senior Tax Information System Planning and Project management Expert**

**Qualifications and skills**

- University Degree in Economics, IT, Public administration, Business Administration or other discipline relevant to the project or 15 years of experience in the revenue administration IT project planning and implementation management;

**General professional experience**

- Minimum 10, preferably 15 years of experience in planning and management of IT projects in revenue administrations.

**Specific professional experience**

- Minimum 5, preferably 10 years’ experience in Capacity Building support to Tax Administrations in IT strategy planning, Change Management, IS acquisition and development and/or design of IT systems.

3. **Information solution architect**

**Qualification and skills**

- University Degree in a relevant subject (e.g. IT)
- Familiarity with the capabilities and requirements of modern hardware, networks, languages and software tools.

**General professional experience**

- Minimum of 5 years of experiences in IT systems design for public public sector organization

**Specific professional experience**

- At least 3 projects for planning/design of Tax Administration information systems in proposed role

6. **TIMING, DURATION AND DELIVERABLE**

The whole project should be implemented in 6 months with some stages overlapping.

The Consultant should supply assisting services to CTA and deliver reviews, analysis, recommendations, draft strategic planning documents and presentations.

For every phase of assignment the Consultant should deliver at least the next deliverables:

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<thead>
<tr>
<th>Phase</th>
<th>Deliverables</th>
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<td>Planning the Plan</td>
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<td>2.</td>
<td>Reviewing of CTA Business Strategy</td>
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<td>3.</td>
<td>Assessing the Current IT Situation</td>
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<td>Proposing a New IT Situation</td>
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### 7. REPORTING

#### 7.1. Reporting Relationships

The Consultant will report to and work under the direction of the Director General of the CTA and the CTA Project Manager.

The assistants to Director General for IS, IT, application development and the heads of the IT departments will be the Consultant’s main counterparts on key substantive matters. The Assistant Director General of IS will facilitate the Consultant’s access to the necessary documentary materials as well as access to the key stakeholders to the assignment.

In the Consultant’s working relations with the Client and all the key stakeholders, the Consultant will be expected to be self-sufficient and conduct him/herself in the highest professional manner.

#### 7.2. Periodic Reports and Communications

The Consultant shall prepare:

- **An Preliminary Report** which shall describe the Consultant’s:
  - proposed approaches for fulfilling his engagements under the Contract;
  - proposed clarifications to the resources to be provided by the Consultant and the Client;
  - view as to any preconditions for successful execution of the assignment;
  - an action plan for fulfillment of the assignment; and
  - any other matter which the Consultant wishes to raise relative to the assignment or the Project.

- **Monthly Progress Reports** that summarize, among other things,
  - results accomplished during the prior period;
  - cumulative deviations to date from schedule of progress milestones;
  - corrective actions to be taken to return to the planned schedule of progress;
iv. proposed revisions to the planned schedule;
v. proposed actions to be taken and inputs provided by the Consultant in the upcoming period;
vi. resources that the Consultant expects to be provided by the CTA and/or actions to be taken by the CTA in the next reporting period;
vii. other issues or potential problems the Consultant foresees that could impact on assignment progress and/or effectiveness.

These shall be submitted to the Project Manager by end of the first week of the following month.

(c) A Final Report that summarizes the work performed, results achieved, and recommendations for follow-on action to further the objectives of the contract or otherwise promote success of the Project.

7.3. Resources Provided

The Consultant shall be responsible for providing all necessary human, logistical and material resources to undertake the assignment.

The CTA will provide coordination assistance with state bodies, including the CTA sub-units. It will also provide meeting logistics and space for the Consultant’s presentations to the CTA/MOF.

The CTA will provide timely access to any CTA data that have been identified and agreed upon in the Preliminary Report (with due consideration of the legal requirements for privacy and confidentiality).

7.4. Restrictions

All materials created under this Contract will remain the sole property of the CTA. Re-use of the materials will require the formal, written approval of the CTA.

On the commencement of the assignment, the Consultant will jointly prepare with the CTA a statement of confidentiality that will bind the Consultant to nondisclosure of any sensitive information that the Consultant may become knowledgeable of during the course of the assignment. The terms of this agreement shall be made consistent with the relevant privacy laws of the Republic of Croatia.

7.5. Languages

The Consultant shall work in the English and Croatian languages. Specifically, all communications shall be carried out in English or Croatian. All documents shall be presented in the Croatian language with English translations of the Executive Summaries and all key tables and charts. The Consultant may be requested to assist the CTA in ensuring high quality translation of the documents and interpretation of the developed materials.

The Consultant shall be responsible for providing the interpretation and translations services.