# INTERIM CEN WORKSHOP AGREEMENT

**CWA NNNNN**

**22 July 2008**

English version

# CEN/Fiscalis e-Invoicing Good Practice Guidelines

- development of Good Practices for Service Providers and e-invoice solutions;
- development of a framework for tax authorities to audit VAT invoice solutions;

This Interim CEN Workshop Agreement has been drafted by a Workshop of representatives of interested parties, the constitution of which is indicated in the foreword of this Workshop Agreement.

The formal process followed by the Workshop in the development of this Interim Workshop Agreement will be sent for endorsement by the National Members of CEN, but neither the National Members of CEN nor the CEN Management Centre can be held accountable for the technical content of this INTERIM CEN Workshop Agreement or possible conflicts with standards or legislation.

This Interim CEN Workshop Agreement can in no way be held as being an official standard developed by CEN and its Members.

This Interim CEN Workshop Agreement will eventually be publicly available as a reference document from the CEN Members National Standard Bodies.

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EUROPEAN COMMITTEE FOR STANDARDIZATION

COMITÉ EUROPÉEN DE NORMALISATION

EUROPÄISCHES KOMITEE FÜR NORMUNG

**Management Centre: rue de Stassart, 36 B-1050 Brussels**

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# Foreword

This CWA is part of a set of CWAs that has been prepared by Phase II of the CEN/ISSS Workshop on Electronic Invoicing in the European Community.

The objective of this Phase of the Workshop is to help to fill gaps in standardization for the use of electronic invoice processes, to identify the various practices in member states, to integrate the emerging technical and practical solutions into effective good practices, and to define and disseminate these good practices for e-invoices in close coordination and cooperation with private industry, solution providers and public administrations.

Five initial Projects have been established with a view to supporting the:

1. Enhanced adoption of electronic invoicing in business processes in Europe;
2. Compliance of electronic invoice implementations with Council Directive 2001/115/EC and Directive on the Common System of Value Added Tax 2006/112/EC as well as Member States national legislation as regards electronic invoicing.;
3. Cost-effective authentication and integrity of electronic invoices regardless of formats and technologies;
4. Effective implementation of compliant electronic invoice systems in using emerging technologies and business processes; and
5. Emerging network infrastructure of invoice operators throughout Europe.

In addition, the Workshop has assumed the overall responsibility, as far as CEN is concerned, for the standards aspects of the European Commission's expert group on electronic invoicing, complementing and linking with the relevant Commission groups, and ensuring the relevant global standards activities are correctly informed and primed. In this activity, it aims to ensure collaboration with other CEN/ISSS groups, including WS/ePPE and WS/eBES, with UN/CEFACT (TBGs1 and 5), ISO TC 68 and ETSI/TC ESI.

**General Disclaimer:** These Guidelines and Commentary are a work in progress and out for review. While every effort has been made to ensure consistency with legal requirements that apply to e-invoicing in the European Union, no guarantees of legal compliance or fitness for purpose are made by the drafters or CEN; any use of these documents is at the user's own risk.

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**Sub Group 1: CEN/Fiscalis e-Invoicing Good Practice Guidelines**

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# 1 Introduction

## 1.1 Background

While there are many companies that carry out their e-invoicing in their own in-house data processing centres, the tendency is growing for companies to outsource all or part of their business processes including invoicing to various types of Service Providers. In this CWA, both in-house and outsourced e-invoicing operations are considered.

This CWA seeks to reduce some of the principal areas of uncertainty and resulting inefficiencies on the e-invoicing market with one single set of good practice Guidelines for both businesses and tax administrations.

- Businesses that implement electronic invoicing are often faced with thousands of technical and process implementation options along the way. In the absence of implementation-relevant rules emanating from tax administrations or standards bodies, the uncertainty surrounding these many choices creates a significant barrier to investment in electronic invoicing. As a result, for those vendors and users that choose to invest nevertheless, it is hard to make any value judgment as to how “compliant” their services and solutions are. Corporate e-invoicing users, Service Providers and solution vendors that are taking steps to develop and maintain VAT-compliant services naturally have a desire to have to a concrete yardstick against which to measure and with which to demonstrate their compliance.

- Today, most tax administrations do not provide accreditation services or self-assessment programmes to assist e-invoicing users or their Service Providers to ascertain that e-invoicing systems are VAT-compliant. Tax administrations’ audit methodologies and tools are often developed based on the experiences of law enforcement and not widely propagated to businesses as compliance checklists.

## 1.2 The Guidelines

The CWA **‘CEN/Fiscalis e-Invoicing Good Practice Guidelines’**, here further referred to as ‘the Guidelines’ or ‘Guidelines’ are presented in the form of a Microsoft Excel spreadsheet. Together with this explanatory document, the Guidelines cover the following CEN Workshop Agreements tasks:

**WG2 - Task 1 Development of Good Practices for Service Providers and e-invoicing solutions**

**WG2 - Task 2 Development of a framework for tax administrations to audit electronic VAT invoicing solutions**

**WG3 - Cost effective authenticity and integrity**

The Guidelines set out in the Excel spreadsheet to a large extent incorporate a translation into English of the Dutch language draft of the Fiscalis “Business Process Analysis [BPA] matrix e-invoicing” document, developed by Netherlands Tax Administration *Belastingdienst* for the Fiscalis[1] e-Audit Project Group activity task team “Audit of e-invoicing”. It has been modified and complemented with input from relevant CEN and Fiscalis members of the e-Invoicing WG2/Sub Group 1 (SG1) to make the Guidelines applicable to more EU Member State situations and to aspects of good practice that are unique to Service Providers. The Guidelines will assist companies and e-Invoicing solutions providers in checking whether they are VAT compliant.

Pursuant to the encouragement of CEN and the CWA co-chairs for working groups to closely coordinate their activities, Work Group 2 (WG2) and Work Group 3 (WG3) agreed early on during the development of the Guidelines, that aspects relating to guarantees to be provided by taxable persons concerning integrity of the invoice and the authenticity of its origin would be delivered by WG3 of the Workshop. The Guidelines include this WG3 input, building on the aforementioned draft Fiscalis “BPA matrix e-Invoicing”.

The Guidelines identify the main issues in question at each processing step during the life cycle of an electronic invoice for different invoicing methods (direct invoicing from Supplier to Buyer as well as Self-

[1] Fiscalis: EU Commission initiative to share good practices across Member State tax administrations.

Billing) and providing detailed process guidance for a variety of implementation options including web publication/presentation, the use of various integrity and authenticity-enhancing methods and the retention of electronic invoices. For each discrete processing step, the Guidelines define the ‘Risks’ (of inappropriate practices to companies and tax administrations); ‘Requirements’ (for companies to mitigate the risk); and ‘Controls’ (from which companies can choose to meet the requirements).

Custom filters have been added within the Excel spreadsheet to allow the user to select a specific process or sub-process of which he wishes to view the details – for example: what are the obligations for a Supplier in a Self-Billing process? What should I think of as a Buyer when on-boarding Suppliers to my e-invoicing solution? Use of this Excel spreadsheet is addressed in section 9 of this document.

## 1.3 Principles

The drafters of the Guidelines have gone to significant lengths to ensure that the Guidelines could be accepted and recognized as good practice in as many jurisdictions as possible, while at the same time striving to make the Guidelines meaningful for businesses that, above all, need legal certainty and predictability for making investments into e-invoicing.

Whereas the drafters have been careful to ensure that the Guidelines do not contradict or violate the European Union e-invoicing regime in place during the drafting process (every Member State that has transposed Directive 2001/115/EC appropriately should be able to accept the Guidelines without legal changes) it has been the explicit intention and ambition of the group to create a set of voluntary rules that could contribute to greater certainty for, and a fair distribution of compliance/law enforcement costs between, companies and tax administrations that should be valuable regardless of regulatory evolution. To this end, the group has followed the following key principles:

- *Technology neutrality, user choice and competition*: the Guidelines have been written not to favour any existing technology or process option for compliant e-invoicing over any other existing technology or process option. Without attempting to be exhaustive, the drafting group has considered and defined a broad range of functionally equivalent implementation mechanisms. This means that the Guidelines describe multiple compliance methods, and combinations thereof, to achieve a good level of auditability for reasonable VAT law enforcement. It should be primarily up to the market to determine which methods provide the highest benefits to all parties involved.

- *Specificity, certainty and predictability*: While it is generally considered good practice for the law to define requirements on a high, implementation-neutral level, businesses need concrete guidance to implement e-invoicing with the systems and processes that best suit their unique circumstances and objectives. The Guidelines attempt to contribute to the filling of the current gap between high-level law and a practically unmanageable flow of practical business questions about compliant implementation choices to tax administrations.

- *Affordability*: The functionally equivalent implementation mechanisms described in the Guidelines fall within a spectrum that can be considered not to create disproportionately high costs to either taxable persons or tax administrations. Within this spectrum, however, the mechanisms described present different costs and benefits to different parties in different circumstances.

- *SME’s:* The Guidelines are also appropriate and valid for SMEs. The requirements and controls defined in the Guidelines should be interpreted in a manner that is commensurate in relation to the size and operation of the organization, e.g. while a computer application may require to be operational 7 days a week and 24 hours a day for large organizations, for an SME they may only need to be open for the effective period.

## 1.4 Summary recommendations at the interim stage

The detailed recommendations at the interim stage are addressed in section 10, and the summary recommendation provided in this section. The recommendations are partly intended to obtain valuable feedback from auditors, Service Providers, VAT administrations and the Commission Tax and Customs Union Directorate General (DG/TAXUD). This feedback is to be reviewed and incorporated as relevant in the finalised CEN Workshop Agreement, expected in the middle of 2009.

- Invite auditors specialising in e-invoicing applications and VAT administrations to review the Guidelines and assess their suitability as a working tool for internal and external auditors.
- Invite companies, Service Providers and developers of e-invoicing solutions to assess the applicability of the Guidelines for their services and solutions
- Consult the Steering Group of the Fiscalis e-Audit Project Group on how to promote the Guidelines to all EU Member States and DG/TAXUD to ensure as high a level as possible of acceptance in Member States
- Recommend the translation of the Guidelines into the main official languages of the Community
- Review the possibility to package the Guidelines for use at seminars and workshops.
- Recommend that the Fiscalis e-Audit Project Group take responsibility, at least in an interim period, for continuation and maintenance of the Guidelines. Longer term, an appropriate ‘institutional’ interface with private sector organizations and individual corporations should be ensured in order to preserve the essential private/public sector partnership nature of these Guidelines.
- Obtain a view from companies as to the relevant costs and benefits of the various implementation choices set out in or following from the Guidelines.

## 1.5 Review period

The members of WG2/SG1 have pleasure in presenting this Interim Commentary document and the Guidelines presented in the form of the Exell Spreadsheet, for review by interested parties. The review period will be 3 months, till the end of September 2008. The documents will be made available through different channels:

- CEN/ISSS e-Invoicing project manager
- NEN, CEN/ISSS e-Invoicing Workshop Secretariat, Netherlands
- The e-Invoice Workshop portal *http://www.e-invoice-gateway.net*
- Direct distribution by WG2/SG1 participants

Comments or interest to join the work of WG2/SG1 are very welcomed by the group and should be addressed to the Technical Editor, *Mounir.el-Khoury@scarlet.be* who will be responsible for registering comments and communicating them to WG2/SG1 for review.

Comments on the Commentary report should indicate the relevant section number.

Comments on specific entries in the Excel sheet should be placed in the appropriate Row in the Comment column provided for that purpose.

If you have difficulties uploading the form to the e-Invoice Workshop portal *http://www.e-invoice-gateway.net* please send it to *mounir.el-khoury@scarlet.be* until the upload form is available. Your feedback will be managed anonymously, but we encourage you to provide your name and email for ‘follow-up questions’.

# 2 Scope

The scope of the tasks attributed to the e-Invoicing Phase 2, Work Group 2 Sub Group 1, namely

Task 1: Development of good practices for Service Providers and e-invoicing solutions

Task 2: Development of a framework for tax authorities to audit VAT invoice solutions

and Phase 2, Work Group 3 task on cost effective authenticity and integrity

has been reviewed by the group and amendment of the tasks' precise definition has been agreed in view of the likely difficulty that would be encountered in identifying national or European organisations, competent to undertake the certification of Service Providers and e-invoicing solutions.

The Guidelines are a reference tool meant to give companies implementing e-invoicing a solid basis for meeting tax requirements across the EU. They are not specific to a Member State nor are they a substitute for complying with Member States requirements, but they may assist in clarifying the basics for compliant e-invoicing processes underlying most EU Member States' laws relating to e-invoicing.

**The Guidelines are proposed merely as voluntary self-regulation. In case of conflict between the Guidelines and applicable law, the latter shall always prevail. For this reason, every requirement and associated control in the Guidelines should be read to begin with the words "To the extent permitted under applicable law, …".**

The Guidelines are addressed to:

- VAT auditors in tax administrations.
- Internal and external auditors.
- Companies engaged in e-invoicing.
- Service and solution providers offering e-invoicing functionality.

The Guidelines note the following standards:

- ISO 270001 Information Security Management Systems Requirements
- OECD GTCBAS: Guidance on Tax Compliance for Business and Accounting Software. *http://www.oecd.org/dataoecd/13/45/34910263.pdf*
- ETSI TS 101 903 V1.3.2: "XML Advanced Electronic Signatures (XAdES)"
- ETSI TS 101 733 v1.6.3: "Electronic Signatures and Infrastructures (ESI);CMS Advanced Electronic Signatures (CAdES)"

# 3 Abbreviations / Definitions

## 3.1 Abbreviations

| | |
|---|---|
| BPA Matrix | Business Process Analysis Matrix developed by the Netherlands Tax and Customs Administration (*Belastingdienst*) and provided as input to this project |
| B | Buyer |
| S | Supplier |
| SP-B | Service provider acting for the Buyer |
| SP-S | Service provider acting for the Supplier |
| SP-S/B | Service provider for both Trading Partners (Buyer and Supplier) |
| GL | General Ledger |

## 3.2 Definitions

The following terms have the following meaning in this document and the Guidelines:

- *Electronic invoice (e-invoice) or original electronic invoice (e-invoice)*: A dataset in the *agreed format*, issued by or on behalf of a *Supplier*, which contains all details agreed between the *Trading Partners* and all the properties that the competent tax administration may wish to audit.
- *Agreed format of an electronic invoice*: The electronic data format that the *Trading Partners* have agreed to treat as the data format of the *original electronic invoice* for taxation purposes.
- *Audit of an electronic invoice*: The process of inspection of an *electronic invoice* and/or the processes and systems used for processing or storing an electronic invoice during its life cycle by a competent tax administration to ascertain the compliance of that electronic invoice and the underlying sales transaction with applicable law.
- *Auditability of an electronic invoice*: The ability for an *electronic invoice* to be *audited*.
- *Electronic invoice data*: A dataset not yet or no longer representing an *electronic invoice*, but which is intended to become an electronic invoice or which has been derived from an electronic invoice.
- *Electronic invoice life cycle*: A process comprising (1) the issue of the *electronic invoice by, or in name and on behalf of* the *Supplier*; (2) receipt of the invoice by or on behalf of the *Buyer*; and (3) *storage* of the electronic invoice during the *storage period* by or on behalf the Supplier and the Buyer.
- *Electronic invoicing*: The management of an *electronic invoice life cycle* without the use of paper-based invoices as tax originals.
- *Issuing an invoice in name and on behalf of the Supplier*: The process whereby a party other than the *Supplier issues* the invoice in the Supplier’s stead without taking over the Supplier’s accountability for that invoice vis-à-vis the competent tax administration. The issuing third party may be a *Service Provider* or, in the case of *Self-Billing*, the *Buyer*.
- *Readability of an electronic invoice*: The ability for a competent tax administration to interpret the content of an *electronic invoice*.
- *Storage period of an electronic invoice*: The amount of time that applicable law requires the *electronic invoice* to be stored and available for *audit*.
- *E-invoicing Service Provider or Service Provider*: a company that, on the basis of an agreement, performs certain *e-invoicing* processes on behalf of a *Trading Partner*, or that is active in the

provision of support services necessary to realise such processes. To determine whether an IT vendor is an Service Provider, the following circumstances should be taken into account:

- o That the contract with the Trading Partner(s) leads the latter to expect a *VAT*-compliant service.
- o The nature of the service is such that VAT compliance is appropriate.
- o The provider is insured against service related risks to his clients' tax compliance.

Trading Partners can use multiple e-Invoicing Service Providers; see *3-corner model* and *4-corner model* definitions. An e-Invoicing Service Provider can subcontract all of parts of its services to other providers; such subcontractors can also be e-Invoicing Service Providers if they meet the criteria set out in this definition.

- *Audit trail*: information or data (whether in the form of logic, e.g. an algorithm or computer code, or a process recording e.g. an event log, a video etc) that allows an auditor to verify that a process was performed in accordance with pre-defined expectations.
- *Internal control*: a process, effected by an organization's people and information technology (IT) systems, designed to help the organization accomplish specific goals or objectives.
- *Supplier*: the *Trading Partner* that supplies goods or services to the *Buyer* and that may be obligated to issue and store an invoice, as well as to report; account for and pay the applicable output tax *VAT*.
- *Buyer*: the *Trading Partner* to whom the *Supplier* makes a supply and that may be obligated to receive and store an invoice, as well as being required to report and declare; and being entitled to deduct/reclaim applicable input tax *VAT*.
- *Trading Partner: Supplier* or *Buyer*.
- *Self-Billing*: a method of invoicing whereby the *Buyer* issues the invoice *in name and on behalf of* the *Supplier*. Self-Billing may be facilitated by a *Service Provider.* See further section 6.
- *Hybrid Self-Billing:* An invoicing process whereby only part of supplies of a *Supplier* to one and the same *Buyer* are administered under Self-Billing procedures, while another part is invoiced directly by the Supplier.
- *Electronic signature or e-Signature, or digital signature, also Advanced Electronic Signature AdES:* a unique representation of a dataset, such as an invoice, which has been encrypted using public key cryptography in order to make the authenticity and integrity of these data independently verifiable.
- *Digital certificate:* a small set of structured data that has been electronically signed by a "certification authority" to "bind" the identity of a legal or natural person to a "public key" that can be used e.g. to verify electronic signatures created by that person.
- *Issue of an e*-invoice: this is a legal term that is defined differently in different jurisdictions. The *e-invoice* starts its *life cycle* as a formal document for *VAT* purposes when it has been issued. See section 7 for more explanation of the importance of the moment of issue in an e-invoicing process.
- *Issuer of an* e-invoice: the party issuing the *electronic invoice* (the *Supplier* or a party – a *Service Provider* or, in the case of *Self-Billing*, the *Buyer* – issuing the e-invoice *in its name and on its behalf*).
- *Archiving, Storage, Record or Document Retention:* the keeping of *invoices* and related *audit trails* and materials under the conditions and for the period required by a competent *VAT* administration
- *Master data:* In this context for *Trading Partners*, Master Data are data that are stable over longer periods of time such as the names, addresses, and identifications, e.g. *VAT* numbers, DUNs number, GS1 GLN numbers. For product or services, Master Data may include product names, descriptions, tax category, and identifications such as GS1 identifier.
- *Source Transaction Data:* relatively dynamic or transaction-specific business documents and information that are typically required to create a compliant invoice. This may included a contract, an order, despatch information, delivery information, customer and product files, and possibly other details.
- *3-Corner model:* an invoicing process set-up whereby *Trading Partners* have separate contractual relationships with the same *Service Provider*.

- *4-Corner model or multi-corner model:* an invoicing process set-up whereby each *Trading Partner* has contracted with one or several separate *Service Providers*, whereby the Service Providers ensure the correct interchange of invoices between the Trading Partners. The concept of the 4-Corner model originated in the banking sector.
- *Invoice header data:* Data that relates to the whole invoice, e.g. invoice date, invoice number, seller and Buyer identification, name and address, bank account details etc. Some data is sometimes made available at header level in an invoice because it may be valid for all detail lines, but may be over ridden as necessary by making the data available at detail line level, e.g. discount, currency code, *VAT* rate, delivery address, tax point, etc..
- *Invoice line data:* Data that relates to the goods item or service being invoiced, e.g. goods item identification, quantity, price, description, etc… Some invoice line data may be made available in the header if it is valid for several invoice line items, but may be over ruled at line level
- *UN-Layout Key (UNLK):* United Nations Layout for Trade documents, including the invoice. UN Recommendation 1 and ISO 6422
- *VAT or Value-Added Tax:* a consumption tax that is levied at each stage of production based on the value added to a product or service at that stage.
- *Electronic data interchange (EDI)* is the transfer of commercial, administrative and business information between computer systems, using data formats which have been mutually agreed by the parties. EDI *e*xchanges of invoices are normally used between trading partners to automate their supply chain. For e- invoicing, there should be an *Interchange Agreement* between the EDI trading partners making provision for the use of procedures that guarantee the authenticity of the origin and integrity of the data. Examples of such procedures include:
  - use of secure networks;
  - controls over access to networks (for example, checking "trading relationships;
  - syntax checking of data in accordance with the rules of the transmission standard;
  - in some Member States a summary file or summary paper control reporting.
- *Interchange Agreement* The provisions of Interchange Agreements are intended to govern the rules of conduct and methods of operation between the Parties in relation to the interchange of data by EDI. Several models of Interchange Agreement have been developed by European and International bodies:
  - Uniform Rules of Conduct for Interchange of Trade Data by Teletransmission (UNCID) as adopted by the International Chamber of Commerce and the United Nations Economic Commission for Europe
  - European Model Interchange Agreement, 94/820/EC: Commission Recommendation of 19 October 1994 relating to the legal aspects of electronic data interchange
- *Web Publication/Web Presentation:* In this context, a method of exchanging invoices with the *Buyer* by placing the *original electronic invoice* on an agreed web site, but where the original electronic invoice never leaves the secure closed environment operated by the *Supplier*.

# 4. CEN/Fiscalis e-Invoicing Good Practice Guidelines

Adoption of Council Directive 2001/115/EC (the provisions of which are now included in the Directive on the Common System of Value Added Tax (2006/112/EC) created a new framework for *electronic invoicing* and VAT, but uncertainty still remains with how to deal with different electronic invoicing solutions. The brevity of the directive leaves uncertainty in several areas, one of which is the lack of direction on how external and business auditors and tax auditors should deal with the many different ways in which electronic invoicing can be implemented.

The conventional way of companies carrying out their computer business processing in-house, ERP or other e.g. order handling, invoicing, etc. is receding as companies are more and more concentrating on core business and outsourcing non core business, such as computer services, warehousing, etc.. While this may free company resources, lines of responsibility and control are not necessarily loosened, but may become overstretched requiring tighter contractual agreements, as well as technical and process controls, with *Service Providers*.

In the absence of implementation-relevant rules emanating from tax administrations and standards bodies, it is hard to make any value judgment as to how “compliant” *e-invoicing* solutions are. *Service Providers*, solution vendors and their corporate customer that are taking steps to develop and implement *VAT*-compliant services naturally have a desire to be recognised, but today, tax administrations do not provide accreditation services or self assessment programmes to assist Service Providers or businesses to ascertain that *e-invoicing* systems are *VAT* compliant.

The Fiscalis e-Audit Project Group “audit of e-invoicing” activity task team was established to address the need for further harmonization and sharing of ‘Good practice’ experience for Member State tax authorities in the area of *audits* relating to electronic invoicing and *VAT*.

The Guidelines, set out in an Excel spreadsheet, to a very large extent incorporate an unchanged version of the Dutch language draft of the Fiscalis “Business Process Analysis [BPA] matrix e-invoicing” document, developed by the Netherlands for the FISCALIS [2] E-Audit Project Group, addressed to tax administrations to audit *VAT* invoice solutions. The BPA Matrix has been modified and complemented with input from relevant work group members and Fiscalis members to make the Guidelines applicable to all EU Member State practices and to aspects of good practice that are unique to *Service Providers*.

The Guidelines should make it possible for all parties involved to check whether the *e-invoicing processes*, in-house or outsourced, are *VAT*-compliant, and if not, what corrective measures are available.

The Guidelines identify the main issues in question at each processing step during the *life cycle of an electronic invoice* for different invoicing methods (direct invoicing from Supplier to Buyer as well as *Self-Billing*) and providing detailed process guidance for a variety of implementation options including web publication, the use of various integrity and authenticity-enhancing methods and the *retention* of *electronic invoices*. For each discrete processing step, the Guidelines define the ‘Risks’ (of inappropriate practices to companies and tax administrations); ‘Requirements’ (for companies to mitigate the risk); and ‘Controls’ (from which companies can choose to meet the requirements).

Custom filters have been added within the Excel spreadsheet to allow the user to select a specific process or sub-process of which he wishes to view the details – for example: what are the obligations for a *Supplier* in a *Self-Billing* process? What should I think of as a *Buyer* when on-boarding *Suppliers* to my *e-invoicing* solution? Use of this Excel spreadsheet is addressed in section 9 of this document.

The issues surrounding *Self-Billing* are presented in more detail in section 6, as this way of invoicing is being introduced more frequently at present, but the issues and problems are not always clearly understood by the parties concerned.

[2] FISCALIS: EU Commission initiative to disseminate good practices across Member State tax administrations.

# 5. Process overview

The process model that has been used to analyze different steps in the *e-invoice life-cycle* is shown in and below. It represents the different steps in the information flow from *Supplier*, on the left, to the *Buyer* on the right.

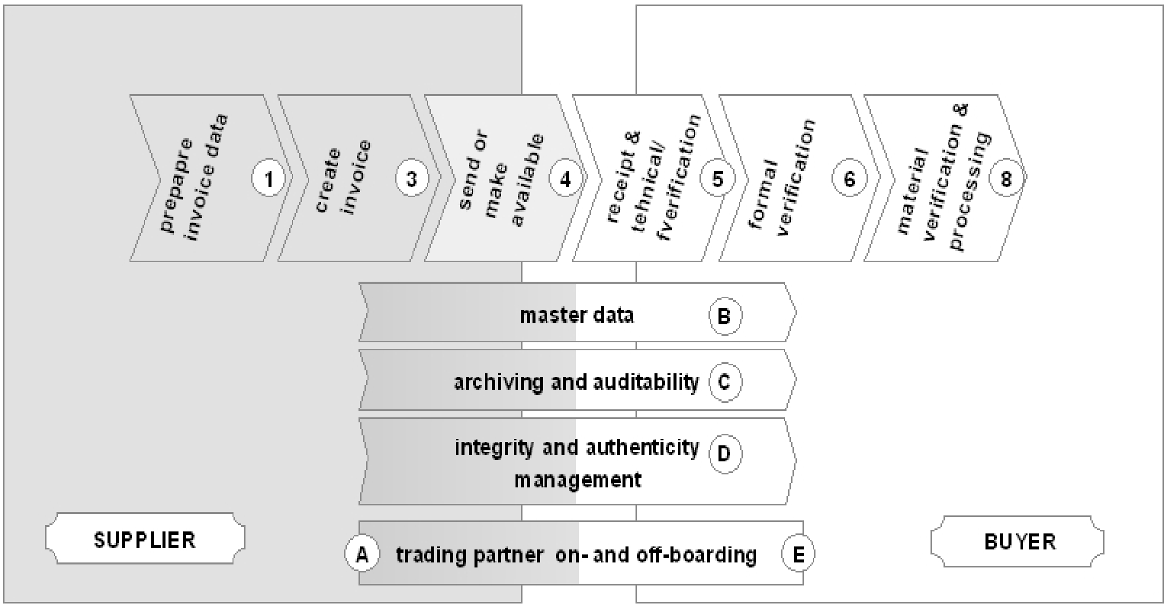



**Figure 1: End-to-end process overview without *Service Provider* involvement**

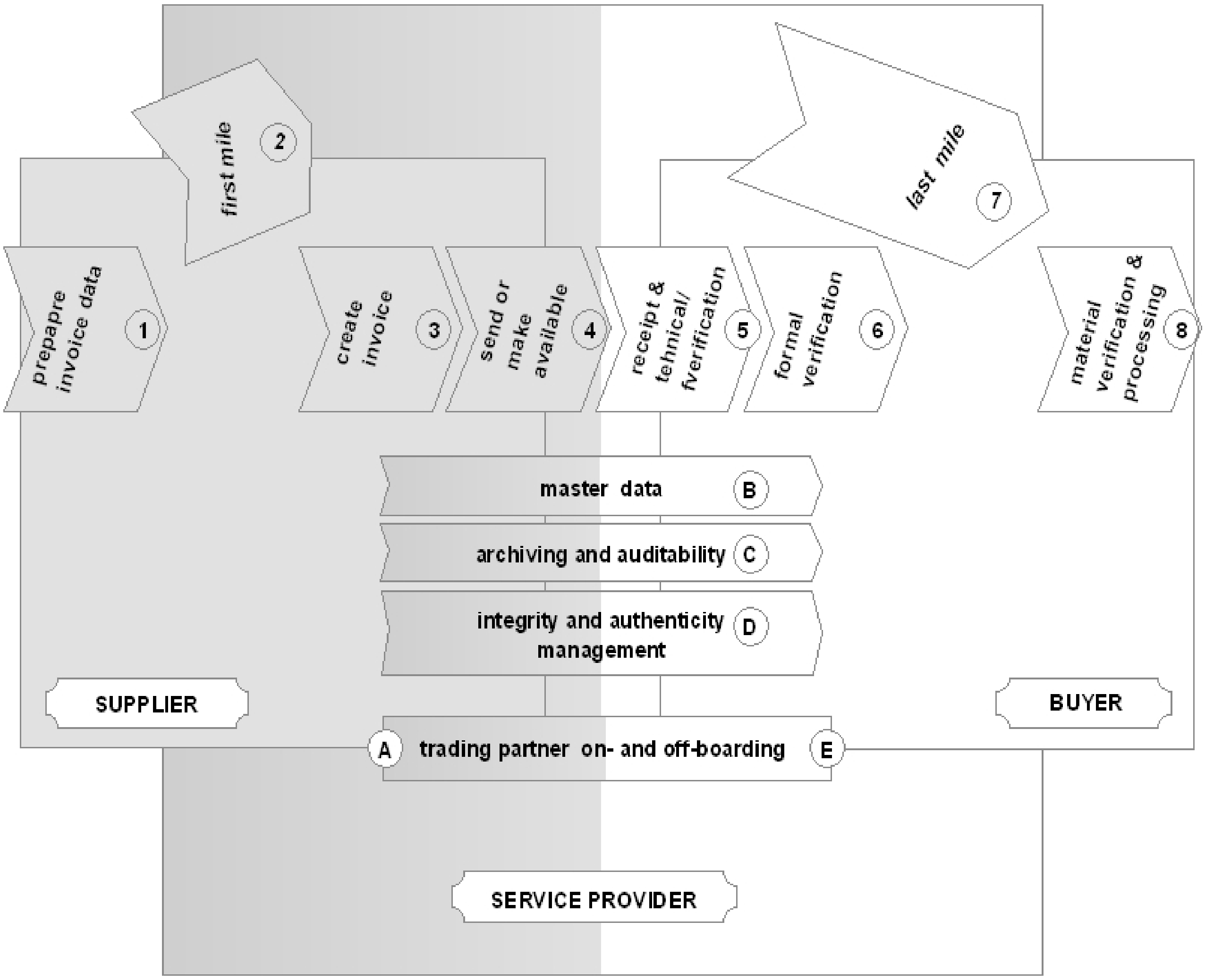



**Figure 2: e-invoice life cycle overview showing areas of potential *Service Provider* involvement**

In the case that one or both *Trading Partners* use *Service Providers*, then the flow passes through the 'First Mile' between the *Supplier* and the *Service Provider*, and the 'Last Mile' between the *Service Provider* and the *Buyer*.

In the case of *Self-Billing*, the *e-invoice* is issued by the *Buyer* (or his *Service Provider*) and flows in the reverse direction to the *Supplier* or via the Supplier's *Service Provider*.

## 5.1 (On and Off) Boarding steps

Prior to exchanging electronic invoices, the *Trading Partners* have to go through the 'on-boarding' procedures that put in place the technical, procedural and legal basics of the billing relationship. Similarly, specific "off-boarding" procedures must be ensured to wind down the relationship in good order. If one or more *Service Providers* are involved, the on- and off-boarding process is extended into the relevant Trading Partner relationship with such Service Provider(s).

**A. Trading partner on-boarding**

On-boarding is the process of enabling a *Trading Partner* to interchange electronic invoices with another Trading Partner. This will include contracting, identification, connecting the Trading Partners to the technical infrastructure and applications used (this may include setting up web access or connectivity to the back-office system, format mapping, process re-engineering, testing, support, e-invoicing-specific contracting and/or training). Where one or more *Service Providers* act for the Trading Partners, the on-boarding process is aimed at setting up an end-to-end coherent structure and processes that enable appropriate *auditability*.

**E. Trading partner off-boarding**

Off-boarding is the process of terminating an e-invoicing relationship. The parties terminating the relationship must ensure a winding-down of the relationship that preserves the *Trading Partners*' ability to provide the required *auditability* of their invoices until the end of the storage period.

## 5.2 Processing steps

The processing steps in the exchange of the invoice are expanded upon here below.

**1. Prepare invoice data**

Based on *Source Transaction Data* the *Supplier* will prepare the invoice data required to issue an invoice.

The nature of this step depends on how automated the supply chain is. The *Supplier* provides *invoice data* via online entry forms or directly exported from back-office systems. Data captured manually has to be screened and checked to avoid errors occurring in subsequent processes or even later. In a back-office application, the same data will be obtained from data processed in other modules, e.g. order handling, shipping, etc. Missing data or exceptions will be complemented after proper screening for correctness.

**3. Creation of the invoice**

Starting with data prepared in step 1, the invoices will be created in step 3 in the agreed format. Prior to creating the invoice, the *Supplier* must have performed all the controls required for ensuring that the invoice is complete and accurate.

Creation of the invoice is legally often followed by, or legally coincides with, the *issue* of the electronic invoice. See section 7 below for a more in-depth description of the importance of this legal concept in a well-designed e-invoicing process.

**4. Send or make invoice available**

This step consists of the exchange or depositing of the *e-invoice* at a web address for collection by the receiving party. The *Supplier* (or in the case of *Self-Billing* the *Buyer*), or *Service Provider* will often start this process by initiating technical controls that must be checked by the Buyer (or in the case of Self-Billing the Supplier) or the Service Provider in order correctly to complete the technical receipt of the e-invoice.

**5. Receipt and technical verification of invoices**

In this step, the *invoice* has entered into the control of the *Buyer* (or in the case of *Self-Billing* the *Supplier*), who will perform certain technical checks pertaining to e.g. the termination of secure transmission protocols, *electronic signatures* and/or – in automated systems - syntax checks and controls such as control counts, missing mandatory data (segments, data elements) defined at syntax level. Anomalies will generally be recorded and signalled to the Buyer (or in the case of Self-Billing the Supplier's) system controller. Only technically correct files/invoices will be passed to the next processing step. In case of a technical problem, the Supplier (or in the case of Self-Billing the Buyer) will be notified that there was an error detected during reception or processing of the e-invoice and that it should be re-sent.

**6. Formal verification of invoices**

Technically correct *invoices* will be passed for formal verification, the extent of which depends on the capacity of the software and data available during this processing step; e.g. invoice date check, *Trading Partner* identification and addresses, availability of mandatory or conditionally required data, *VAT* numbers, product and service codes,…

Only formally correct files/invoices will be passed to the next processing step. If a formal problem occurs the *Supplier* (or in the case of *Self-Billing* the *Buyer*) will be notified that the e-invoice could not be accepted.

**8. Material verification and processing**

In this step, further verification of the *e-invoice* is carried out in the back office application, including checking and reconciling against all the necessary files available for invoice handling; e.g. *Buyer* order to the *Supplier*, goods receipt, price calculation, product file, contract or Supplier catalogue information, Supplier information, etc. Differences identified in quantities, product specification, material or services, prices, conditions, payment terms, delivery terms, *VAT* rates, etc. will have to be notified and resolved with the Supplier.

All invoices in this step are processed. Only materially correct *invoices* will be accepted for payment and further processing in the *Buyer*'s application or in the case of *Self-Billing* the *Supplier*'s application.

If an error is detected at this level, the Supplier or in the case of Self-Billing, the Buyer will be notified that the e-invoice was not correct and that a credit note or other corrective document will be required to balance the accounting books such as the general ledger.

## 5.3 Service Provider-specific processes

***2. First mile***

In this step (applicable only to cases in which a *Service Provider* is involved), the *invoice data* will be communicated to a Service Provider to whom the function of issuing the invoices has been outsourced to. The invoice data will typically be communicated through a secure communication channel.

***7. Last mile***

In this step, the *invoice* will be communicated by the last *Service Provider* involved in the processing of the e-invoice to the *Buyer*'s (or in the case of *Self-Billing* the *Supplier*'s) in-house application for further processing. The e-invoice will typically be communicated through a secure channel.

## 5.4 Supporting business processes

**B. Master Data**

Master Data are data that are stable over longer periods of time such as the names, addresses, and identifications, e.g. *VAT* numbers, DUNs number, GS1 GLN numbers. For product or services, Master Data may include product names, descriptions, tax category, and identifications such as GS1 identifier.

When Master Data are stored separately from the invoice line data, measures should be taken to ensure that the historically correct data are stored for each invoice as reproduction of the correct invoice must be guaranteed for the legally required duration.

**C. Archiving and auditability**

Both parties must *store* the *invoices* for the *storage period*. The storage may be in-house or at a *Service Provider*. During the storage period, the competent tax administration has the right to audit stored invoices. Invoices may (sometimes subject to additional requirements e.g. notification or authorization) be stored in another EU Member State. Some Member States may permit the storage of invoices in a non-EU Member State, for example provided they comply with the Data Privacy laws. If the invoices are not stored within the Member State of the relevant *Trading Partner*, the latter as taxable person must ensure that the tax administration can access and *audit* the invoices online within a reasonable time.

**D. Integrity and authenticity management**

This concerns the management of technology, policies, documentation and processes addressed at the assurance and long-term evidencing of integrity and authenticity of e-invoices. When public key certificates are involved in such technologies and processes, activities may involve the request, retrieval, operation, renewal, revocation, suspension, look-up, validation, publication and other processes that may be required during the life-cycle of such public key certificates, as well as concomitant processes such as generation, activation, protection, use and back-up in relation to the associated private keys.

# 6. Self-Billing: Issues and Controls

## 6.1 Self-Billing

Self-Billing is very common in certain sectors of industry where the Buyer is in a better position to issue the invoice than the Supplier - for example:

- The payment of royalties following the sales of recorded music. Although the record distributer knows how many CDs were sold to a retailer, the retailer is able to initiate the process of settling the amount of royalty due to the artistes only when their record is sold.
- The supply of production materials direct to the production line, such as in the automotive industry; in these circumstances the manufacturer is able to issue the invoice on behalf of the Supplier, based on consumed quantities as part of the continuous production process.

## 6.2 Risks in VAT administration between Self-Billing partners

There should be strict adherence to agreed procedures between Trading Partners undertaking Self-Billing invoicing to avoid problems caused through lack of administrative controls. Some of the key risks regarding Self-Billing are the following:

- The Supplier takes no account of the Buyer's self billed invoice and follows the normal process whereby the Supplier generates an invoice and issues it to his Buyer. If this occurs, the Buyer will recover input tax VAT on his self billed invoice, but may also recover input tax VAT on his Supplier's invoice. There would be two sets of logic required here:
    - A process in the Buyer's system that did not permit automatic processing of an invoice issued from a Supplier with whom a Self-Billing agreement exists, for a supply of a type covered by the Self-Billing agreement; and
    - A process in the Supplier's system which does not allow an invoice to be issued to a Buyer with whom a Self-Billing agreement exists, for a supply of a type covered by the Self-Billing agreement.
- The Supplier receives his Buyer's self billed invoice, but treats it as a purchase invoice. The Buyer will have recovered input tax VAT when he issues his self billed invoice, but the Supplier will both fail to account for the output tax VAT to balance the input tax VAT recovered by the Buyer, but will also recover an amount of input tax VAT to which he is not entitled. The logic required here would be either an automated or a procedural control which:
    - Prevents the VAT on an electronic self billed invoice received by a Supplier being treated as input tax VAT; and
    - Causes the VAT in the electronic self billed invoice to be accounted for as output tax.

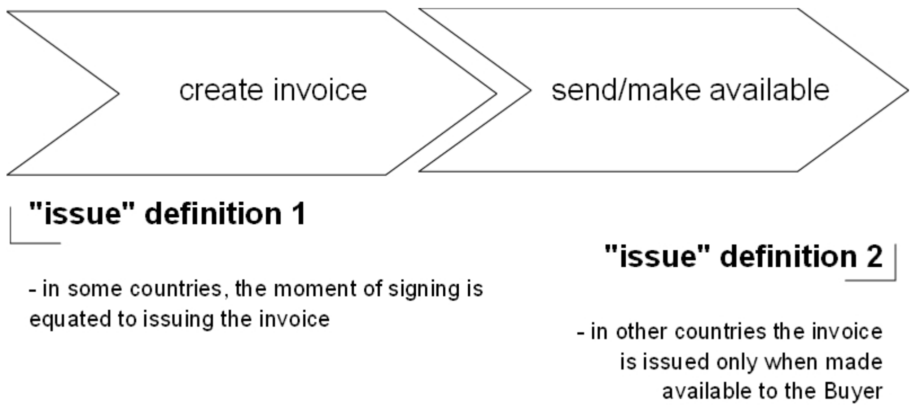
In jurisdictions where each self-billed invoice has to be explicitly accepted by the Supplier, it is possible to argue that these risks are much better mitigated than where such invoices do not have to be explicitly accepted, but explicit acceptance is effectively a mandated procedural control and is much more burdensome than an effective system control. The electronic implementation of such explicit acceptance is likely to be equally burdensome. In other jurisdictions, the above risks are partially mitigated through an obligation for the Trading Partners to maintain a detailed agreement specifying the procedures to be followed; for example, it may be compulsory for the Trading Partners to agree on a specific time period within which the Supplier may reject the invoice issued by the Buyer on his behalf; non-rejection is then implicit acceptance. This mandatory agreement in such cases becomes a key piece of evidence of a process that the tax administration may audit for compliance with the contract terms.

# 7. Moment of Issue of the Electronic Invoice

An invoice begins its life cycle as a formal legal document when it is issued. **Upon issue, the e-invoice may no longer be disposed of or altered; the e-invoice from that moment onwards formally exists in VAT terms and both parties to the underlying sales transaction are responsible for guaranteeing its integrity and authenticity until the end of the storage period.**

In some countries, the invoice is considered issued when explicit data-level methods have been applied for integrity and authenticity protection (when the e-invoice is “sealed”). In such cases, the invoice can be issued without having been sent or made available to the Buyer (Supplier in Self-Billing). In other countries, the invoice is considered issued only when it has become available to the Buyer (Supplier in Self-Billing) or his Service Provider. The diagram below compares these contrasting situations in Member States.

Case 1 The invoice is considered issued when a signature has been applied
Case 2 The invoice is considered issued when it is made available to the Buyer.



# 8. The nature of Service Provider involvement

When a Trading Partner uses a Service Provider, this never implies outsourcing of any Trading Partner tax responsibilities or liabilities to the Service Provider. Outsourcing of tax-relevant e-invoicing processes to a Service Provider can therefore never be an excuse for a Trading Partner’s non-compliance towards the tax authorities. The Service Provider’s legal obligations are in most countries strictly contractual in nature; consequently, the obligations of Service Providers are merely derived from the Trading Partners’ responsibilities. This is also how the Guidelines treat Service Provider responsibilities.

It should be noted, however, that this is different in countries that require a form of Service Provider approval or accreditation, as well as in countries where VAT law explicitly creates direct legal obligations for Service Providers: in such cases, a Service Provider may also be held directly accountable for the tax compliance of services delivered under or governed by such countries’ laws.

# 9. How to use the Guidelines excel spreadsheet

The CEN/Fiscalis e-Invoicing Good Practice Guidelines are presented in the form of an Excel Spreadsheet. The content is not to be considered as exhaustive and although some of the original source material is from the Netherlands Tax and Customs Administration *Belastingdienst,* great care has been taken to ensure that content and recommendations are valid for most Member States and not specific to any Member State requirement.

Filters are provided in the Excel spreadsheet to help the user select his area of interest by limiting the data to match the search parameters, e.g. EDI and Self-Billing, Service Provider for the Supplier and Integrity and Authenticity options.

## 9.1 Excel Spreadsheet Filter Columns A-G

The first columns provide the possibility of using the 'Filter options' to make a selective search. The key arguments are given below with the options available per key option. For the start, make sure that no filter is set (to reset all filter use Data -> Filter -> "Show All"). To view an entire process, make sure that the other two process types are not filtered. See extract of the Excel Sheet on next page and Column number:

Col A Item number Reference number for the Rows

Col B Who-Direct e-Invoicing process carried out by the Trading Partners themselves (S = Supplier, B = Buyer)

Col C Intermediated e-Invoicing process carried out by the Service Provider (SP-S, SP-C, SP-S/C)

Col D Self-Billing e-Invoicing issue carried out by the Buyer or SP-C. see Excel Readme worksheet

Col E Process number from Process steps in e-Invoicing (See section 5)

Col F Process Steps Process steps in e-Invoicing (See section 5)

Col G Sub Process Used in case of additional process steps that required.

## 9.2 Excel Spreadsheet Checks and Control Columns H-J

Col H Why (Risk) This refers to tax risks that form the rationale for the existence of legal requirements in this process step. It answers the question "what are the inherent risks from a tax perspective in this process step?"

Col I What (Requirements) This refers to the tax requirement addressing the risk.

Col J How (Controls) This control (solution) should be used to ensure the risk is avoided. The 'implementation examples' are provided to illustrate the kinds of measures envisaged.

# Extract from CEN/Fiscalis e-Invoicing Good Practice Guidelines

| | A | B | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | DRAFT Version | | | | | | | | | | |
| 2 | # | WHO - DIRECT | INTERMEDIATED | SELF-BILLING | Processnumber | Process step | Sub proces | WHY (RISK) | WHAT (REQUIREMENTS | HOW (CONTROLS) | **Implementation Examples**<br>N.B. The 'implementation examples' listed are non exhaustive and provided only to illustrate the kinds of measures envisaged as being used. |
| 18 | 16 | S | | B | **1** | Prepare invoice data | | The person accountable for preparing the dataset cannot be identified after the event | A person must be acountable for each invoice (whether prepared manually or automatically) | Audit trail identifying the accountable persons | Keeping an audit log of access and activity in the application or DBMS, including the identity of the user (or process).<br>Keep record of accountable persons |
| 19 | 17 | S | | B | **1** | Prepare invoice data | | Changes to invoice data after the event, resulting in a break in the audit trail between the source transaction data and the invoice data. | The invoice data must at all times be consistent with the source transaction data. | The technical design of the application must ensure this; the dataflow must be clear. | The quotation, order, delivery and invoice are cross referenced to each other. |
| 20 | 18 | S | | B | **1** | Prepare invoice data | Prepare corrective invoice data | A credit note without reference to an original invoice is created | The corrective invoice data set includes a reference to identify the original invoice data set. | Application controls and internal control actions. | E.g. by means of reference of original invoice number and original invoice date. Audit trail. |
| 21 | 19 | | SP-S | | **2** | First mile | | The invoice data transferred by the supplier to the service provider can be altered or added to during the transmission . | Ensure authentity and integrity of invoice data whilst being sent. | The invoice data shall be transferred in a way that :<br>a) Protects the integrity of the data communicated,<br>b) Authenticates the source of the data. | i) Transport Layer Security (RFC 4346) with passwords.<br>ii) Business Data Interchange over the Internet Applicability Statement 1, 2, 3 with signatures (RFC3335, RFC 4130, RFC 4833)<br>iii) Secure network service provided by Value Add Network service provider.<br>iv) Secure messaging services such as ITU-T X.400 or S/MIME (RFC 2633).<br>v) Integrity measures, such as hash totals or reconciliation overviews |
| 22 | 20 | S | SP-S | B | **D** | Integrity and authenticity management | | Invoice signer does not carry out obligations regarding security of keys and certificates.<br>Private (signing) key is not held in a manner which ensures sole control | The invoice signer must ensure sole control of the private key and comply with its obligations regarding security and reporting of potential compromises. | The invoice signer shall comply with its obligations regarding security of the private keys and reporting potential compromises.<br>In addition, the signature shall be created using mechanisms commensurate with identified risk relating to VAT fraud to assure protection of keys. | All trading partners that may be recipients of invoices should be informed of any suspected compromise of the signing key employed, and<br>a) a cryptographic device conforming to an internationally recognised standard that assures sole control over the private key (e.g. FIPS 140-2 level 2 or 3 , Common criteria EAL 4 ) or<br>b) Software keys held on a system that is held in an environment which is protected such that the key is under sole control of the business entity issuing the invoicing. |

# 10. Recommendations and Outreach at the Interim Stage

The CEN Work Group developed the Guidelines from the BPA Matrix that during the two last quarters of 2007 was under development by the Netherlands Tax Administration for the Fiscalis e-Audit Project Group. The group met some eight times face to face and several conference calls, to develop and revise the Guidelines, Interim Release, that is now available for presentation at the CEN/ISSS/e-Invoicing Public Meeting on 19th June 2008.

## 10.1 Review of the Guidelines

These interim Guidelines are already in limited use by the Netherlands Tax Administration experts. They are being made available for public review for a period of three months to obtain essential feed back from the following groups:

- Fiscalis e-Audit Project Group
- Relevant European Commission services, in particular the Tax and Customs Union Directorate General (DG/TAXUD), DG Enterprise (DG/ENTR), DG Internal Market (DG/MARKT) and DG Information Society (DG/INFSOC).
- Member State VAT Tax Administration including specialized auditors, Finance Ministries and other relevant sections of Member State government and law enforcement agencies.
- External auditors and company internal auditors to review the Guidelines and assess their suitability as a working tool.
- Law, accounting and tax advisory firms that accompany corporations in the development, execution and continuous compliance assessment of e-invoicing processes.
- Service providers and developers of e-Invoicing solutions to assess the applicability of the Guidelines for their services and solutions

## 10.2 Recommendation for second half of the project

The work group has a few recommendations at the interim stage for the next period of the project. They are mainly to initiate actions with interested parties within the immediate circle of parties involved in the Workshop:

- Consult the Steering Group of the Fiscalis e-Audit Project Group on how to promote the Guidelines to all EU Member States and DG/TAXUD to ensure as high a level as possible of acceptance in Member States
- Recommend the translation of the Guidelines into Members States' languages
- Review the possibility of packaging the Guidelines for use in seminars and workshops
- Others

## 10.3 Continuity, Maintenance and promotion of the Guidelines

The continuity of the Guidelines is to be guaranteed through timely maintenance and controlled release procedures. The work group would recommend placing responsibility for maintenance and promotion of the Guidelines, at least for an interim period, within the Fiscalis e-Audit Project Group. Longer term, an appropriate 'institutional' interface with private sector organizations and individual corporations should be ensured in order to preserve the essential private/public sector partnership nature of these Guidelines.

In addition to promotion within the EU, the Work Group hopes that these Guidelines could be a basis for concrete comparison among e-invoicing regimes that are developing in other regions. A detailed process description can facilitate constructive alignment of legislation in order to avoid misunderstandings that frequently arise if such matters are addressed only on the political level. It is the Work Group's ambition to encourage use of the Guidelines in as many geographies as possible so that regulatory convergence could pave the way for future tax treaties allowing broader collaboration among States to drive down barriers (such as requirements for local storage, restrictions concerning the nationality of Service Providers) and encourage more effective law enforcement as well as user choice.