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Republic of Honduras

Tegucigalpa Municipality PEFA (Sub-National)

Public Expenditure and Financial Accountability (PEFA) Assessment for the Municipality of the Central District (AMDC)

June 12, 2013

Financial Management Unit, Operations Services
Central America Country Management Unit
Latin America and Caribbean Region



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MUNICIPAL GOVERNMENT FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AMDC	Municipality of the Central District of Tegucigalpa
ATF	Administration Trust Fund
BCH	Central Bank of Honduras
CPS	Country Partnership Strategy
CCIT	Chamber of Commerce, Industry and Tourism
CFAP	Public Administration Function Classifications by the UN
CFCM	Collection and Financial Control Management
CNBS	National Commission of Banking and Insurance
CODEM	Emergency Council
COFOG	Classification of Functions of produced by the OECD and published by the UN
CPI	Consumer Price Index
CVNP	Country Vision and National Plan - Law Decree 286-2009
DEI	Executive Directorate of Taxes
DPMM	Disaster Preparation and Mitigation Management
DSA	Debt Sustainability Analysis
EBOs	Extra-Budgetary Operations
FAD	Finance and Administration Directorate
FLTD	Fiscal and Large Taxpayers Department
FM	Financial Management
FOSOVI	Social Housing Fund
GDP	Gross Domestic Product
GFSM	Government Finance Statistics Manual of the IMF
GTF	Guarantee Trust Fund
HNL	Honduran Lempiras
HRM	Human Resources Management Department

IAIP	Institute for Access to Public Information
IFC	International Finance Corporation
IMF / FMI	International Monetary Fund
INJUPEMP	National Institute of Pension and Retirement for Government staff
JICA	Japan International Cooperation Agency
LTAIP	Law on Transparency and Access to Public Information
MDA	Ministries, Departments and Agencies
OECD	Organization for Economic Cooperation and Development
ONCAE	National Contracting and Procurement Office
PEFA	Public Expenditure and Financial Accountability
PEP	Public Indebtedness Policy
PFM	Public Financial Management
POA	Annual Operations Plan
PPIAF	Public-Private Infrastructure Advisory Facility
PROMDECA	Municipal Facility for Livestock Processing
SEFIN	Ministry of Finance
SEIP	Ministry of the Interior and Population
SEPLAN	Technical Ministry for Planning and External Cooperation
SGJ	Ministry of the Interior and Justice
SNTA	Sub-National Technical Assistance
TSC	Honduran National Supreme Audit Institution
UN	United Nations
USAID	United States Agency for International Development
UMPEG	Municipal Planning and Evaluation Management Unit
WB	World Bank Group

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Preface

This Public Expenditure and Financial Accountability (PEFA¹) assessment of the public finance management (PFM) systems of the Municipality of the Central District of Honduras (AMDC) was prepared by a World Bank team, working closely together with the AMDC. The study is based on the Public Financial Management Performance Measurement Framework developed by the PEFA program. It incorporates the set of 28 indicators and 69 dimensions covering the entire budget cycle, drawing on international good practices for: (i) budget credibility; (ii) comprehensiveness and transparency; (iii) budget planning; (iv) predictability and control in budget execution; (v) accounting and reporting; and (vi) external scrutiny and audit.

The International Finance Corporation (IFC) is considering support to the Alcaldía Municipal del Distrito Central (AMDC) to help it access financing for basic infrastructure services without sovereign guarantee, for which a key requirement is a satisfactory financial management system. The World Bank carried out this study in support of IFC's interest, and to also provide input to the Government of Honduras' own decentralization strategy for the country, which is also reflected in the Honduras CPS (FY12-FY14). The Public Private Infrastructure Advisory Facility (PPIAF) Trust Fund through its Sub-National Technical Assistance (SNTA) program funded this activity.

The World Bank and the AMDC worked closely together during the preparation phase of the assessment. The Concept Note was approved in February 2012, and the preliminary report was reviewed in a Decision Meeting that took place in March 2013. On May 8, 2013, the team carried out a technical workshop with the participating entities, where the conclusions of the report were validated. The municipal authorities actively participated in the assessment, enabling the assessment team to interview more than twenty operational units in the Municipality, two cooperation agencies and seven central government and civil society entities.

The PEFA team was led by José Simón Rezk (Financial Management Specialist, LCSFM, World Bank). Core team members were: Antonio Blasco (Sr. Financial Management Specialist, LCSFM), Hernán Pflucker and Manlio Martínez Cantor (Consultants). Peter Fairman, Helms Cárdenas (Consultants) and Noris Salinas Reyes (WB) also contributed to the report.

Quality assurance was provided through internal meetings and by the peer reviewers: Franck Bessette (Sr. Financial Management Specialist, LCSFM), Winston Cole (Sr. Financial Management Specialist, AFTME), Carolina Rendon (Public Sector Specialist, LCSPS) and José M. Rodríguez Alvarez (Sr. Public Sector Specialist, LCSPS). The preparation of the PEFA also benefited from comments and support from Giuseppe Zampaglione, Trichur K. Balakrishnan and Daniel Boyce. Comments were also received from the PEFA Secretariat, which were addressed in the report. Development partners also provided consolidated comments through the PEFA follow-up Committee within the Aid Effectiveness Technical Roundtable (comprised by the World Bank, USAID, European Commission and IADB).

The authors express their appreciation to the officials of the Municipality, led by Aldo Boquín, Director, Finance and Administration Directorate, which greatly facilitated the preparation of this report through their availability and cooperation

¹ <http://www.pefa.org/en/content/pefa-framework>

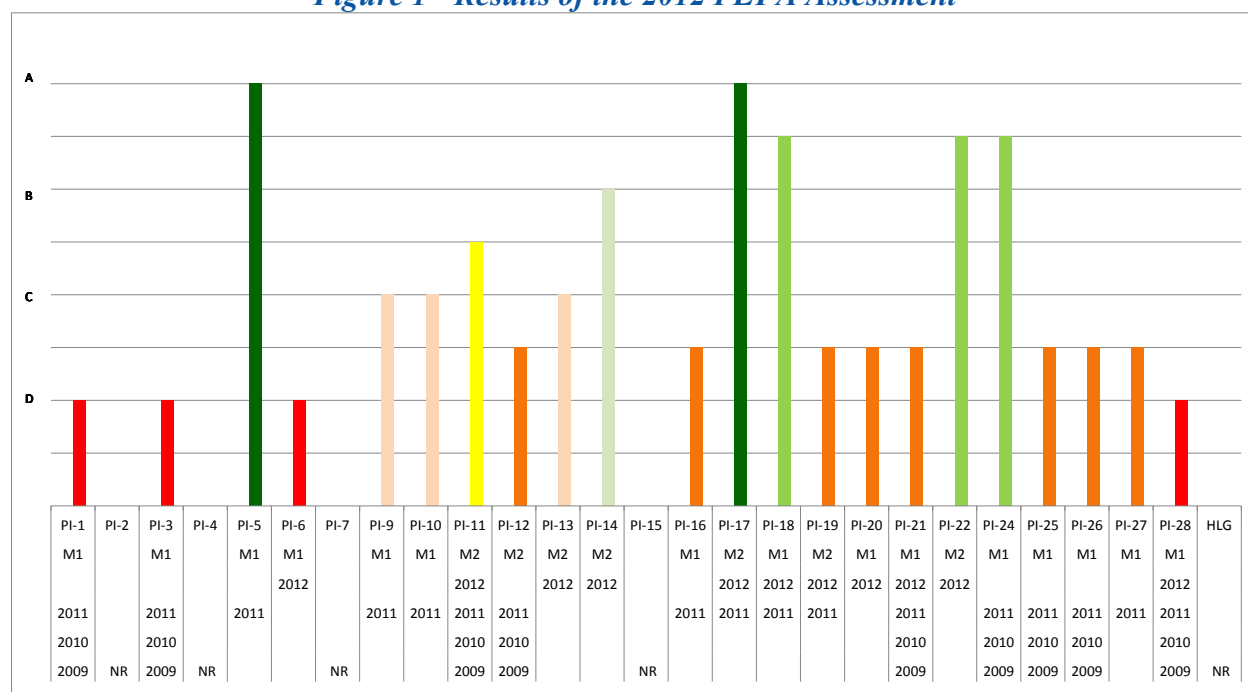
Summary Assessment

This assessment analyzes the performance of the Municipality of the Central District of Tegucigalpa’s (AMDC) PFM systems in terms of 28 high level performance indicators (PI) grouped into six core dimensions. International best practice standards are used as benchmarks for evaluating performance. The assessment provides a baseline against which PFM system performance can be assessed in future years; improved performance is reflected in higher ratings for the PIs. The PEFA assessment also may be used to help determine whether PFM reform strategies and action plans need to be adjusted.

I. Main findings

Figure 1 graphically summarizes the results of the assessment. The column for each indicator shows the rating. Ratings of A indicate that PFM systems are performing at international standard level, and lower ratings indicate performance falling below international standard level. During the course of the assessment, 5 indicators were classified as NR (Not Rated), as the information available was insufficient to score the indicators. Additionally, 5 indicators were assessed as NA (Not Applicable), as these indicators are not applicable to the AMDC.

Figure 1 - Results of the 2012 PEFA Assessment



Note: The years shown at the foot of Figure 1 indicate the years covered by the PI (e.g. PI-1 was assessed according to information covering 2009-2011). The term ‘M1’ indicates that the PI was assessed according to the ‘weakest link’ method. The term ‘M2’ indicates that the PI was assessed according to the simple average method.

Table 1 shows the main strengths and weaknesses of AMDC’s PFM systems. The inconsistency of the information available for the years prior to 2010 affected the measurement of several indicators.

Table 1 - Main strengths and weaknesses of AMDC’s PFM

Indicator	Main strengths
PI-5	Classification of the budget
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-22	Timeliness and regularity of accounts reconciliation
PI-24	Quality and timeliness of in-year budget reports
	Main weaknesses
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-3	Aggregate revenue out-turn compared to original approved budget
PI-6	Comprehensiveness of information included in budget documentation
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure
PI-21	Effectiveness of internal audit
PI-25	Quality and timeliness of annual financial statements
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external auditor reports

Integrated assessment of PFM performance.

Credibility of the budget (Performance Indicators 1-4)

These indicators measure whether the budget is realistic and is implemented as intended.

The low ratings indicate a budget that lacks credibility, with expenditure and revenue outturns very different from the approved budget. Information on PI-2 (measuring deviations from the approved budget for each budget institution) was not available, but the low ratings under PI-16 (predictability of funds available during the year to execute the budget) suggest low credibility at budget institution level as well as at aggregate level. Revenues fell far short (30 percent) of budgeted amounts in 2009 and 2010, as in the three previous years. Nevertheless, expenditure budgets have increased each year, the result being payments arrears due to budget institutions committing funds for expenditures (PI-16) when the funds were not available. Arrears eventually have to be paid off. For those outstanding at the end of the year, arrears have to be paid out of future budgets, at the expense of service delivery planned in those years.

In-year budget performance reports should help managers to determine if the budget is going off track and to take remedial action. The budget classification system (PI-5) is good in principle and thus budget performance reports should be able to provide useful information to management, and they fulfill their purpose within the AMDC. Reports to Municipal Council only indicate, however, expenditures on an economic classification basis, and not on an administrative and functional basis, and managers therefore have little basis for taking remedial measures, as they don’t know how well resources are being used for delivering services. The same case is verified with reports to external entities as TSC and SEIP.

Comprehensiveness and transparency (*Performance Indicators 5-10*)

These indicators measure whether the budget and fiscal risk oversight are comprehensive and whether fiscal and budget information is accessible to public.

The budget classification system meets international standards, but, as indicated above, it is not used for preparing budget reports. So, neither AMDC nor the public can follow how well municipal resources are being used to deliver planned services. Management have flexibility for in-year reallocations of resources, but in a non-transparent manner, thus reducing accountability and the possibility of controlling municipal expenditure.

Policy-based budgeting (*Performance Indicators 11-12*)

These indicators measure whether the budget is prepared with due regard to government policy.

Operational units in AMDC only prepare their action plans, which are revised and adjusted by the Finance and Administration Directorate (FAD), who assigns the resources to each unit. No budgetary policies are issued, and the units are not given any instructions regarding institutional priorities. The medium term vision is provided by the City Plan, but this does not contain data on costs. Financial planning is very limited and centralized and therefore the discretionary component in budget preparation and execution is high.

Predictability and control of budget execution (*Performance Indicators 13-21*)

These indicators measure whether the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

Because funds inflows have been less than expected, cash flow is not adequate and therefore executing units may not receive the cash resources required for executing their budgets. The main control over cash allocation takes place at payment level, where discretionary decisions are made regarding payments to be made (i.e. the budget is executed according to a cash rationing system). The lack of budgetary policies and pre-established priorities weakens the internal control systems and promotes splitting of contracts into sections in order to expedite purchase processes. The downside of such expediting, however, is that the costs of inputs may be higher than would have otherwise been the case in a more orderly environment; service delivery suffers as a result.

Accounting, recording and reporting (*Performance Indicators 22-25*)

These indicators measure whether adequate records and information are produced, maintained, and disseminated for purposes of decision-making, control, management, and reporting on operations.

The system for recording transactions appears good (PI-24), but the annual financial statements lack credibility due to the lack of clarity of the annual accounts of previous years (PI-25). Lack of information regarding the use of municipal resources by the executing units is a weakness that compromises management accountability.

External scrutiny and audit (*Performance Indicators 26-28*)

These indicators assess the arrangements for scrutiny of public finances and follow up by the executive.

The audit reports prepared by TSC (Honduran National Supreme Audit Institution) and submitted to the Municipal Council (policy-making body and overall governing entity of the Municipality) comply with legal requirements. They lack depth, however, in terms of adequately identifying the internal control weaknesses of the audited institutions. Audit recommendations are followed up by the audited institutions only to a limited extent.

Central Government Practices (*Performance Indicator HLG-1*)

Compared to a typical Latin American municipality, transfers from the central government to the AMDC represent a small share of its income. The lack of predictability of the transfers in terms of amounts and timeliness, does however have an adverse impact on budget execution.

II. Assessment of the impact of PFM weaknesses

Aggregate fiscal discipline. Income projections tend to be inaccurate, with projections exceeding outturns. Expenditure commitments are based only on approved budgets, the result being payments arrears due to payables exceeding cash availability. The budget and budget performance reports are presented on an economic classification basis with no indication of the linkages between policy objectives, as reflected in development plans, and expenditures. Furthermore, budget performance reports do not identify how much of the budget has been committed, how much has been paid or is due to be paid, and how much has been collected. Management is therefore constrained in its ability to make informed decisions on how best to ration cash for payments in the event of income shortfalls; such decisions are therefore highly discretionary.

The Municipal Council does not play a strong oversight role. Budget documentation is not provided to it in a form that facilitates a meaningful review. Moreover, it often approves budgets with insufficient income and approves accountability reports that show deficits, without requesting corrective actions. It does not follow up on the findings of external audit reports.

Strategic Resource Allocation. The budget should in principle provide for a strategic allocation of resources in line with AMDC/Municipal Council objectives and priorities, but in practice this is hindered by the lack of a realistic estimation of the Municipal income. Resource allocation is ultimately limited by the lower-than-planned tax collection, with one result being that an important part of the yearly budget goes unexecuted. The budget is approved on an economic classification basis only, thereby obscuring any strategic focus. Operational units (cost centers) prepare budgets and annual operational plans consistent with objectives and priorities; however, since the budget is not prepared in a participatory manner, the resources that the FAD assigns based on cash rationing considerations often differs from operational requirements. Absence of meaningful budget performance reports (which are prepared on an economic classification basis only), hinders the ability of public finance officials to make strategic in-year adjustments to the budget in response to income shortfalls.

Efficient Service Delivery. Some municipal services, such as municipal infrastructure maintenance, are contracted out to third parties. Payments for these may be subject to delays, which impact negatively on both the cost and quality of services provided; as the level of services may be reduced, cancelled or interrupted. In addition, income shortfalls may lead to the budget for a particular service being re-allocated to another area of expenditure, also impacting on the quality of service delivery. Nevertheless, some primary municipal services, for example, solid waste disposal, are of high priority, and tend not to be disrupted, enabling continuous and efficient service.

III. Prospects for reform planning and implementation

A new political-administrative organization scheme adopted by the current Government and described in the CVNP document, promotes transferring some functions and responsibilities from the central government to the municipal sector. The AMDC is therefore preparing an integrated short and medium-term development plan. This process is backed by the current municipal administration, and by the conditions of the AMDC's syndicated loan, which established a formal operational framework for budget preparation and execution.

Table 2 summarizes the scores for each dimension evaluated by this Study.

Table 2 - Summary table of scores

Indicator	Concept	2012				
		PI	(i)	(ii)	(iii)	(iv)
A. PFM-OUT-TURNS: Credibility of the budget						
PI - 1	Aggregate expenditure out-turn compared to original approved budget	D	D			
PI - 2	Composition of expenditure out-turn compared to original approved budget	NR	NR	NR		
PI - 3	Aggregate revenue out-turn compared to original approved budget	D	D			
PI - 4	Stock and monitoring of expenditure payment arrears	NR	NR	D		
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI - 5	Classification of the budget	A	A			
PI - 6	Comprehensiveness of information included in budget documentation	D	D			
PI - 7	Extent of unreported government operations	NR	NR	A		
PI - 9	Oversight of aggregate fiscal risk from other public sector entities.	C	C	NA		
PI-10	Public access to key fiscal information	C	C			
C. Budget Cycle						
<i>c. i.) Policy based budget</i>						
PI-11	Orderliness and participation in the annual budget process	C+	C	D	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D	B	D	NA
<i>c. ii) Predictability and Control in Budget Execution</i>						
PI-13	Transparency of taxpayer obligations and liabilities	C	C	B	D	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	C	B	B	
PI-15	Effectiveness in collection of tax payments	NR	NR	B	A	
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	D	A	D	
PI-17	Recording and management of cash balances, debt and guarantees	A	A	A	A	
PI-18	Effectiveness of payroll controls	B+	B	A	A	B
PI-19	Competition, value for money and controls in procurement	D+	A	D	D	D
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	C	D	B	
PI-21	Effectiveness of internal audit	D+	C	C	D	
<i>c. iii) Accounting, Recording and Reporting</i>						
PI-22	Timeliness and regularity of accounts reconciliation	B+	A	B		
PI-24	Quality and timeliness of in-year budget reports	B+	B	A	B	
PI-25	Quality and timeliness of annual financial statements	D+	D	A	A	
<i>c. iv) External Scrutiny and Audit</i>						
PI-26	Scope, nature and follow-up of external audit	D+	D	D	B	
PI-27	Legislative scrutiny of the annual budget law	D+	D	D	A	B
PI-28	Legislative scrutiny of external auditor reports	D	D	D	D	
E. Central Government Practices						
HLG-1	Predictability of central government transfers	NR	A	NR	C	

1. Introduction

This section describes the process and methodology used for preparing the Public Expenditure and Financial Accountability (PEFA) assessment.

Objective and assessment process

This assessment is a product of a coordinated process between the Municipality of the Central District (AMDC) and the World Bank.

The current administration of AMDC started to reform the municipal financial system in order to improve administrative efficiency and the management of municipal funds. This reform process was supported by the establishment of a supervised process of budgetary management agreed upon as part of a municipal financing program with Honduran banks, known as the Syndicated Loan.

The PEFA assessment will set a baseline for the current performance of the PFM system and help to identify windows of opportunity for reforms to the system in line with international best practices. A follow-up PEFA assessment in a few years' time would enable assessment of progress in PFM system performance against the baseline.

The participation of the Finance and Administration Directorate of the AMDC was critical to the carrying out of this assessment. It sensitized municipal officials about the merits of the PEFA methodology, thereby enabling their cooperation during the assessment exercise.

Prior to the assessment process, an "Identification Mission" took place in February 2011, which established the scope of the assessment process, identified the relevant features of the municipality's PFM system and identified the documentary requirements.

Following the preparation of a work plan, the second phase of the work began with the main assessment mission in May 2012. During the first week a workshop was held (35 participants). The Ministry of Finance, the Ministry of Interior and Population and the TSC represented the Government. The information collecting process was completed in June 2012.

The first draft of the report was prepared during the field mission, which was completed on July 31, 2012.

The validation phase began with the presentation of the draft report to the Municipality and the World Bank. During this phase a workshop was held during which the consultants presented their conclusions about the assessment performed, as well as their observations and findings. The Workshop included ample representation from the Government and was opened by the Minister of Planning. Attending the workshop were municipal and Government authorities, as well as some donor representatives, which enabled discussion, comments, and validation of the conclusions reached by the team (List of Workshop participants is included in Annex 7). Written comments by the main Donors were received in a consolidated manner through the PEFA follow-up Committee within the Aid Effectiveness Technical Roundtable. Comments were then incorporated into the draft report and a final version was prepared on June, 2013.

Scope of the assessment

The assessment covered the activities performed by the 44 operational units (cost centers) of the Municipality. The AMDC has a decentralized unit (PROMDECA) that holds agro-industrial activities, which was visited in order to establish the possible financial risk that these might pose for AMDC. As the Municipality receives central government funds (transfers), the relevant entities were visited (SEFIN and SEIP) in order to establish the terms on which those transfers are executed. Because the new territorial organization of the Country implies a new vision of local development as well as new municipal responsibilities, the team met with the Ministry of Planning, which is leading the process. The Supreme Audit Institution (TSC - the external auditor at central government level), The Institute for Access to Public Information, and the State's National Contracting and Procurement Office (ONCAE) were also visited. Finally, representatives of civil society organizations were interviewed in order to obtain an external view of the workings of the PFM system under the control of AMDC.

The assessment covers the years 2009-2011 and, in some cases, 2012.

2. Municipality of the Central District of Tegucigalpa - Background

2.1. Economic and fiscal situation of the municipality

Economic context

The Central District is located in the central area of the country, in the Department of Francisco Morazán and is also the capital of the Republic. In the new political-administrative organization scheme adopted by the present Government and described in the Country Vision and National Plan - Law Decree 286-2009 (*CVNP*), the Central District is located in Sub Region 12 along with another nineteen municipalities. The sub region is formed by the watersheds of the rivers Choluteca, Goascorán, Nacaome, Negro and Sampile.

Because Tegucigalpa is a capital city with mainly urban characteristics and a vast and growing population, its economy in principle provides a robust revenue base for the city government, the main taxes being personal and property taxes. The population has increased by close to 200,000 inhabitants during the last ten years according to the records of the SEIP, the growth providing an incentive for industrial and commercial business development. Figure 2, Figure 3 and Table 3 show the structure and performance of income.

Figure 2 - AMDC Tax Revenue 2009-2011

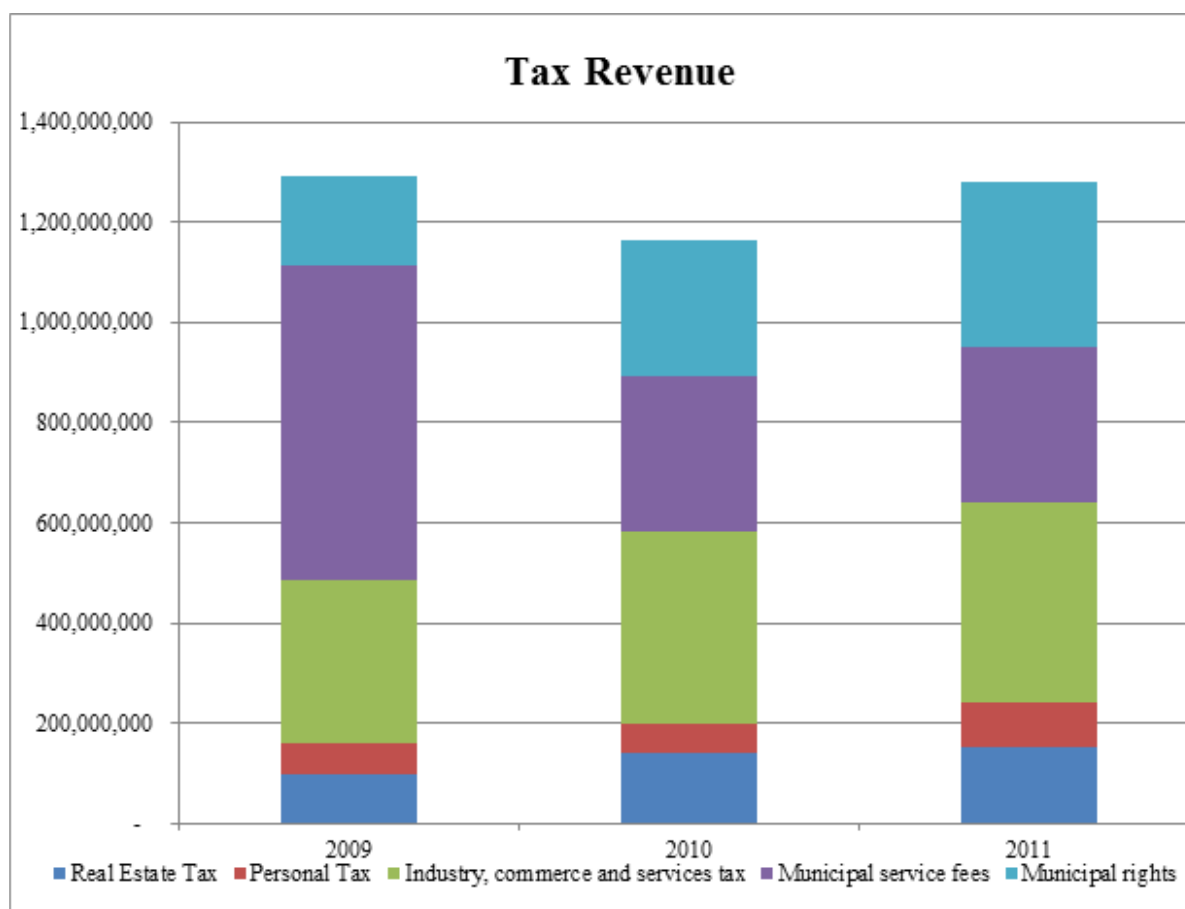


Figure 3 - AMDC Tax Revenue vs Other Income 2009-2011

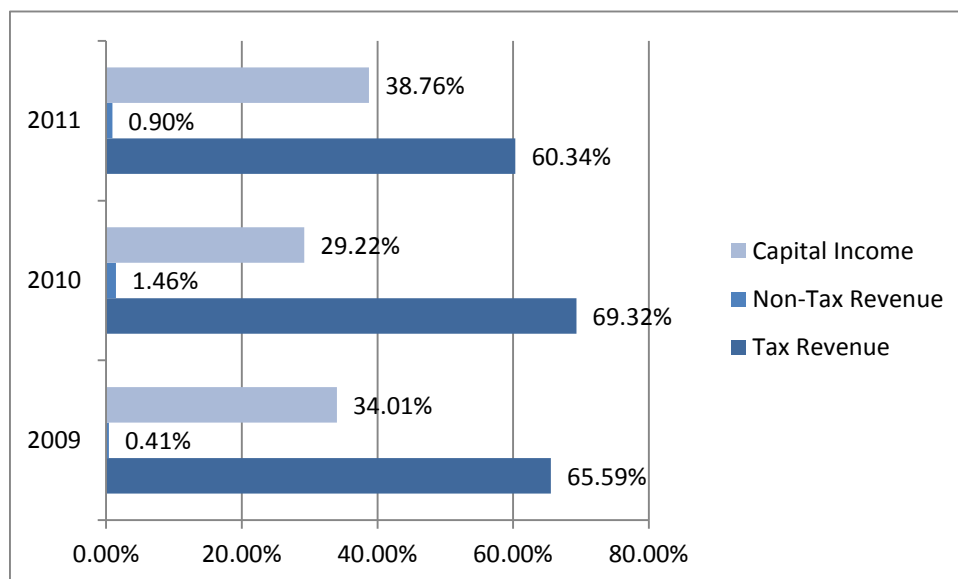


Table 3 - AMDC revenue structure

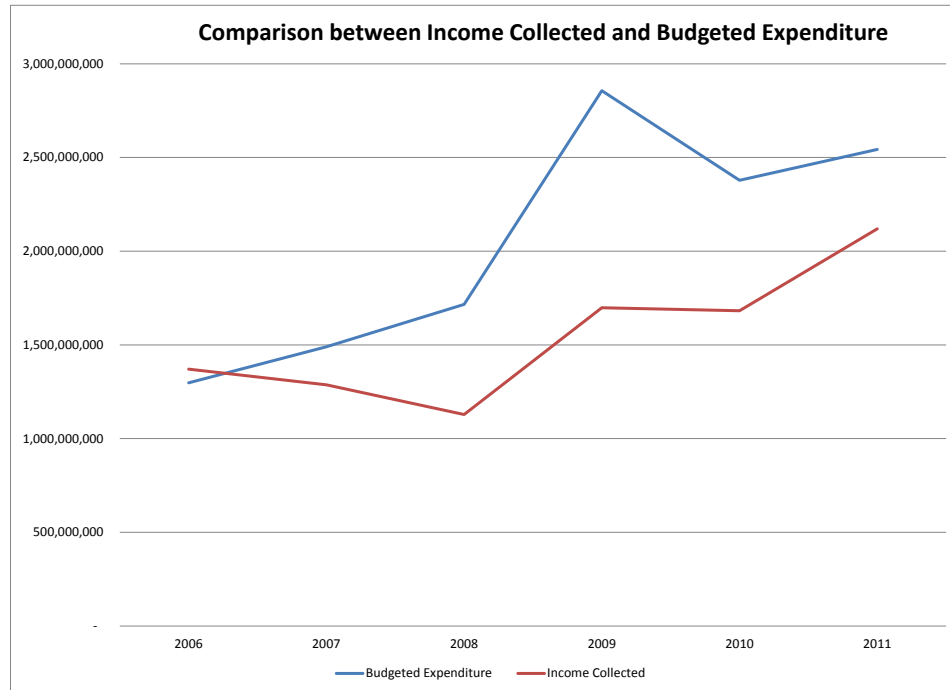
Revenue Structure (as a percentage of the total collected)			
	2009	2010	2011
Total Income	100.0%	100.0%	100.0%
Current income	66.0%	70.8%	61.2%
Tax income	65.6%	69.3%	60.3%
Real estate tax	4.9%	8.4%	7.2%
Personal tax	3.3%	3.5%	4.2%
Industry, commerce and services tax	16.4%	22.7%	18.8%
Municipal service fees	31.9%	18.4%	14.6%
Municipal rights	9.1%	16.3%	15.5%
Non-tax income	0.4%	1.5%	0.9%
Capital income	34.0%	29.2%	38.8%
Loans	7.1%	15.5%	23.0%
Transfers	21.2%	12.6%	14.2%
Other Capital Income	5.7%	1.1%	1.6%

Source: AMDC Budget settlement reports.

Fiscal situation

The international financial crisis, that started in 2008, followed by an internal national political crisis in 2009, impacted on domestic revenues and the international cooperation programs with the country, resulting in financial resources not being sufficient to finance budgeted expenditures. This situation worsened the municipal financial situation and increased the payment arrears incurred by the Municipality. Figure 2, based on budget settlement reports prepared by SEIP, shows that tax revenues based on population and businesses continued to grow during 2009-2011, but that the collection of municipal and service fees was severely impacted (as also shown in Table 3). Figure 4 shows that income collection after 2007 was insufficient to finance budgeted expenditure.

Figure 4 - Comparison between revenue collected and budgeted expenditure



The Municipality’s financial crisis led to a drastic solution in the form of an agreement between the Municipality and the local financial system, whereby the Municipality ceded the administration of its funds to a trust fund, which also supervised budgeted execution. The trust fund protects the municipality from potential asset seizures arising from lawsuits mounted by its creditors. The trust fund receives remuneration for its services.

The new municipal administration that began its term in January, 2010 is making an effort to improve the quality of the Municipality’s financial information as a pre-requisite to strengthening financial management. Even though official quarterly and yearly financial management reports were being presented to government entities, such as SEIP and the TSC, the information they contained was not very precise. The quality of information started to improve during 2010. As shown in Table 4 on budget performance, expenditure had previously been reported mainly on an aggregate basis and not for recurrent and capital expenditure separately.

Payments arrears were also not being reported on until 2010 due to lack of reliable information. The yearly budget settlement reports for 2010 and 2011 show that payments arrears (‘pending payments’) is an issue, with 21.5 percent and 14.5 percent of expenditure commitments not being paid by the end of the year. Table 4 summarizes fiscal performance. The table shows the high burden of debt service (reaching 35 percent of recurrent expenditure in 2011), reflecting the slower growth of income than of expenditure. The burden is at the expense of services that could have been delivered had incomes been higher. Financial performance strengthened in 2011 as a result of improved financial management on both the income and expenditure side, the latter stemming from the conditions of the Syndicated Loan that foster a reduction in non-vital expenditures and an increase in service delivery-oriented expenditures.

Table 4 - Fiscal Performance

Comparison between municipal income and expenditure ^(*) <i>(current values in HNL million)</i>					
	2007	2008	2009	2010	2011
Total income	1,287	1,129	1,983	1,682	2,120
Total expenditures	1,490	1,716	2,856	2,366	2,395
<i>Current expenditures</i>	0	0	0	0	1,768
<i>Capital expenditures</i>	3	0	112	1	9
<i>Municipal debt service</i>	518	608	887	389	741
(*)Refers to figures recorded and reported in the annual budget settlement reports sent to SEIP. Source: SEIP					

The tables in Annexes A1.1, A1.2 and A1.3 provide detailed information on budget structure and performance. Expenditure is shown only on an economic classification basis.

2.2. Description of the legal and institutional framework of the Municipal PFM System

The 1936 Constitution stated that “*for the administration of the departments, these are divided into Autonomous Municipalities, represented by Municipalities elected by the people and in Districts governed by Councils, whose members shall be appointed by the Executive Power...*”. Part of municipal autonomy was lost when administrative, economic and political control of the districts was given to the Ministry of the Interior and Justice, among these the Central District, which includes the Municipalities of Tegucigalpa and Comayagüela. In 1957, all the Municipalities were given back their autonomy, with the exception of the Central District. The Council officials were appointed by the Central Government and likewise many services were financed and provided by the Central Government. This lack of municipal autonomy weakened the District municipal administration and reduced its capacity to provide for municipal socio-economic development based on greater participation of the population. In 1976 the Central Government created the Central District Metropolitan Council as a dependency of the Ministry of the Interior and Justice (Decree 309-1976), which remained as such until 1986, when Municipality status, with the government elected by the people, was re-instated.

Legal Framework for public financial management

Autonomy of municipal governments. Both the Constitution and the Law of Municipalities make clear the high degree of autonomy of municipalities. This autonomy is manifested in the freedom of the public to elect municipal council members and to grant them the authority to adopt organizational and functional structures that meet the needs of the public. The basic structure of municipal governments is established by the Law of Municipalities: the Municipal Development Council, the Municipal Treasury, the Municipal Commissioner, the Municipal Council, and the Municipal Internal Auditor.

The autonomy granted to municipal governments includes budget management and the capacity to set the tariffs for municipal public services, as well as the contributions for community improvements, but does not go so far as to establish taxes, which can only be established by the National Congress, and to incur debt, which is subject to approval from the Central Bank of

Honduras and the SEFIN. The Municipal Councils are independent from the Powers of the State, and are responsible for their actions to the Courts of Justice.

The municipal regulatory framework. Municipal regulations/guidelines are based on:

- The Law of Municipalities (issued in 1927 and modified in 1958, 1968, 1976, 1984, 1990, 1991, 2000, and 2009)
- The Improvement Contribution Law
- Land Zoning Law
- Organic Budget Law and its applicable guidelines
- State Contracting Law
- Country Vision and National Plan –CVNP

In general, the Guidelines establish that the municipal development plans will be part of the National Development Plans and set the following as financial resource sources for the activities of municipalities: the availability of community lands; the income from investments within their borders; and, the income generated by the exploitation of natural resources within the lands. The further supervision of the usage of municipal resources comes under the Supreme Audit Institution (Article 231 of the Constitution). The Law on Transparency and Access to Public Information promotes good municipal resource allocation and administration.

Institutional framework for PFM

Overall institutional organization. The current legal framework outlines three essential elements for Municipal Management:

- The Municipality is the Government body, with legal capacity;
- The Municipal Council is a legal entity elected by the population of the municipality every four years. It is the policy-making body and overall governing entity of the Municipality; and
- The Mayor, who is the Chief Executive Officer of the Municipality, as well as its legal representative, and who chairs the Municipal Council.

Departments, under which municipalities fall, are politically headed by departmental governors, who are responsible for ensuring that municipal policies are in harmony with national policies. The CVNP Law, upon which the National Government Development Plan is based, has however, created the position of the Regional Commissioner to hold the same responsibility. Harmonizing the responsibilities of both positions is therefore important. Both positions are politically appointed by the executive branch (the former is appointed by the President and the latter by SEIP).

The Ministry for Planning and External Cooperation (SEPLAN) has absorbed the functions of the Land Zoning Law and is in operational charge of including the municipal development plans into the National Government Plans, as envisioned by the Law. To this end, the AMDC is required to establish a planning unit to prepare, monitor and evaluate the medium and long term municipality development plans.

The administrative structure of AMDC. The AMDC Municipal Council comprises the Mayor, the Vice-mayor and 10 aldermen/women, who all receive a salary for their services to the municipality. In terms of financial management, the Municipal Council has the authority create, reform and abrogate the municipality's regulating instruments; create, modify, eliminate and transfer administrative units; approve the revenue mobilization and borrowing plans and receive donations; and approve the annual municipal budget and any subsequent adjustments to this.

The Mayor. The Mayor is the highest executive figure in the Municipality. All decisions made or actions carried out by the Municipal Council are valid and must be obeyed by the community only when sanctioned by the Mayor himself. With regard to financial administration, it is the Mayor's responsibility to prepare and present the following to the Municipal Council for approval: the budget, the Revenue Plan and the Position Classification Manual. The Mayor can request the Municipal Council to create any administrative structures according to the needs of the municipality and to find the financial resources to pay for them.

The AMDC is organized into nineteen management structures, two departments, one directorate, and seventeen units. There are also units created by Law, such as the Municipal Secretariat, the Municipal Treasury, the Municipal Internal Auditor, the Municipal Police, the Accountability Commission, the Municipal Commissioner, and the Municipal Development Council, all of whom depend on the Municipal Council. Figure 5 at the end of this section, presents the AMDC institutional flowchart as published on the AMDC Website.

Key features of the PFM system

Income. Income generated by AMDC represents 80 percent of its financial resources, and comprises revenues from taxes set by the National Congress and fees for services set by the municipality; as well as the non-tax income that comes from the sale of municipal goods, subsidies and transfers, donations, interest and internal or external loans.

Internal and external loans. Loans from internal sources must be within the maximum amount approved for internal financing for municipal governments, according to the regulations established by the Public Indebtedness Policy (PEP), which are approved annually by the Public Loans Commission. External loans must be approved by SEFIN and the Central Bank.

Transfers. The central government makes two types of transfers to the municipalities, and the disbursement is administered in the first case by SEFIN (monthly disbursements) and in the second case by the SEIP (quarterly disbursements). The disbursement of these transfers is conditional on the municipalities complying with certain requirements, and maximum or minimum limits also apply to the use of the funds in terms of specific municipal services.

The municipal budgetary system. The Law of Municipalities places great importance on budget matters, establishing the guidelines to be followed by the municipalities in preparing and executing budgets. Budgets should be prepared on a program basis according to Annual Operation Plans, themselves based on the Municipality four year plan. The income budget consists of income from 'Contributors' (taxes, fees and contributions) and from 'Non-Contributors' (sales, loans, transfers from Central Government, public works recovery). The Municipal Council must receive the draft budget by September 15th at the latest in order to analyze it and approve it by December 31st at the latest each year. If it is not approved, the budget from the previous year will be applied.

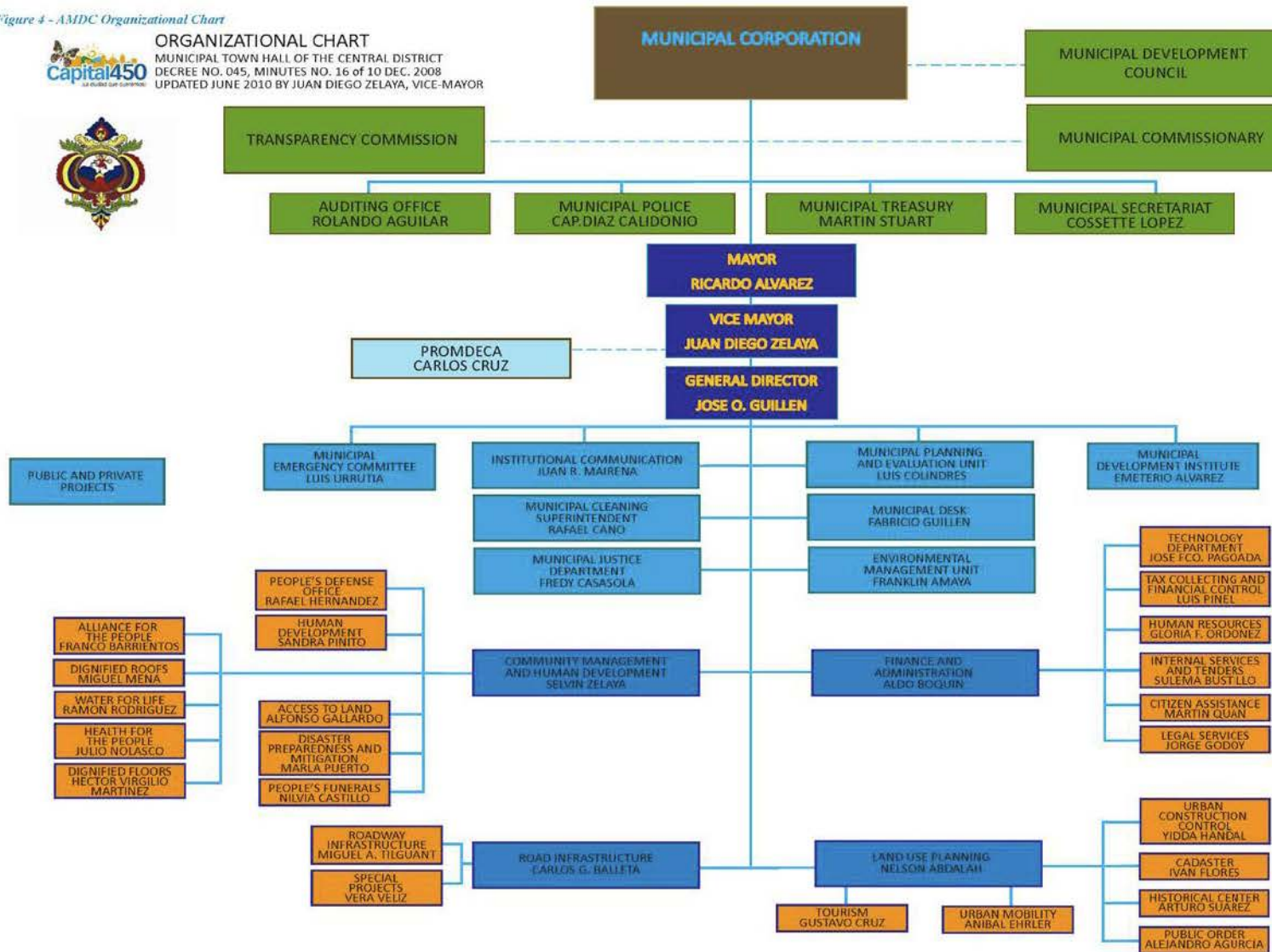
The recurrent budget is legally required to be balanced, with expenditures covered entirely by incomes. Borrowing and the proceeds of the sale of assets can only be used for capital investment. Expenditures and expenditure commitments have to be based on the approved budget and cash availability; no commitments can be made even under the approved budget if there are funding shortfalls. The budget for operational expenses cannot exceed 40 percent of the total recurrent budget.

Figure 5 - AMDC Organizational Chart

Figure 4 - AMDC Organizational Chart



ORGANIZATIONAL CHART
 MUNICIPAL TOWN HALL OF THE CENTRAL DISTRICT
 DECREE NO. 045, MINUTES NO. 16 of 10 DEC. 2008
 UPDATED JUNE 2010 BY JUAN DIEGO ZELAYA, VICE-MAYOR



3. Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

PI-1. Aggregate expenditure out-turn compared to original approved budget

The year 2009 was politically very complicated at national government level, and although not directly affecting municipal management, caused a generally unstable environment, which negatively affected municipal finances due to a decrease in tax collection.

In 2010 the Municipality raised the real estate tax rate, which caused a significant increase in the tax burden of citizens, causing lower tax revenues than budgeted for, as many citizens refused to pay them. Other tax regulations were issued that year, which were harshly criticized by the citizens, leading to the suspension of some of them by court order, with negative impact on revenues.

In general the significant revenue shortfalls reflect in part the lack of harmony between municipal proposals and citizen response.

- i) *The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges but also excluding externally financed project expenditure).*

The AMDC records budgetary performance monthly on spreadsheets. The annual budget is classified according to cost centers, programs, subprograms and activities (as discussed under PI-5). The FAD is responsible for preparing budget performance reports, but does not do so at the same level of detail as shown in the approved budget. The reports, which are distributed monthly to the Municipal Council, quarterly to the Ministry of Interior and Population (as required by law) and annually to the national Supreme Audit Institution, are based only on the economic classification of expenditure (i.e. personnel expenses, non-wage recurrent expenses and capital expenditure), and does not indicate budget performance of the administrative units of the Municipality. Table 5 shows budget performance on this basis.

Table 5 - AMDC expenditure performance (HNL thousands)

	2009		2010		2011	
	Approved	Executed	Approved	Executed	Approved	Executed
Total expenditure	2,856,439	2,106,753	2,366,993	1,454,190	2,395,847	2,029,888
Personnel Services	592,709	692,841	621,567	559,202	699,875	620,267
Non Personnel Services	65,833	28,206	42,739	81,971	90,754	87,964
Materials and Supplies	26,212	14,885	19,325	14,862,082	34,975	16,207
Capitalized Assets	1,254,516	423,145	732,410	382,985	981,320	486,367
Transfers	45,922	60,342	45,922	25,359	8,481	76,917
Financial Assets	0	0	0	0	0	0
Debt service	441,680	887,334	634,022	389,809	505,443	741,414
Other	0	0	0	0	0	0
Global allocations	0	0	0	0	75,000	750

Source: SEIP 2009, 2010 and 2011 Annual Budget Report

Total expenditure was lower than budget amounts in 2009 and 2010 due to revenue performance being lower than budgeted (PI-3). Table 6 shows primary expenditure performance. While the PI-1 receives only a D rating, it should be noted that budget performance has shown strong improvement from 2009-11."

Table 6 - AMDC budget performance – Primary expenditure (HNL thousands)

	2009		2010		2011	
	Approved	Executed	Approved	Executed	Approved	Executed
Total expenditure	2,856,439	2,106,753	2,366,993	1,454,190	2,395,847	2,029,888
Debt Service	441,680	887,334	634,022	389,809	505,443	741,414
Projects Financed by Donors	0	0	0	0	0	0
Primary Expenditure	2,414,759	1,219,419	1,732,971	1,064,381	1,890,404	1,288,474
Variance		-49.50%		-38.58%		-31.84%

Source: SEIP 2009, 2010 and 2011 Annual Budget Reports

Indicator	Rating	Justification
PI-1 (M1)	D	
(i)	D	In two of the last three years, actual primary expenditure deviated from the original budget by more than 15 percent.

PI-2. Composition of expenditure out-turn compared to original approved budget

The Annual Operational Plans (POA) that form the basis for budget preparation are prepared by the Cost Centers (Operational Units), each of which represents a municipal service delivery function. These plans are forwarded to the Finance and Administration Directorate (FAD), which turns the plans into budgets for each respective cost center, excluding personnel costs, which are centrally administered.

As indicated under PI-1, the budget is organized by expenditure objectives grouped by cost centers, programs, subprograms and activities. The FAD consolidates the cost center budgets into one budget document, which is then presented to the Municipal Council, but the budget is grouped by expenditure objective only. The approved budget is therefore not linked to AMDC policies since it is not possible to identify the resources allocated to each item of service delivery according to those policies.

With regard to sub-indicator (ii), Article 52 of the 2011 Budgetary Regulation establishes: *“The municipal administration will have available to it a maximum amount of 5 percent of budgeted income in order to establish a ‘Contingency Allocation’ for the 2011 fiscal period”*.

Two operational units administer expenditures related to emergencies: the Emergency Council (CODEM), and the Disaster Preparedness and Mitigation Management (DPMM) unit. The CODEM provides assistance in the event of a disaster. The DPMM unit identifies risks, provides training and recommends solutions to disasters.

CODEM’s operational expenditures mainly cover the personnel working in the unit, with the cost recorded in the budget of the Human Resource Management department of FAD. Therefore, execution of its budget does not generate any changes in the budgets of other operational units, and its budgets should not be excluded from aggregate primary expenditure in terms of the rating of dimension (i).

The DPMM Management unit’s situation is similar to that of CODEM. Its budget, which excludes personnel costs, is mainly directed towards executing flood control projects in line with an already prepared improvement plan. The execution of its budget therefore does not alter the budgets of other units, and so its budget should also not be excluded from aggregate primary expenditure in terms of rating dimension (i).

The contingency fund of 5 percent of current income should be subtracted from aggregate primary expenditure in terms of rating dimension (i). The fund could be utilized by the CODEM DPMM units only in the event of an unforeseen event that requires that these units should receive additional funding as a matter of urgency.

i) Extent of variance in the composition of expenditure during the last three years, excluding contingency items.

The approved budget shows expenditure on an economic classification basis only, and rating of this dimension is therefore not possible. Information on resource allocation according to administrative classification is provided to the FAD during the budget preparation process, but is treated by the Directorate as working papers only and is not reflected in official budget documentation. The Municipal Council is not even aware of the information.

ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

The contingency fund comprising 5 percent of budgeted income can be allocated to CODEM and the DPMM unit in the event of unforeseen expenditures arising from an emergency. As noted under dimension (i), budget performance reports are on an economic classification basis only, and so the actual expenditures of these two units are not reported upon. Rating of this dimension is therefore not possible.

Indicator	Rating	Justification
PI-2 (M1)	NR	
<i>(i)</i>	NR	The approved budget shows expenditure on an economic classification basis only and so rating of this dimension is not possible.
<i>(ii)</i>	NR	The budget contains a contingency allocation, but budget performance reports do not indicate if this has been used, so rating of this dimension is not possible.

PI-3. Aggregate revenue out-turn compared to original approved budget

The revenue of the Municipality is collected through an agreement with the banking system. The banks collect the revenue and then deposit them into AMDC’s trust fund account.

Revenues are accounted for the moment they are deposited into the trust fund account because AMDC’s accounting department is directly linked to this account. Assessment of PI-3 is based on the AMDC’s records of these revenues.

i) Actual domestic revenue compared to domestic revenue in the originally approved budget.

The PEFA methodology stipulates that PI-3 is assessed only in terms of the revenues that the government (whether central or sub-national) has control of. Revenues in the form of transfers from other entities, the central government in this case, should be excluded. In the case of AMDC, however, most transfers are based on revenues generated by municipal entities but

collected by the (national) Central Tax Authority For this reason, revenues are considered to depend on municipal activities and thus the constitutional transfers made by the Central Government to the AMDC are considered as domestic municipal revenue in terms of rating² PI3. The vehicle tax revenue collected by the central government on behalf of AMDC and then transferred to AMDC is not considered in this analysis, because AMDC has no control over its collection. Table 7 shows a summary of the revenue performance during 2009-2011 (Annexes A1.4 - A1.6 show complete revenue performance information for those years).

Table 7 - Summary of revenue performance, 2009-2011

<i>Municipal revenue performance(actual/budgeted)</i>			
	2009	2010	2011
Total revenue	69.4%	71.1%	88.5%
Current	84.5%	62.9%	78.0%
Capital	51.4%	103.5%	112.3%

Source: SEIP 2009, 2010 and 2011 Annual Budget Report

Table 8 - Detailed revenue performance for 2011 (HNL)

Municipal Revenue	Budgeted (including budget modifications)	Collected	Variation (in %)
Total Income	2,621,141,566	2,119,628,571	80.8
Current income	1,759,216,329	1,298,019,545	73.8
Tax income	1,690,131,137	1,278,936,392	75.7
Real estate tax	213,486,551	152,896,677	71.6
Personal tax	89,256,559	89,266,559	100.0
Industry, commerce and services tax	560,938,487	394,777,181	70.4
Livestock tax	3,283,622	3,283,622	100.0
Municipal service fees	367,476,323	310,196,575	84.4
Municipal rights	389,396,090	328,515,778	84.4
Other municipal rights	66,283,506	0	0.0
Non-tax income	69,085,192	19,083,153	27.6
Fines	66,293,405	16,293,405	24.6
Arrears payments	1,868,240	1,868,240	100.0
Property rental	923,547	921,508	99.8
Capital income	861,925,238	821,609,026	95.3
Loans	512,000,000	487,633,207	95.2
Sale of assets	1,768,426	1,768,426	100.0
Transfers	301,919,694	301,919,694	100.0
Inheritance, bequests, and donations	21,545,244	0	0.0
Other capital income	8,742,455	21,545,244	246.4

Source: SEIP – Accounts Report 2011 of the AMDC / Income-Budget Report AMDC

As shown in Table 8, revenues collected for the four largest tax income items, representing 90 percent of budgeted revenue, varied between 70 percent and 84 percent of budgeted amounts for 2011. Overall revenue performance was 81 percent, indicating a significant increase over the

²See guidance for indicator PI-3 in *Supplementary Guidelines for the application of the PEFA Framework to SNGs: January, 2013*

performance rates of 69 percent and 71 percent in 2009 and 2010 respectively. The collection rate for fines appears to have fallen, which could have resulted from a variety of factors e.g. that the estimates were unrealistic, that compliance is decreasing, or that excessive discretion is being applied (although in principle this is not permitted).

Real estate values were re-assessed in 2010 for the purposes of estimating tax liability for that year, which resulted in a substantial increase in the amount of tax payable. The re-assessment was strongly criticized by taxpayers, alleging that the increase in valuations bore no relation to the characteristics and location of the land, but was only based on spatial considerations (as a result, all else being equal, land with high commercial value was not taxed more than land with lower commercial value). Therefore in spite of higher tax assessments, the ultimate result was a decrease in real estate tax collections.

Indicator	Rating	Justification
PI-3 (M1)	D	
(i)	D	Domestic revenue was less than 92% or greater than 116% of budgeted revenue in two of the last three years

PI-4. Stock and monitoring of expenditure payment arrears

i) Stock of payments arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.

Quarterly and annual accountability reports prepared by AMDC explicitly show pending payments, but they do not differentiate between those that are overdue and those that are not. The AMDC has records of accounts payable for previous years back to 2005. The records indicate that payments due have in fact been paid off.

TSC’s report on AMDC’s Financial Statements for 2010 indicates a balance of accounts payable at the end of the year.

Payments are based on ‘Payment Orders’ issued by the Municipal Treasury and are financed by AMDC’s revenues that are deposited in the trust fund administered by the banking system. Because payments are processed only through specific Payment Orders, it is possible to identify the age of the pending payment (i.e. accounts payable) that the Payments Order refers to. The Payment Orders does not specifically identify whether the payment is “delayed”, though presumably the age of the pending payment provides a clue.³

As mentioned above under PI-1 and PI-3, AMDC tax collections have been below budget during the last few years. This had caused a substantial increase in accounts payable, amounting to almost HNL 400 million (or approximately 17 percent of the budget) at the end of 2010, which are reported as pending payments. But these do not necessarily represent arrears if the payments due date has not yet been reached.

³ The only funds that are separate from the trust fund account are formally established and authorized revolving funds, which cannot be used for settling accounts payables.

ii) Availability of data for monitoring the stock of expenditure arrears

Pending payments (without identifying those in arrears) are reported quarterly to the Municipal Council, which is required by the Law of Municipalities to submit a Quarterly Accountability Report to the Ministry of Interior and Population (SEIP) and, in the case of the last quarter of the year, also to the Supreme Audit Institution (TSC). These reports provide the basis for follow-up of pending payments due, but the reports do not indicate the age of the payments due and thus the extent that they are in arrears. There are no signs that this aspect of municipal management will improve.

Indicator	Rating	Justification
PI-4 (M1)	NR	
<i>(i)</i>	NR	Information is not sufficient to rate this dimension.
<i>(ii)</i>	D	Data on the stock of arrears at the end of the previous 2 years are not reliable. Even though data on arrears can be obtained from the date of Payment Orders, there is no evidence that any exercise was made during the last two years to determine this.

3.2. Comprehensiveness and transparency

PI-5. Classification of the budget

The Ministry of the Interior and Justice (SGJ) - recently changed to Ministry of the Interior and Population (SEIP) - has the responsibility for specifying the budget classification system, known as 'Budget Formulation Manual by Programs' that municipalities should use.⁴ The fourth and current version was issued in September 2006 by the Ministry of the Interior and Justice (SGJ), whose functions were then absorbed by the SEIP. The SEIP requires municipalities to use the budget structure established by the Manual for their preparation of quarterly financial reports, as mandated by the Law of Municipalities.

i) The classification system used for formulation, execution and reporting of the central government's budget.

The budget classification system follows a policy objective-oriented program budget structure: Hierarchically underneath programs are activities/projects. The economic classification (costs of inputs) is specified by program. Each program fits into the administrative structure of the Municipality, comprising 44 entities. There are 18 municipal functions, as established by article 13 of the Law of Municipalities (operations classification). The list of municipal operations is compatible with the one established by the United Nations Public Administration Classification of Functions in the year 2000 (CFAP), including nine (9) of the ten (10) main functions established, noting that the Defense function is not applicable to municipal management. Likewise, although it has different grouping system, the municipal functional classifier is consistent with the classifiers proposed in the Public Finance Statistical Manuals (MEFP 1986 and 2001) of the International Monetary Fund (IMF) applicable to municipal management.

⁴ The initial version of this Manual was not available to the team at time of preparation of this report

This indicator measures the quality of the budget classification system used for budget formulation, execution and reporting. AMDC, through the FAD, uses the classification system in full detail (administrative, functional and economic) for managing its institutional budget. Although the budget reports and the budget approved by Municipal Council do not show the same level of segregation, these aspects are not evaluated by the current indicator.

Indicator	Rating	Justification
PI-5 (M1)	A	
(i)	A	The budget classification system follows a program budget structure that clearly indicates the purpose of government spending and is consistent with COFOG. The activities (similar to sub-programs) and projects falling under programs are broadly consistent with COFOG sub-functions. The costs of inputs for each program are represented by an economic classification system consistent with GFSM. The program budget structure fits within an administrative (i.e. according to MDA – Ministries, Departments and Agencies) classification system.

PI-6. Comprehensiveness of information included in budget documentation

Table 9 summarizes the information shown in budget documentation. The custom is that the Mayor or the Vice-Mayor presents the budget to the Municipal Council and delivers budget projections of revenue and expenditure. Articles 93-95 of the Municipal Law state the content of the municipal budget. The content relates mainly to the new budget and does not include historical and/or current year information.

Table 9 - Information included in budget documents

Information Component	Included	Comment
1) Basic macro-economic assumptions (inflation and exchange rate).	Yes	A specific document that shows the macro-economic assumptions underpinning the draft budget is not included in the draft budget documentation submitted to the Municipal Council. The Mayor refers to the macro-economic parameters, however, in his documented budget speech.
2) Fiscal deficit, defined according to GFSM.	No	The budget documentation does not show the fiscal deficit.
3) Deficit financing and its composition.	No	The budget documentation does not show the fiscal deficit.
4) Debt stock, including the balance at the beginning of the current year.	No	
5) Financial assets with details for the initiating year.	No	This information is in other fiscal documents, but not the budget documentation.
6) Previous year's budget outturn (2010), presented in the same format as the budget proposal.	No	This information is contained in other fiscal documents, but not the budget documentation.
7) Current year's (revised or outturn) shown in same format as budget proposal).	No	This information is contained in other fiscal documents, but not the budget documentation.

Information Component	Included	Comment
8) Summarized budget data on revenue and expenditure, according to the main heads of classification used, including data for the current and previous year.	No	
9) Explanation of budget implications of new policy initiatives.	No	

Source: Municipal Council Secretariat, AMDC - FAD

i) Share of the above listed information in the budget documentation most recently issued by the Municipal Government.

Indicator	Rating	Justification
PI-6 (M1)	D	
<i>(i)</i>	D	Recent budget documentation fulfills only one of the information benchmarks. Information concerning the current year and historical years is covered instead in budget outturn reports and annual financial statements

PI-7. Extent of unreported government operations

As mentioned under PI-4, AMDC is under the “financial supervision” of the banking system, which requires that all municipal funds flow through a trust fund.

Article 88 of the Budget Guidelines, 2011 establishes the requirement of all Municipal entities to deposit all donations or contributions that they may receive into the Municipality’s bank accounts and to include them in the Municipality’s Budget. This requirement precludes municipal entities from engaging in unreported extra-budgetary operations (EBOs).

Expenditures out of the budget are paid for by issuing a Payment Order. Expenditures are also funded through a number of revolving funds that fall outside the budget, as authorized by Article 34 of the Budget Guidelines, 2011. Maximum balances for these funds are as follows:

Municipal Mayor	HNL 400,000
Municipal Vice Mayor	HNL 200,000
Aldermen/women (L.50,000 for each one of the 10 Alder.)	HNL 500,000
Finance and Administration Directorate	HNL 50,000
Land Zoning Directorate	HNL 50,000
Roadway Infrastructure and Urban Mobility Directorate	HNL 50,000
Community Management and Human Development Directorate	HNL 150,000
Total	HNL 1,400,000

These funds permit small expenditures (no more than HNL 10,000) to be made through advances from the funds without going through the normal payment procedures. Article 34 establishes that revolving funds can be replenished no more than twice a month; i.e. maximum expenditure out of these funds is HNL 2,800,000 per month). Article 38 requires that such advances have to be accounted for and then regularized as expenditures by December 23 each year.

Special ‘revolving funds to cover emergencies’ are also in place. As the funds are required immediately, withdrawals from them receive only limited scrutiny. It is therefore possible that expenditures out these funds may be ‘extra-budgetary’.

The Budget Guidelines (Article 46) and the Law of Municipalities require that financial operations of revolving funds be reported on quarterly to the Municipal Council and that annual financial statements should be prepared and submitted to the Municipal Council.

Some social service delivery units receive donations in the form of goods and services, which tend not to be accounted for. Emergency expenditures also tend not to be accounted for.

i) Level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.

The main scope for un-reported EBOs arises through donations in kind and expenditures financed by special revolving funds to cover emergency and disaster needs. Quarterly reports and annual financial statements may not cover these donations and funds. It is difficult to quantify such omissions, but they may exceed HNL 34 million, equivalent to 1 percent of the municipal budget.

The audit report on the financial statements for 2010 showed some discrepancies in the accounts (including revolving funds for emergencies that were not settled and informed in the budget reports), amounting to perhaps several hundred million HNL. Some of these discrepancies may have been resolved, but it is not possible to determine the extent.

ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

The 2011 budget shows only one donor-funded (JICA) program in the form of hillside stabilization as a disaster mitigation measure. The program costs close to HNL 9 million, which is less than 0.3 percent of the total budget of HNL 2,400 million.

Indicator	Rating	Justification
PI-7 (M1)	NR	
<i>(i)</i>	NR	Unreported EBOs may stem from donations in kind and through emergency expenditures financed by revolving funds. The extent of these is difficult to quantify. There is insufficient information to assess the dimension.
<i>(ii)</i>	A	Donor assistance comprises only one program, the costs of which are less than 0.3 percent of the total budget.

PI-8. Transparency of inter-governmental fiscal relations

This indicator was not assessed as it is not applicable as AMDC does not transfer funds to lower levels of government.

PI-9. Oversight of aggregate fiscal risk from other public sector entities.

As defined in the Law of Municipalities (articles 13.6 and 13.16), one of the responsibilities of municipalities is to provide slaughterhouse and meat packing facilities to guarantee that slaughtering of livestock for human consumption meets sanitation standards. This responsibility falls upon PROMDECA, which is the municipal slaughterhouse.

PROMDECA is coming out of a financial crisis that began in 2002 (due to poor management practices) which continued until 2005. The crisis caused a reduction in the maintenance of the industrial equipment used to convert meat that is not for human consumption into fat and flour,

which has an assured market. Service to clients declined as a result, leading to a decrease in cattle tax income and causing the enterprise to delay payments to Social Security, the Private Contribution Regime with FOSovi, and to DEI. The situation has improved markedly, causing earnings and thus livestock tax collections to recover, reaching HNL 3.3 million in 2011. Further increase is projected for 2012. PROMDECA's debt has fallen and it is now transferring profit to AMDC. PROMDECA is now financially independent of AMDC and no longer poses a financial risk.

i) Extent of municipal government monitoring of public enterprises

The Mayor is the President of the Board of Directors of PROMDECA and has direct supervision responsibilities over its management. PROMDECA is required to submit quarterly financial reports to the Municipal Council. As a decentralized municipal entity, PROMDECA is required to account to the Supreme Audit Institution applying the same principles, standards and formats that are applicable to the municipality. It is also required to report semi-annually on its financial situation to SEIP. Such reports appear not to have been prepared, but PROMDECA submits audited annual financial statements.

ii) Extent of municipal government monitoring of the fiscal position of governments subordinate to AMDC.

This dimension is not applicable as there are no levels of government below AMDC.

Indicator	Rating	Justification
PI-9 (M1)	C	
<i>(i)</i>	C	AMDC owns only one enterprise, PROMDECA, which submits audited annual financial statements to it. It poses very little fiscal risk to AMDC, but nevertheless, for the sake of transparency, the public would be well served if AMDC were to prepare an annual fiscal risk report.
<i>(ii)</i>	NA	This dimension is not applicable in the case of the AMDC.

PI-10. Public access to key fiscal information

i) Number of the listed elements of public access to information that is fulfilled.

Articles 4 and 5 of The Accountability and Access Information Law (LTAIP) issued through Decree 170 of 2006 establish the obligation that the municipalities have to provide the public with access to information under a wide range of categories, including those related to public finance.

The third edition of the “*Cuentas Claras*” bulletin published by Institute of Public Information Access (IAIP) in October 2010, showed, through an evaluation of the accountability portals of 73 public institutions in the Municipality, that the availability of information to the public was in compliance with the LTAIP to a large extent. The website of the municipality was redesigned and relaunched during 2011, including an accountability web portal. The website was not accessible between November 2011 and May 2012, mainly due to changes being made to its structure and contents. The portal is now completely active and contains much information on the programs and management of the municipality.

Article 13 of LTAIP established the documents that must be available to the public in order to comply with the Law. Those related to public finance management include: budgets, quarterly

and annual budget execution reports (including details of transfers, expenditures, financial investments, debt and arrears, financial statements, public tenders and contract awards

The seven information elements that should be available to all citizens are listed in Table 10:

Table 10 - Extent of public access to documents

Required elements	Public access elements	Compliance?
Draft annual budget documentation presented to the Municipal Council.	The draft Budget is not made available to the public. It is presented to the Municipal Council at a meeting, which is not open to the public. The Budget is made public after it has been approved by the Municipal Council.	No
In-year budget execution reports.	Quarterly reports are presented to the SEIP and accountability reports to SEIP and TSC. These are published on AMDC's website through the accountability Portal but only in an aggregated way and in a different format than the approved budget.	No
End-year financial statements.	Once approved by the Municipal Council, the audited financial statements are published online in <i>La Gaceta</i> , which is the official Government bulletin that can only be reviewed by those who subscribe to this journal. The financial statements are also published in AMDC's accountability Portal. The information can also be requested through the municipal accountability unit.	Yes
External Audit Reports.	The TSC publishes its finalized audit reports except those that contain information that can be used in administrative or legal processes. The last report on AMDC was published by TSC in 2007.	Partial
Contract agreements.	The HONDUCOMPRAS website shows the different purchasing processes that the AMDC has engaged in since 2006 as well as the details on the respective agreements (i.e. the contract awards)	Yes
Resources available to the primary service units.	Even though it is included in the budget execution reports, the information on these resources is not detailed enough to track the resources available for these services.	No
Information on services.	Fees and Charges for major services are posted at the service delivery site and in other appropriate locations/media.	Yes

Indicator	Rating	Justification
PI-10 (M1)	C	
<i>(i)</i>	C	The government makes available to the public between two and three of the seven types of information indicated.

3.3. Policy-based budgeting

PI-11. Orderliness and participation in the annual budget process

The USAID-supported Governance and Accountability Program completed a budget preparation manual⁵ in 2006 under the auspices of the Ministry of the Interior and Justice (now Ministry of

⁵ "Manual de Formulación del Presupuesto por Programas"

the Interior and Population) for all the municipal systems of Honduras. The legal basis of the manual is the Municipal Law of 1993 and its accompanying General Regulations.

In 2008, AMDC and the Chamber of Commerce and Tourism (CCIT) developed, with the cooperation of the UNDP, the “City Plan, Capital 450 - The City that we want!”. Its long term vision (up to 2028) establishes priorities for development of the municipality.

The Municipal Planning and Evaluation Management Unit (UMPEG) of AMDC has developed (2010) an institutional planning system leading to the preparation of Annual Operations Plans (POA) since 2011. The 2012 POA links municipal development policies with AMDC’s costed Programs. The POAs are based on the priorities established in the “City Plan”.

The “City Plan” has become outdated due to the recent reorganization of national development planning. Some municipal functions now have national solutions led by the central government. For example, the water problem is now a national one within the long term plan “*Ley para el establecimiento de una visión de país y la adopción de un Plan de Nación para Honduras*” (CVNP), as is the city’s energy problem arising from rapidly growing demand.

The Annual Budget Guidelines (2011), issued by the Municipal Council, establishes the budget policies for the year, and assigns (under Article 71) the responsibility for overseeing the budget preparation process to the Mayor: *The Mayor, or in his absence the Vice-Mayor, through the Finance and Administration Directorate will establish the budgetary policies, the budget preparation calendar, and instructions for preparing the Budget*”. The draft budget has to be submitted to the Municipal Council by no later than September 15 of each year. If not approved by December 31, the budget currently in effect shall continue (Article 95).

The budget preparation process is conducted in three stages: (i) Operational units formulate their action plans (POA) for the coming year and submit them to the Finance and Administration Directorate (FAD); (ii) FAD prepares the budget for each unit based on the POAs received; and (iii) FAD consolidates the budgets into one budget document, which it then presents to the Municipal Council. .

i) Existence of and adherence to a fixed budget calendar.

The calendar is defined by two dates established in the regulatory framework: the date of the presentation of the draft budget to the Municipal Council and the approval date. The date for submitting the POAs to FAD is determined each year through a note sent to the units; normally the date is the end of May. The responsibility is then passed to FAD, which prepares the budget for each unit between June and July, and then initiates the consolidation process. After the Municipal Council approves the budget during the second half of January, each unit is notified of the budget that it has been assigned. In some cases, such as with the 2012 budget, the FAD can request after approval that Directors modify their operations plans to be consistent with approved budget.

A budget circular is not prepared, since the process is not participative and the person who would issue the circular is the same one who is preparing the budget.

ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)

The process of budget preparation documentation is not participatory. The Mayor and Vice Mayor only have one opportunity to review the draft budget and this is just prior to its submission to the Municipal Council.

iii) Timeliness of budget approval by the Municipal Council (within the last three years)

Minutes of Municipal Council meetings indicated that the last three approved budgets for 2010, 2011 and 2012 were approved on December 23, prior to the end of the fiscal year.

Indicator	Rating	Justification
PI-11 (M2)	C+	
<i>(i)</i>	C	A rudimentary calendar guides budget preparation, and is complied with.
<i>(ii)</i>	D	A budget circular is not issued to MDAs. The Cabinet’s only involvement in the budget preparation process is through a review just before the detailed estimates are sent to the legislature, by which time it is too late to modify the draft budget.
<i>(iii)</i>	A	In the last three years the Municipality Power approved the budget before the end of the fiscal year.

PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

i) Preparation of multi-year fiscal forecasts and functional allocations

AMDC annually projects income for several years ahead on the basis of a model. Thus, estimation of income for 2013 was based on the model covering 2011 – 2018. The macro-economic variables used in the model – GDP and CPI -- are taken from the Central Bank of Honduras.

Expenditure projections are based on “*City Plan, Capital 450 ¡The city that we want!*”, as noted under PI-11. This provides a long term development vision and objectives to be reached, but does not explain how and is not costed. Without a medium or long-term plan to address structural problems (such as water, drainage, electrical energy), projects are implemented in an ad hoc manner.

ii) Scope and frequency of debt sustainability analysis

The administration of AMDC’s funds by commercial banks under the Trust Fund arrangement (as described in earlier indicators) in conjunction with the new financial administration policies introduced in 2010 has enabled strengthened debt management. The amount of municipal debt appears to be accurately determined, though some inconsistencies in the debt records have not been resolved, as noted in the audited municipal financial statements.

As part of the loan negotiations between AMDC and IFC, AMDC conducted a debt sustainability analysis in 2010.

iii) Existence of sectorial strategies with multiyear costing of recurrent and investment expenditure

As noted above, the “City Plan” establishes development objectives, but provides no costing.

iv) Linkages between investment budgets and forward expenditure estimates

More than 80 percent of AMDC’s investment budget consists of the maintenance of existing municipal infrastructure facilities (e.g. drainage). The remainder consists almost entirely of the

acquisition of equipment (office equipment, vehicles, and various instruments and tools) needed for the operations of the Municipality. The budget for investments that might generate future recurrent costs is insignificant.

Indicator	Rating	Justification
PI-12 (M2)	D+	
(i)	D	No forward estimates of aggregate expenditure and functional allocations are made.
(ii)	B	AMDC conducted a DSA in 2010, that is, within the last 3 years.
(iii)	D	The City Plan does not contain costs.
(iv)	NA	The budget for investments that might generate recurrent costs in the future is insignificant.

3.4. Predictability and control in budget execution

PI-13. Transparency of taxpayer obligations and liabilities

Article 205 of the Constitution of the Republic, reserves exclusively for the National Congress the power for establishing taxes and contributions, as well as public charges. Article 74 of the Law of Municipalities states that municipalities have the authority to create and modify fees for services and to modify tax rates but cannot create taxes. The Law, accompanying regulations and the Municipal Council's annual Revenue Plan (required under Article 147 of the Law) establish the obligations and liabilities of municipal tax and fee payers, and the payments procedures they should follow. Articles 74-86 define taxes and tariffs for the municipal sector. The six taxes are: real estate tax; personal or neighborhood tax; Industry, commerce and services tax; tax on extraction and exploitation of resources; and cattle tax. The amount of discretion available to the authorities in administering the Law appears limited, though in practice significant discretion is exercised. The Articles have been modified twelve times since they came into effect in 1990, and thus fee payers have to be permanently alert of changes.

The regulations under the Law of Municipalities describe and regulate the application of each tax, including the rates and contributions that municipalities can charge, the conditions for compliance and the options available for the mode and location of payment. Although the Law has been modified many times, the regulations have not been updated since they were created in 1993 and therefore are inconsistent with some aspects of the Law.

The Municipal Council must approve the Revenue Plan jointly with the draft budget by December 31 of the current year. If it does not do so, the Revenue Plan and the budget for the current year will continue to be valid the following year until the new ones are approved.

i) Clarity and comprehensiveness of tax liabilities.

The Revenue Plan concentrates into one single document all tax/fee payer obligations along with the procedures to be followed and the penalties in case of non-compliance, thereby facilitating understanding of all obligations. However, the document is large (170 articles over more than one hundred pages) and does not contain instructions, indices or summaries that would allow the reader to locate his/her obligations or specific information needs. As the document does not highlight what has been changed since the previous year (amounts, dates, procedures, fines, rates, etc.) the tax/fee payer has to review the document each year. This level of detail would

appear to strictly limit the scope for discretion on the part of the authorities in applying the regulations, although in practice this is not the case. Although municipalities are not authorized to modify the penalties for non-compliance with the Law and its regulations (as per Article 76 of the Law), discretion is allowed in reaching agreement with tax/fee payers concerning the periodicity of payments of amounts due.

ii) Taxpayer access to information on tax liabilities and administrative procedures

Apart from the Law on Municipalities and its accompanying regulations, the annual Revenue Plan is the only source of information on tax/fee payer obligations and procedures for registration, assessment and payment. It can be downloaded from the Municipal Web Portal and is published in the official La Gaceta journal. Training programs and public guidance campaigns have not been prepared. The only public information campaign covers the Vehicle Rate, but this is administered by the Executive Directorate of Taxes (DEI), not AMDC.

iii) Existence and functioning of a tax appeals mechanism.

Tax/fee payers can object AMDCs' decisions administratively, at AMDC level, through the Contributor Objections and Claims Division of the Collection and Financial Control Management (CFCM).

Article 149 of the 2010 Revenue Plan specifies that the complainant must first pay the amounts assessed and due, or a lesser amount negotiated with CFCM. Article 151 provides for reimbursements. The Financial and Administration Directorate is authorized, via the Municipal Secretary under Article 84 of the Administrative Procedures Law, to reimburse up to L 100,000 if CFCM rules in favor of the complainant for each aspect of the complaint. Article 84 of the Administrative Procedures Law clearly specifies the time period within which the complaint must be resolved. The number of complaints in 2011 was not high, reaching only 5 complaints amounting approximately HNL 1,367,000.

However, the CFCM is not considered a tax appeals system, as it is not independent from the AMDC. Once there is a decision on a complaint, the only appeals mechanism available to taxpayers is the general legal system.

Indicator	Rating	Justification
PI-13 (M2)	C	
(i)	C	Legislation and accompanying regulations are complete and clear, but the scope for the authorities to exercise discretionary power in the administration of the legislation and regulations is significant.
(ii)	B	The annual Revenue Plan is publicized and provides easy-to-read information for tax/fee payers with regard to at least the main taxes. The Plan can be downloaded from the Municipal Web Portal and is published in the official La Gaceta journal.
(iii)	D	No functioning Tax Appeals System has been established.

PI-14. Effectiveness of measures for taxpayer registration and tax assessment

Taxpayer identification is defined at national level and thus applies for municipal taxes as well as for central government taxes. Therefore, contributor identification is clear within the national environment. With regard to AMDC, taxpayers are not only residents in the municipality but also those who do not reside there but perform taxable activities there. Therefore, in the case of municipalities, taxpayer identification requires combining different taxpayer registries that do not necessarily have current information and for which the extent of the exchange of information between them is small or non-existent. For example, an analysis conducted by AMDC on the collection of real estate taxes in 2010 found that the cadastral database (with 159,656 registrations) was outdated since a cadastral census had not been performed for 20 years. Innumerable inconsistencies were found (e.g. land area, use and class classification, areas of construction classified as empty lots).

The taxpayer database for other tax types also contained inconsistencies due to non-updated data, the main reasons being that taxpayers changed residences, sold land, or closed a business, all without duly notifying AMDC.

Starting in 2010, the AMDC has been implementing administrative procedures to increase taxpayer registration, through identifying outdated taxpayer registers and applying sanctions for non-compliance with registration requirements. Since taxpayers may be subject to various municipal taxes and are thus required to register their information in the corresponding databases, non-registration can be identified through cross checks. AMDC is currently investigating the possibility of reaching agreement with the DEI and other public entities to exchange registry information.

i) Controls in the taxpayer registration system

The annual Revenue Plan establishes for each type of tax the requirement for taxpayers to supply updated information and also establishes fines for non-compliance with this requirement. For example: (i) new owners of real estate must register themselves in AMDC's property registry; (ii), businesses liable for the Industry, Commerce and Services tax must inform CFCM of changes in address, change in proprietorship of the business, and changes in the scale of business activity within 30 days of the changes; and (iii) employers with five employees or more must provide AMDC with a payroll registry.

Control over the registering and updating of taxpayer data is exercised through cross checking between the various municipal registries, and the imposition of severe fines for non-compliance. The registries of some taxes require updating.

ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

The annual Revenue Plan establishes sanctions for the non-compliance with taxpayer obligations. A review of the revenue collections in 2009-2011 shows a change in the taxpayer behavior of contributors that is reflected in a progressive decrease in the overdue amounts to be collected, or, in other words, in strengthened compliance with declaration requirements. For example, fines totaled HNL 6.9 million in 2009, while overdue taxes/fees were equivalent to 48.4 percent of total collections. Fines rose to HNL 138 million in 2010, and overdue taxes/fees fell to 44.3 percent of total collections. Fines amounted to HNL 66 million in 2011, while overdue taxes/fees fell to 32.2 percent of collections.

However, taxpayers and cadastral databases still present inconsistencies mainly taxpayers changed residences, sold land, or closed a business, all without notifying AMDC. because (i) taxpayers often change their residential address without informing AMDC, (ii) the real state is sold but AMDC is not notified of the sale; or (iii) a business is closed but its closure is not notified to AMDC.

iii) Planning and monitoring of tax audit and fraud investigation programs

The AMDC has an Audit Manual that describes auditing techniques and procedures that are applicable mainly to taxpayers monitored in the Fiscal and Large Taxpayer Department (FLTD) in AMDC. The Manual is organized in three chapters: (i) audit planning; (ii) audit techniques to be used when implementing an audit plan; (iii) preparation of certificates or worksheets as part of the audit process; (iv) income audits; (v) financial statement analysis; and (vi) special audits (e.g. investigating fraud). Audit plans are based on an analysis of taxpayer information (background, activity characteristics, fiscal regime, etc.) in order to be able to establish the level of risk of non-compliance and thus the level of prioritization in terms of what entities are to be included in the audit plan. With the exception of real estate tax, all main taxes (taxes on income and production) are based on self-assessment procedures.

Table 11 summarizes the audits performed in the FLTD. The fiscal activity of taxpayers monitored by FLTD appears to have been increasing in recent years. The audits performed are according to the annual audit plans. They comprise mandated audits or ad hoc or special audits. Monitoring of compliance with tax registration and declaration obligations is required to cover up to the last five years.

Taxpayers who lie outside the scope of FLTD are not audited, but are subject to review on an ad-hoc basis when the need arises.

Table 11 - Audits conducted by the Fiscal and Large Contributors Department

	2009	2010	2011
Audits performed	290	445	484
Amount audited (HNL)	6,635,948	19,703,453	44,973,376
# of auditors/supervisors	21	23	24

Indicator	Rating	Justification
PI-14 (M2)	B	
(i)	C	Taxpayers are registered in database systems according to tax types, which are systematically linked in some cases. Cross checking with other institutions outside AMDC is not yet conducted, though AMDC plans to do so.
(ii)	B	Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.
(iii)	B	Tax audits are based on a documented audit plan according to clear risk assessment criteria in terms of the main tax types where self-assessment procedures are used.

PI-15. Effectiveness in collection of tax payments

i) Collection ratio for gross tax arrears (percentage of tax arrears at the beginning of the fiscal year that were collected during that year- average of the last two years)

The Audit Report on the AMDC Financial Statements shows Accounts Receivable in terms of tax arrears, as indicated in Table 12. The stock of tax arrears as a percentage of tax collections increased sharply to 69 percent in 2011 from 29 percent in 2010.

Table 12 - Accounts receivable – Financial Statements AMDC 2010

	Balance to 31 December 2011	2010	2009
Real state Tax	687,287,456	254,267,909	141,380,631
Industry, Commerce and Services Tax	198,184,508	82,923,647	115,260,861
Total	885,471,964	337,191,556	256,641,492
% of collections (Table 13)	69%	29%	20%
<i>Amounts in HNL</i>			

Table 13 indicates that tax collection rates increased to 75.7 percent in 2011 from 64 percent in 2008.

Table 13 - Tax collection rates, according to annual revenue performance reports (HNL million)

	2011	2010	2009	2008
Assessed tax	1,690.13	1,682.12	1,928.08	1,392.28
Actual collection	1,278.94	1,166.08	1,299.23	891.533
Difference (to be collected)	411.195	516.041	628.846	500.749
Collection rate (actual/assessed)	75.7%	69.3%	67.4%	64.0%

The information on tax collection shown in Table 13 does not differentiate between tax arrears collected that were outstanding at the end of the previous year and the collection of taxes due in the current year. So, it is not possible to estimate tax arrears' collection ratios. The stock of tax arrears is high as a percentage of tax collections (Table 12), and this percentage has been increasing annually. But, in the absence of an age profile of tax arrears, it is not possible to calculate the collection rate for arrears.

Tax/fee payers pay their taxes directly through the banking system, but the recovery of tax arrears is conducted by a business that follows up on taxpayers overdue in their payments then deposits the amounts recovered directly into the trust fund account. Cases where amounts cannot be recovered are referred to the judicial system. AMDC therefore does not directly recover tax arrears but has online access to the data on tax arrears held by the arrears collection contractor.

ii) Effectiveness of transfer of tax collections to AMDC

As indicated above, all municipal income is deposited directly by tax/fee payers into the banking system, and thus the funds are automatically transferred to the trust account. According to the contract signed with the banks administering the trust fund account, the banks commit every Monday to transfer the funds collected during the previous week to the banking trust fund account.

iii) Frequency of complete account reconciliations between tax assessments, collections, arrears records and receipts by AMDC

Information on billing and collection is permanently available online for AMDC access. The reconciliation of collection accounts is done automatically both by the collecting banks at the moment it collects revenue, as well as weekly by the trust fund account when it receives the collections transferred to it by the collecting banks. Reconciliation of assessments, amounts due and arrears is conducted monthly as a joint effort between the recovery contractor (TX) and the recovery department in AMDC in order to be able to close the accounts at the end of each month.

Indicator	Rating	Justification
PI-15 (M1)	NR	
<i>(i)</i>	NR	The end-year stock of tax arrears averaged 49 percent of collections during 2010 and 2011. The data do not permit the estimation of tax arrears collection ratios, and so this dimension cannot be rated.
<i>(ii)</i>	B	All income collected during the week is placed into the trust fund account the following Monday and at that time is at the disposition of AMDC.
<i>(iii)</i>	A	The complete reconciliation of income, assessments, amounts due, arrears and transfers to AMCD is conducted monthly.

PI-16. Predictability in the availability of funds for commitment of expenditures

Spending units commit to expenditures based on their approved budgets and payments are executed according to the availability of funds.

i) Extent to which cash flows are forecast and monitored

At the beginning of each year, the municipal treasury formulates a budget execution plan on a monthly basis. The initial plan is only a reference point as AMDC does not yet estimate revenue on a monthly or quarterly basis and executing units do not as yet forecast expenditures on a monthly or quarterly basis. Pressures on cash availability due to revenue shortfalls mean that payments are made according to cash available rather than monthly or quarterly forecasts of expenditure.

ii) Reliability and horizon of periodic information to budget executing units on ceilings for expenditure commitment

The approved budget is the only reference point that executing units have for committing expenditures. Thus executing units in principle have a 12 month horizon for committing expenditures. This, however, implies the possibility of payments arrears in the context of revenue shortfalls, as has been the case for AMDC (PIs 3-4) and the lack of a system that links controls over expenditure commitments to projected cash availability (PI-20). An in-year cash flow forecasting system is yet to be developed, as noted under dimension (i), and the revenue forecasting system appears to need strengthening (PI-3).

iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of executing units

The FAD of AMDC can instruct the executing units to adjust their budgets in line with revenue performance and adjustments in the priorities of the Municipal Council that entailed redistribution of budgeted resources from some municipal programs to others. In February 2012 the Directorate instructed several units to modify their action plans so as to reduce their budgets by 30 percent.

Indicator	Rating	Justification
PI-16 (M1)	D+	
(i)	D	Cash flow forecasting is not yet practised, as the unpredictability of the timing of revenue inflows undermines the usefulness of in-year expenditure forecasts.
(ii)	A	The approved budget is the only reference point for executing units in terms of making spending commitments. In principle, spending commitments can be entered into with a 12 month horizon, regardless of projected cash availability to fund the payables arising from the commitments.
(iii)	D	Decisions by AMDC management to make major adjustments to the budgets of executing units are made during the year in a non-transparent manner.

PI-17. Recording and management of cash balances, debt and guarantees

The AMDC signed a “Syndicated Loan Contract” on September 30, 2010, with a syndicate of four banks: The Banco Financiera Comercial Hondureña, S.A. (FICOHSA bank) in the role of syndicate leader, the Interamericana de Seguros S.A, the Banco de Occidente, S.A, and the Banco Atlántida, S.A. The Syndicate loaned HNL 835 million to the Municipality as follows:

Banco FICOHSA, S. A.	HNL 285 million
Interamericana de Seguros, S.A.	HNL 50 million
Banco de Occidente S.A.	HNL 250 million
Banco Atlántida, S.A.	HNL 250 million
<i>Total</i>	<i>HNL 835 million</i>

The loan conditions include that AMDC needs to prepare and execute its budget as legally approved, and to maintain a balanced budget at all times. In case that this is not possible, the following provisions should be applied:

- (a) The budget deficit should be less than 15 percent of current income in 2010 and 5 percent for each year thereafter during the term of the loan;

- (b) The ratio of debt service payments to current income should be less than 20 percent each year during the term of the loan;
- (c) The ratio of debt service payments to current income plus transfers from the central government should be less than 30 percent each year during the term of the loan.;
- (d) The amount of Accounts Payables should be less than HNL 450 million at the end of 2010, HNL 300 million at the end of 2011, and HNL 150 million at the end of each year thereafter during the term of the loan;
- (e) AMDC is not to incur new debt unless the Syndicate agrees, with the exception of loans with terms of less than one year and below a cumulative limit of HNL 40 million; and
- (f) AMDC is not to guarantee any third party debt.

The Syndicated Loan agreement established the need to have two trust funds:

(i) An Administration Trust Fund (ATF) in which FICOHSA administers the funds on behalf of AMDC, according to the following responsibilities:

- i) The creation and administration of the project account.
- ii) The immediate requirement to transfer to the Guarantee Trust Fund (GTF) 100 percent of road tax collections and 20 percent of real estate, industry, commerce and services tax collections, as well as any other income that the ATF receives, with the purpose of covering debt service payments as they become due; and
- iii) Contract an auditing firm registered with the CNBS and acceptable to the Lending Banks in order to review the ATF accounts.

(ii) The GTF in which the Banco Hondureño del Café S.A. (BANHCAFE) acts as the fiduciary agent, and which was constituted to guarantee the responsibilities stemming from the Syndicated Loan as noted above under the ATF. The GTF was to establish a Reserve Account for debt service to be funded by the transfers from the ATF.

The AMDC also has debts owing to banks and suppliers.

i) Quality of debt data recording and reporting

The quality of AMDC's accounts has substantially improved as a result of the commitments made by AMDC to the conditions of the Syndicated Loan, and the financial supervision provided through the trust fund arrangements. AMDC is now able to prepare auditable financial statements that accurately reflect its financial situation. The audit report on the 2010 financial statements indicates that the debt records are accurate and up-to-date. AMDC is including debt reports in the quarterly accountability reports that it prepares for the Ministry of Finance and in its monthly budget performance reports.

ii) Extent of consolidation of the municipal government's cash balances

The establishment of the trust fund account centralized all AMDC's funds into one account administered by FICOHSA. AMDC can access its cash position anytime online. AMDC does not consider the balances held in revolving funds (discussed under PI-7) to be part of its cash position.

iii) Systems for contracting loans and issuing guarantees

Article 357 of the State Political Constitution establishes that the authority for incurring debt and issuing guarantees is to be regulated by law. In addition, under the conditions of the Syndicated Loan, the Municipal Council has to approve any proposals to contract loans and issue guarantees, and any proposal has to meet the debt sustainability criteria indicated in the conditions.

Indicator	Rating	Justification
PI-17 (M2)	A	
(i)	A	Internal and external debt records are complete and accurate and are updated and reconciled every month. Management and statistical reports on the debt position are prepared every month and quarter. The annual financial statements include the debt position.
(ii)	A	All of AMDC's funds are held in the trust fund account administered by FICOHSA. AMDC can access its cash position anytime online.
(iii)	A	The contracting of loans and granting of guarantees require Municipal Council authorization and is subject to the conditionalities of the Trust Fund agreement (specified under dimension (i)) with regard to debt sustainability.

PI-18. Effectiveness of payroll controls

The Municipality employed 2589, 2499 and 2535 employees respectively during 2009-2011. A salary scale that came into effect in 2010 establishes minimum and maximum amounts for each of the 8 established salary categories (Director, Manager, Assistant Manager, Department Head, Section Head, Professional Staff, Operations Staff, and Support Staff). The salary scale applies also to existing personnel, with the exception of salaries that currently surpasses the new salary scale, probably comprising less than 10 percent of total personnel. The draft Establishment Manual contains 205 positions. The Manual is being reviewed prior to its submission to the Municipality for approval. A Management Procedure Manual and an Institutional Function Manual are being prepared.

The municipal payroll is processed through a centralized integrated payroll and human resource management (HRM) system. The system includes a procedure and forms for personnel evaluations, but this has not yet been implemented. Employees are paid monthly through direct transfers to their bank accounts. The system contains personnel records, the processes for changes to these. It can make salary adjustments and calculates the payroll. The Mayor must approve the contracting, promoting and firing of personnel. A manual provides guidance for use of the system. There are no decentralized personnel management or payroll units.

The Internal Audit Department is required to review all transactions with reference to changes to personnel records.

i) Degree of integration and reconciliation between personnel records and payroll data

The payroll and HRM system integrates all payroll information and personnel files into a database, assuring the coordination between the files. The database does not contain the establishment list, which is still under development. All changes to data are checked for correctness and completely documented and approved prior to handing over to internal audit for endorsement. A payment is therefore based on documented and approved information.

The monthly payroll is made public in the Accountability Portal of the AMDC and shows the gross and net amounts for each post by month. A review by the assessment team of a sample of

payroll records indicated that payments were based on authorized processes. Retroactive payments are caused mainly by revenue shortfalls rather than delays in processing changes in the personnel records.

ii) Timeliness of changes to personnel records and the payroll.

Modifications to personnel records are processed in the payroll immediately after being approved and are effective in next month's payroll. Retroactive adjustments are insignificant, less than 3 percent of the total payroll.

iii) Internal controls of changes in personnel records and payroll

Only six staff (in the HRM department) are authorized to introduce new personnel records into the database or to modify them. The changes have to be completely documented and explicitly approved in writing by the Mayor, who is the only person authorized to contract or promote personnel. In addition, all changes must be reviewed and validated by the Municipal Internal Auditor. The Human Resource Manager must specifically order each change to personnel records and verify that those in charge of registering them do so in a timely and adequate manner. The Human Resource Manager signs the monthly report of all changes made to personnel.

iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

In 2010 the HRM department initiated an annual review of the personnel assigned to every operational unit in AMDC in terms of their attendance and adherence to the terms of employment. Each review is signed by the head of the unit reviewed and the HRM-authorized reviewer. Each review determines if the employee's identity is correct, and if the employee is working normally in the unit assigned, or the whereabouts if not working normally in the unit assigned. The reviews have detected irregularities and enabled the implementation of corrective measures.

The 2010 and 2011 audits, the latter still in process, included the institutional payroll within their scope. The recommendations of the 2010 audit are being implemented, including the preparation of the procedural and function manuals referred to above.

Indicator	Rating	Justification
PI-18 (M1)	B+	
(i)	B	The personnel and payroll data are not directly linked but the monthly payroll is backed by precise information on all changes in personnel records and verified against the previous month's payroll data. The database does not contain the establishment list, which is still under development.
(ii)	A	Modifications to personnel records are processed in the payroll immediately after being approved and are reflected in next month's payroll. Retroactive adjustments are insignificant; less than 3 percent of the total payroll.
(iii)	A	Changes in personnel records and payroll data are strictly controlled and recorded. A verification report is issued monthly.
(iv)	B	Two verifications of positions have been conducted for all AMDC units over the last 3 years, and one institutional payroll audit has been prepared; another, for 2011, is currently being prepared.

PI-19. Transparency, competition and complaints mechanisms in procurement

Two decrees establish the legal framework for procurement: State Contracting Law and its Regulations, and the State Information System of Contracting and Acquisitions Law (HONDUCOMPRAS). The National Contracting and Procurement Office (ONCAE) is the national body overseeing public procurement through a series of bulletins and instructions concerning:

- Registration in the Purveyors and Contractor Registry
- Formulation, Procedures and Resolutions of Consultations with ONCAE
- Numbered Sequence of Contracting, Contracts and Purchase Order Procedures
- The use of HONDUCOMPRAS Purchasing and Contracting Procedures and training on these
- The Annual Contracting and Acquisition Plan for the Public Sector
- The HONDUCOMPRAS system of Contracting, Acquiring, and Purchasing in the Health Sector
- Use of the Portfolio of Harmonized Conditions

Other laws that are not specific to procurement but which are relevant are: Constitution of the Republic, Law on Transparency and Access to Public Information, Year of Accountability Decree, Administrative Procedure Law, General Law of Public Administration, Supreme Audit Institution Law; and Action Under Administrative Jurisdiction Law

In applying the Law, all contracting processes must be registered in the HONDUCOMPRAS system and published in major national newspapers.

i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

The PEFA methodology establishes six basic conditions that the legal and regulatory framework for procurement should meet, as indicated in Table 14.

Table 14 - Elements of a strong legal and regulatory framework for procurement

Element	Complies? Yes/No	Explanation
Be organized hierarchically, with precedence clearly established.	Yes	The Contracting Law and its Regulations are primary elements of the procurement system. The HONDUCOMPRAS Law establishes the means and terms for publishing the processes that are under the Contracting Law. The bulletins and instructions regulate specific aspects of the contracting process and are subordinated to the Contracting Law.
Be freely and easily accessible to the public through appropriate means.	Yes	The legal and regulatory framework is available on the HONDUCOMPRAS portal, to which the public has free access, and is also published in the official gazette.
Apply to all procurement undertaken using public funds.	Yes	The legal and regulatory framework applies to the entire public sector, including public enterprises and municipal governments. Article 8 of the Contracting Law establishes the areas where the Law does not apply: inter-government relations, some specific cases included in labor laws, and to the provision of some public services, but these exceptions do not alter the spirit or universality of the Contracting Law.
Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified.	Yes	Article 7 of the Contracting Law, clearly establishes the preference for the use of open competition in the procurement process. Articles 59, 60 and 63 indicate the circumstance where restricted completion – private bid and direct contracting – is allowed. Approval of the President of the Republic may be required in the case of central government and approval of the maximum institutional authority in the other cases. These procedures can only be used if competitive procedures used previously have failed.
Provide for public access to all of the following procurement information elements: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	Yes	Public access to procurement information is provided for in Article 6 of the Contracting Law, Article 10 of the Regulations of the Contracting Law, and Article 13.9 of the Law on Transparency and Access to Public Information.
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes	Article 42 of the Contracting Law allows interested parties to object to the different phases of the contracting process. The process is regulated by the Administrative Process Law, which establishes the steps to be followed, the responsibilities and the corresponding time spans. Objections are addressed first to the procuring entity, and, if not resolved, to the court.

ii) Use of competitive procurement methods

As mentioned in dimension (i), the legal and regulatory framework defines the circumstances under which restrictive competitive procurement methods may be used.

Table 15 summarizes the numbers of procurements recorded by AMDC since 2006 according to procurement method. The table is not comprehensive, as HONDUCOMPRAS was not operational some of the time for technical reasons. Regular recording only started in 2011 and even then data are incomplete, with information on contract amounts and names of contracted enterprises missing. The information for 2011 is also not complete as HONDUCOMPRAS changed from being an entity of the Ministry of the Presidency, to being an entity of SEFIN and was inoperative during late 2011 and early 2012.

**Table 15 - Number of procurement processes registered in HONDUCOMPRAS by AMDC
(by type of procurement method)**

Type of procurement method recorded in HONDUCOMPRAS	Number of cases							Total
	2006	2007	2008	2009	2010	2011	2012	
International Public Bid						4	1	5
Pre-qualification						2	2	4
National Public Bid	10	7	8			8	4	37
Private Bid						13	12	25
Direct Contracting						5	2	7
Minor Purchase						1		1
National Public Contest	5	2				4	14	25
Private Contest						1		1
Not Published Mode	22							22
Total	37	9	8	0	0	38	35	127

*Source: HONDUCOMPRAS as of July 20, 2012
Of the 127 processes registered, 27 are for works, 59 for goods and services and 41 for consultancies.*

Very few AMDC contracts are executed through direct (sole source) contracting (the ceiling for such contracts is HNL 900,000 for construction works, and HNL 180,000 for equipment and services. Table 15 indicates that private bidding was the preferred contracting method used by AMDC during the last two years, although that method is reserved for contracts not exceeding HNL 1.8 million. Many of these projects are for minor maintenance works. Big projects are very few, one example being the Split Level Passage Construction project at the intersection of Boulevards Hacienda and Suyapa,

Another feature is that many social programs are geared towards assisting people or families who may find themselves in an emergency situation (fire, landslide, floods, etc.), Rehabilitation requires the purchase of assets and supplies in relatively small quantities, the funding coming from revolving funds established for this purpose.

The use of less competitive or direct purchasing procedures is thus frequent, but this is for operational needs and not as an attempt to avoid using competitive procurement processes.

Because the HONDUCOMPRAS records are not complete, it is not possible to quantify the proportion of contracting that is conducted through restrictive competitive methods.

iii) Public access to complete, reliable and timely procurement information

As indicated under dimension (i) all contracting processes must be published in national newspapers and be recorded in HONDUCOMPRAS. The latter is a webpage where the information is permanent and clear, and is the most reliable means for the public and suppliers to access information on municipal procurement. However, as indicated under dimension (ii) the information recorded by AMDC in HONDUCOMPRAS is incomplete.

iv) Existence of an independent administrative procurement complaints system

As mentioned in dimension (i) the procedure for claims is regulated by the Administrative Process Law, which states the steps to be taken for all administrative processes.

Table 16 - Compliance with criteria for a well-functioning complaints mechanism

Criterion	Compliance (Yes/No)	Explanation
Is comprised of experienced professionals, familiar with the legal framework for procurement and includes members drawn from the private sector, civil society as well as government.	No	The first level of complaints is at AMDC level. The second level is the legal level, where judges who are familiar with the legal framework adjudicate the complaint, but are not necessarily experts in contracting processes.
Is not involved in any way in procurement transactions, or in the process that leads to contract award decisions.	No	The first level of complaint is at the AMDC level, which is involved in procurement transactions.
Does not charge fees that prohibit access by concerned parties.	Yes	Fees are not charged.
Follows processes for submission and resolution of complains that are defined and publicly available.	Yes	The Law of Administrative Procedures is clear and explicit in describing the administrative process for claims. Judicial procedures are also clear.
Exercises the authority to suspend the procurement process	Yes	Article 30 of the Law of Administrative Procedures is clear and explicit stating that the administrator can only suspend the procurement process in order to prevent harm to the interested party.
Issues decisions within the timeframe specified in the rules/ regulations	Yes	The Law of Administrative Procedures clearly establishes each step of the administrative process and specifies for each procedure the deadlines for the solution of the processes.
Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Yes	Article 93 of the Law of Administrative Procedures establishes resolution complaint terms that are binding, but these administrative actions can be appealed at the level of the Judicial Power. The Judicial Power resolutions are final and mandatory.

Indicator	Rating	Justification
PI-19 (M2)	D+	
(i)	A	The legal and regulatory framework complies with the six requirements stated.
(ii)	D	No reliable data are available on the use of restrictive competition in procurement.
(iii)	D	Procedures are not in place that guarantee systematic recording of contracting in HONDUCOMPRAS. The records of the last six years are not comprehensive.
(iv)	D	The procurement complaints system does not meet criteria (i) and (ii). An independent body is not yet in place to adjudicate procurement-related complaints

PI-20. Effectiveness of internal controls for non-salary expenditure

i) Effectiveness of expenditure commitment controls

The “Framework for Public Sector Internal Control Systems”, issued by TSC on February 5 2009, is based on international best practices. AMDC is only in the initial stages of implementing it.

AMDC exercises internal control in three ways:

- Through the controls exercised on the use of trust fund resources according to the conditions established under the Syndicated Loan, as referred to under PI-17. These conditions, *inter alia*, limit expenditure commitments to the levels provided in the approved budget and regulate any proposed adjustments to the budget and additional borrowing.
- The FAD of AMDC verifies that proposed expenditure commitments are covered by the approved budget and that payment requests are in line with funds availability.
- Through institutional controls over management processes. These are weak, as formal descriptions of management functions and responsibilities are not yet defined. A job descriptions manual and management procedures manuals are only in the initial stages of preparation. Instead, managers exercise control at their discretion according to their experience and own criteria and without an integrated management vision. For example, managers have decided on annual operational plans with little linkage to the budget and projected cash availability, such projections also having a wide margin of error due to the unpredictability of resource inflows.

This situation is exacerbated by the Budget not being prepared in a participatory manner. The decisions made on what should be included in the Budget tend not to reflect the technical necessities of the different departments, thereby causing difficulties in program execution and weakening the authority of program managers and thereby further weakening the institutional control framework. The rotation of many key institutional positions at the beginning of the current administration has exacerbated this situation.

The significant stock of pending payments at the end of each year (PI-4) is largely due to: (i) revenue shortfalls (PI-3); (ii) the amount of discretion available to managers for adjusting the budget after its approval, at the expense of some executing units that may have already

committed expenditure, reflecting the weak institutional control framework noted above; and (iii) expenditure commitment controls being linked only to the approved budget and not to projected cash availability.

ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures

The main internal controls cover expenditure commitments, payments and human resource management. A job description manual and management procedures manuals are only in the initial stages of preparation, as noted above. The AMDC is only in the initial phases of implementing the Framework for Public Internal Control Systems developed by TSC. The Internal Control Regulations issued by TSC under this Framework have not yet been published and the institutional drive to sensitize officials about the importance of internal control systems has not yet developed.

iii) Degree of compliance with rules for processing and recording transactions

Compliance with the conditions attached to the Syndicated Loan concerning the use of municipal funds is generally good. Requests for funds from the trust fund account usually respect the procedures, although the audit of the financial statements for 2010 showed that some conditions related to the ratio of debt service to operational income had not been complied with (Page 27 of the notes to the Financial Statements). Any lack of compliance would have a serious negative impact on AMDC's financial management.

Recording and transactions processes have notably improved, to the point that both budget and accounting records are continuously being updated and contain reliable information on the transactions. The Framework for Public Internal Control Systems is still in the initial phase of implementation, so the issue of compliance with it does not yet arise.

Indicator	Rating	Justification
PI-20 (M1)	D+	
<i>(i)</i>	C	Expenditure commitment controls are exercised only in relation to the approved budget and are not linked to projected cash availability.
<i>(ii)</i>	D	Staff have understanding of the conditions associated with the Syndicated Loan and with human resource management, but have yet to be sensitized about the Framework for Public Internal Control Systems developed by TSC in 2009, which, when implemented, would provide clear, integrated and documented internal control rules and procedures. No guidelines or control procedures have been identified or documented for management.
<i>(iii)</i>	B	The conditions associated with the use of Syndicated Loan Funds are generally adhered to though the Audit Report on the 2010 Financial Statements mentioned some areas of non-compliance. Transactions are currently recorded in a timely and adequate manner in line with budgetary and accounting regulations, as well as the Syndicated Loan agreement.

PI-21. Effectiveness of internal audit

The internal audit function is carried out by the AMDC's Municipal Internal Auditor. Its function is defined in the "The Public Sector Internal Audit Framework" issued by the Supreme Audit Institution in April 2009. The Framework establishes the following responsibility areas:

1) *Planning, programming, risk analysis and internal control evaluation*: medium strategic plan, annual audit plan, evaluation of effectiveness of internal institutional control processes, making recommendations to strengthen processes, monitoring and follow-up on implementation of recommendations.

2) *Types of audits*: compliance with laws and regulations, financial, performance (test of effectiveness, economy and efficiency), systems (e.g. evaluation of controls over use of IT systems)

Article 54 of the Law of Municipalities specifies that the Municipal Internal Auditor reports directly to the Municipal Council. Article 44 specifies that the functions of the auditor consist mainly of pre-audit activities, thereby indicating a degree of inconsistency with the post audit functions specified in the 'Framework' noted above.

i) Coverage and quality of the internal audit function

The internal audit plan for 2012 contains sixteen financial and compliance audits in relation to the various entities and programs of AMDC. These appear not to have been selected on the basis of a risk assessment, as they do not focus on the primary problems of the Municipality. The planned audits are listed below. Only the market audits and the first two audits on municipal income entail a systems audit approach.

Planned Program Audits, 2012

1) *Market Audits*: Jacaleapa, San Miguel (Perisur), Belen Area, Market Management;

2) *Municipal Income*: Treasury (e.g. Trust Fund), Collection and Financial Control (arrears recovery), Construction Management, Transport and Roadways.

3) *Other Audits*: CODEM, Social Protection, Solid Waste, Infrastructures Warehouse, Environmental Management, El Durazno Cemetery, Police Courts, Public Service Management.

4) *Routine year-long operational audit work*: Review of cash estimations for Works Progress; Issue resolutions regarding request of Debts Reconsiderations; Reviews of Revolving Funds; Project Analysis; Fuel Item analysis; Accounts Receivable analysis; Bidding Processes analysis; Special Jobs in Support to the Legal Cabinet;

The above indicates that the work of the Internal Audit function is partially operational in nature. The majority of audits is oriented towards transactional matters rather than systemic matters.

ii) Frequency and distribution of reports

As mandated in the Law of Municipalities, monthly management reports and reports on the audits performed are required to be prepared and presented to the Municipal Council.

iii) Extent of management response to internal audit findings

The internal audit function has focused mainly on operations and transactional matters, and recommendations made have not been extensive. Information is not available to determine the extent of AMDC's response to any recommendations made.

Indicator	Rating	Justification
PI-21 (M1)	D+	
<i>(i)</i>	C	The internal audit function covers the entire municipal operations environment. It is mainly focused on control of transactions rather than on systems issues.
<i>(ii)</i>	C	Monthly management reports and audit reports are submitted to the Municipal Council but not to TSC.
<i>(iii)</i>	D	Some recommendations have been made, but there is no system in place for monitoring the implementation of these.

3.5. Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

The AMDC has only one bank account (the trust account) to which all funds flow and from which all payments are made. The use of the trust account has simplified many of the bank management procedures of the Municipality. Since the bank account is a trust account, funds held in the account are not subject to liens and are immediately available for funding expenditures. The trust fund administrator issues checks on the basis of adequate supporting documentation provided by AMDC. Thus, accounts reconciliation is straightforward, as information stems from only two sources: the trust fund account and the AMDC books.

i) Regularity of bank reconciliations

Funds collected by the banks participating in the trust fund agreement must be transferred every Monday to the trust account. The transfer is net, each bank retaining agreed-upon commissions. Each bank transmits information to AMDC on funds that it receives on a real time basis, enabling daily reconciliation in terms of collected income. Reconciliation in terms of collected net funds arriving in the trust account is conducted weekly.

Formal reconciliation of the trust fund account is conducted monthly in conjunction with the issuance of monthly financial statements to AMDC. In practice, however, reconciliation is daily due to the daily consultations between AMDC and the manager of the trust account and AMDC's online access to the activities on the account, which is its only bank account. Follow-up on transactions is therefore simple.

ii) Regularity of reconciliation and clearance of suspense accounts and advances.

The main types of advances are those to contractors and revolving funds. Advance payments to contractors are regularized as expenditures at the end of the contract with the last payment. At that time, use of the advance payments is accounted for and in compliance with procedures. Remaining balances not settled at the end of the year are transferred to suspense accounts for their follow-up and later regularization.

In the case of revolving funds, these are administered by specified officials in the form of personal funds on the basis of bank guarantees equivalent to the funds received. These funds are renewed or liquidated by means of the presentation and approval of receipts (in other countries, these are often known as petty cash funds). The Municipal Council establishes the amount of the revolving fund each year through issuance of a Budget Norm (except for emergency funds, the amounts and duration of which are event specific) and establishes the number of replenishments allowed per year. Settlement of use of these funds as expenditures is always annual. Emergency funds may not be liquidated at year end and may remain active until their final settlement. Instances have arisen of emergency funds remaining active even after the end of the emergency; suggesting that administration of these is not strict.

Finally, some units, such as CODEM, operate with a permanent revolving fund, from which discretionary grants can be made to communities in urgent need of assistance, without having to go through the general administrative procedures. Use of these funds is settled annually

The FAD issues a bulletin each year that establishes a date, normally within the last third of December each year, for the settlement of all types of advances.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-22 (M2)	B+	
(i)	A	Formal reconciliation is conducted monthly with respect to AMDC's only bank account at both aggregate and dis-aggregated level, within four weeks of the end of the month. In practice, reconciliation is conducted on a daily basis.
(ii)	B	The clearance (settlement, liquidation, regularization) of advance payments take place in December each year. Uncleared balances may be placed in suspense accounts and carried forward to the following year.

PI-23. Availability of information on resources received by service delivery units

This indicator was not assessed since it is not applicable, as AMDC is not involved in, or providing funding for, primary service delivery (primary service units -health and education- are funded by the Central Government).

PI-24. Quality and timeliness of in-year budget reports

The Budget Guidelines issued annually by the Municipal Council establish the frequency and type of reports that AMDC must present to it:

- i) *Quarterly*: Consolidation of monthly income and expenditure reports, and budget settlement report, reports on fund execution, bank account balances, and progress in investment projects;
- ii) *Annually*, within 30 days after the end of the fiscal year, the income and expenditure (budget settlement) report, investments during the year, Consolidated and Detailed General Balance, and Public Debt Statement.

The central government's Annual Budget Law, in the context of the Law on Municipalities, requires municipalities to submit to it and the Supreme Audit Institution: (a) an annual budget and Municipal Investment Plan, along with monthly and quarterly budget performance reports

(b) quarterly physical and financial plans and performance of projects and programs; and (c) annual financial statements, prior to January 31 of the following year.

i) Scope of reports in terms of coverage and compatibility with budget estimates.

Budget performance reports are prepared on an economic classification basis only, as indicated in the approved budget documents and not on an administrative unit or program basis, even though the budgets are presented on such a basis. They show the amounts initially approved, modified, transferred, committed, accrued, pending payments and paid. Although the quarterly reports only show budget execution for a quarter and not on a cumulative basis, the bi-annual report (second quarter) and the yearly report (fourth quarter) include cumulative information.

ii) Timeliness of the issue of reports

The reports prepared for the Municipal Council are presented monthly and quarterly within two weeks of the end of the period, as required by the laws and guidelines indicated in (i).

iii) Quality of information

The reports follow the structure of the approved budget, but only on an economic classification basis. The reports provide no indication of the performance of municipal programs, which are based on municipal policies, and therefore provide no guide on whether mitigation measures are needed to keep budget performance on track.

Another defect is that the quarterly reports (except for the second and fourth quarterly report) only compare performance during the quarter with projected performance that quarter and do not show performance on a cumulative basis, thus making it difficult to determine if the budget is on track. Furthermore, a quarterly report may include expenditure based on payables in the previous quarter, leading to an erroneous interpretation of the financial situation of the municipality, both during the current quarter and the previous quarter.

Nevertheless, the data themselves appear to be of good quality, the main issue being the interpretation of the data, and its usefulness for management decision making.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-24 (M1)	B+	
<i>(i)</i>	B	Classification of the data allows a direct comparison with the original Budget but only on an economic classification basis, and not on an administrative/program basis. Neither is cumulative performance reported on. The coverage includes the commitment and payment stages.
<i>(ii)</i>	A	Monthly and quarterly reports are prepared within the two weeks following the end of the reported period.
<i>(iii)</i>	B	The quality of the data is reasonably accurate, but interpreting the data is problematic due to the reports being presented on an aggregate monthly/quarterly basis with no cumulative performance data shown.

PI-25. Quality and timeliness of annual financial statements

The AMDC accounting system has improved substantially during the last two years. The audit report on the annual financial statements for 2010 clearly described the weaknesses of the accounting system in prior years and gave a negative opinion, indicating that the statements generated by the system did not represent the true financial situation of AMDC according to the accounting standards of Honduras. For example, at the end of 2010, reconciliation of cash,

accounts payables, accounts received, and loan accounts from prior periods showed amounts pending in assets and liabilities of HNL 3.5 billion and HNL 1.9 billion respectively, for a net effect of HNL 1.6 billion. As another example, the auditors could not be satisfied as to the accuracy of figures for accounts payables at the end of 2008 and 2009 of HNL 61 million and HNL 83.4 million respectively.

As mentioned in the audit report for 2010, financial statements prior to 2010 were not audited. Since then AMDC has strengthened its accounting system in order to keep it current and free from errors and to bring to light errors in the accounts of previous years. In addition, the conditions and procedures of the Syndicated Loan arrangement have become a powerful incentive for assuring the quality of the present accounting system.

i) Completeness of the financial statements.

The audit report on the 2010 financial statements also identified weaknesses, indicating the statements were lacking in crucial information, for example: (i) insufficient records of real assets precluded accurate estimates of depreciation and therefore the depreciation expenses of HNL 6.6 million contained in the financial statements could not be verified by the auditors; and (ii) accounts receivables figures show balances at the end of 2010 representing taxes due on industry, commerce and services of HNL 41.2 million, and taxes due on real estate of HNL 275.7 million, the collection of which is unlikely. Moreover, such balances include accounts receivable classified as “tax exempted” amounting HNL 81.3 million, which should not be part of the balance as these taxpayers are not subject to tax.

ii) Timeliness of the submission of the financial statements.

The Budgetary Guidelines indicates that AMDC’s annual financial statements must be presented to the Municipal Council in the month following the end of the financial year (i.e. January). This deadline has been complied with in the last few years. The statements were not audited prior to 2010. The financial statements for 2010 were presented to the Municipal Council in January 2011 and were presented for audit in March 2011. The financial statements for 2011 were presented to the Municipal Council in January 2012 and presented for audit in February 2012.

iii) Accounting standards used.

The public sector in Honduras, including the municipal sector, uses the same standards and accounting procedures, as defined in: the Public Sector Accounting Manual and the Technical Standards of the Government Accounting Subsystem. Both were published in 2006, and both were created and issued by the National General Accounting Office. The Government of Honduras is currently under implementation of the IPSAS.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-25 (M1)	D+	
<i>(i)</i>	D	Essential information is missing in the financial statements.
<i>(ii)</i>	A	AMDC submits its financial statements for audit within six months of the end of the financial year.
<i>(iii)</i>	A	The National Accounting Standards are applied to all of AMDC’s accounting processes, and the financial statements are always presented in a coherent format.

3.6. External Scrutiny and Audit

PI-26. Scope, nature and follow-up of external audit

The TSC establishes in the Honduran SAI's coverage its Article 5.-Passive Subjects to the Law", namely *"the decentralized Public Administration including the autonomous, semi-autonomous and the municipalities; and the trust funds formed with State funds or assets."*

In 2008 the Supreme Audit Institution issued the "Government Auditing Standards" which mentions: *"Government auditing is done in order to establish the degree to which public sector entities have fulfilled their objectives, and their public servants have fulfilled the functions, duties and attributions assigned by the competent authority; whether these have been carried out efficiently, effectively and economically; whether the objective and proposed goals have been attained; whether the management information is useful, timely and reliable; and whether the legal regulatory, contracting and normative dispositions are pertinent."*

Audit reports published by TSC only cover up to 2006. The TSC has commenced but not yet completed audits covering 2007 – 2010. The assessment team obtained evidence of the following reports in relation to AMDC, including evidence of audit processes and extent of auditee follow-up to audit recommendations:

- Financial audit and legal compliance – Report n° 064/2006 covering 2002-2006.- and presented to the Municipal Council on November 30 2006.
- Financial audit and legal compliance – Report n° 019/2008. Not published.
- Financial audit and legal compliance – Report in process covering June 2008 -March 2010.
- Financial audit and legal compliance – Report in process, covering 2010.
- Three Special Reports related to the period January 2002 –2006.

The special audits mainly refer to the lack of payment of employers' contributions and amounts withheld from employees for INJUPEMP and for the Syndicate. The financial and legal compliance audits identified a number of institutional weaknesses, including:

- No efficient control of cash and bank reconciliations not made in a timely manner
- Contract modifications not approved by project supervisors
- Lack of support documentation of executed and in process projects
- Lack of auxiliary records of payments documents
- Specific procedures not being used for personnel selection
- Permanent and sustained personnel training programs not being implemented
- The system for monitoring personnel attendance not reliable
- Incomplete personnel records
- Personnel being fired without complying with procedures established by Law
- No adequate control over payroll preparation.

A report prepared by the internal auditor on the follow-up of TSC recommendations since 2007 shows that during 2007--2010 the TSC gave 98 recommendations of which only 39 had been implemented.

In addition to the audits carried out by TSC, and as part of the commitments acquired under the Syndicated Loan, AMDC's financial statements up to 2010 have been audited by a private audit company, which expressed a negative opinion on them.

i) Scope/nature of the audit conducted, including adherence to auditing standards

A review of the auditing standards used by TSC shows compatibility with some elements of the INTOSAI standards. Nevertheless, the TSC standards do not mention any of the international standards, nor is there any analysis or official declaration of how the four levels of standards proposed by INTOSAI or the ISSAI are being applied by TSC.

Although the TSC performs audits and gives recommendations to the AMDC, these are not being translated into timely audit reports, the last of which was prepared in 2006. The Financial Statements Audits are limited in coverage and lack the depth of a financial and compliance audit, thus any significant problems that an institution may be experiencing may not come to light.

ii) Timeliness of submission of audit reports to the Municipal Council

The AMDC via the TSC delivers financial statements to the Municipal Council within five months after the end of the year. However, the financial and compliance audit reports may not be completed by the TSC until several years after the period under review.

iii) Extent of follow-up on audit recommendations

The report prepared by the Municipal Internal Auditor regarding the extent of implementation of TSC's recommendations covering 2007-2010 shows that only 40 percent of them had been implemented. The report shows the objectives of the recommendations, the action plan agreed upon, the people responsible for the implementation of recommendations and the current extent of implementation.

The TSC maintains a computerized system on which the recommendations and extent of implementation are registered. The information is updated every six months.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-26 (M-1)	D+	
<i>(i)</i>	D	Audit coverage in terms of percentage of entities audited is high, but the extent of financial and compliance audits, adherence to international standards and timeliness is low, such that significant problems that an institution may have do not come to light.
<i>(ii)</i>	D	Audit reports are presented to the Municipal Council more than twelve months after the end of the period under review
<i>(iii)</i>	B	Auditees provide a timely formal response to TSC's recommendations, but the extent of implementation of recommendations is limited.

PI-27. Legislative scrutiny of the annual budget law

According to Article 95 of the Law of Municipalities, the Municipal Council (Mayor, Vice-Mayor and ten aldermen) reviews the annual draft Budget, the Annual Budgetary Norm and the Tax Plan between September 15 and December 31. The review of the budget is confined to the review of some tables. The expenditure budget follows a broad economic classification only for

each AMDC Directorate. The Vice-Mayor presents the macro-economic and fiscal parameters underpinning the multi-year income projections and explains the current municipal programs.

During budget execution, the Mayor delivers quarterly presentations to the Aldermen on the municipal financial situation and quarterly accountability reports to the Municipal Council to revise and approve.

i) Scope of the legislature's scrutiny

The draft budget presented to the Municipal Council for its approval is sufficiently detailed regarding income, but the presentation of the expenditure items do not clearly identify how municipal resources will be distributed between the many municipal programs, or how they will be linked to municipality policies and to satisfying municipality functions and priorities. Understanding and assessing the budget is difficult because it consists only of tables with no explanation of planned expenditure activities and the results of those activities.

ii) Extent to which the legislature's procedures are well-established and respected

The budget review and approval process is only regulated by its basic aspects, such as critical dates and the majority number required for budget approval. There is no evidence of any rules that stipulate the supporting documentation that should be attached to the budget documents (e.g. validity of macro-economic assumptions, expenditure priorities) that would facilitate the review process. Internal facilities for review are not in place, such as a budget commission or any permanent or specialized personnel who can analytically review the budget, though some aldermen temporarily hire a consultant to assist in budget analysis

iii) Adequacy of time available for the legislature to respond to budget proposals

The Municipal Council has about 3 ½ months to review and approve the budget.

This timetable was met in the case of the 2011 and 2012 budgets, but was not met in the case of the 2010 budget, the review of which did not start until October 2009.

iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

The rules applicable for modifying the budget are defined in the Annual Budgetary Norm. The Norm for 2011 specifies that written authorization of the Mayor (or Vice Mayor in his absence) is required (Article 49) for proposed increases in budget allocations funded by new sources of income (e.g. new loans) that have come available, or for requested new spending for which new funding is required (Article 50). Prior Municipal Council approval is not required for transfers of funds between programs, as long as total expenditure does not increase. The Mayor and Vice Mayor are authorized (Article 53) to do this, but must inform the Municipal Council.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-27 (M1)	D+	
(i)	D	The budget presented to the Municipal Council does not show sufficient detail to be able to understand the objectives of the proposed expenditures and their linkage to municipal policies.
(ii)	D	Procedures have not yet been established for analyzing and discussing the budget. Procedures in place only refer to formal aspects of the approval process.
(iii)	A	The Municipal Council has more than 2 ½ months to review and approve the budget.
(iv)	B	Clear rules allow the Mayor or the Vice-Mayor to reallocate funds between municipal programs without prior approval of the Municipal Council, as long as total spending does not increase and the Municipal Council is later informed. The rules, albeit allowing for extensive administrative reallocations, are normally respected.

PI-28. Legislative scrutiny of external audit reports

The only audit report prepared during the last three fiscal years (2009-2011) was on the 2010 financial statements, audited by a private audit company as part of the commitments acquired under the Syndicated Loan. The Municipal Council has no record of receiving the report and there is no documentation to show that it was discussed. This indicator is therefore rated D, as the Municipal Council is not fulfilling its role of ensuring the accountability of the executive.

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
PI-28 (M1)	D	
(i)	D	There have been no audit reports received by the Municipal Council during the period analyzed. The only audit report issued during the period assessed, Audit Report on the 2010 AMDC Financial Statements was never received by the Municipal Council, and therefore the examination of audit reports did not take place.
(ii)	D	There have been no auditing reports received by the Municipal Council during the period analyzed. Therefore, no in-depth hearings on key findings were conducted by the Municipal Council during the period assessed.
(iii)	D	There have been no auditing reports received by the Municipal Council during the period analyzed, and thus the PEFA methodology cannot be applied. Therefore, no recommendations on actions to be implemented by AMDC were issued by the Municipal Council.

3.7. Donor Practices

Indicators D-1, D-2 and D-3 were not assessed, as AMDC does not receive any assistance from donors.

3.8. Central Government Practices

HLG-1. Predictability of Central Government transfers

This indicator cannot be measured, as information is only classified on an economic basis.

The municipalities receive two transfers from the Central Government as mandated by Article 91 of the Law of Municipalities. Municipalities receive 7 percent of central government tax revenue in 2010, 8 percent in 2011, 9 percent in 2012, 10 percent in 2013 and so on. The approved transfers are paid monthly. The formula for allocating this vertical share between municipalities (horizontal share) consists of three elements:

- Fifty percent to be distributed equally to the municipalities;
- Twenty percent to be distributed in direct proportion to population, according to the last Population and Housing Census conducted by the National Statistics Institute (INE);
- Thirty percent to be distributed in direct proportion to the poverty index, according to the proportion of the population that is poor in each municipality based on the method of Unsatisfied Basic Needs (NBI), according to the last Population and Housing Census.

Article 91 also mandates that 17 percent of the transferred amount should be spent for specified socio-economic development purposes in specified percentages: 1 percent for programs and projects for the benefit of children and adolescents, 2 percent for socio-economic development programs and 13 percent for social infrastructure development and maintenance thereof. Up to 15 percent can be used for administrative expenses (30 percent for lower income municipalities). The amounts may be reduced in the event of non-compliance with conditions.

The transfers administered by the Ministry of the Interior and Population as a support fund for local governments are made quarterly.

i) Annual deviation of transfers relative to programmed amounts

Table 17 shows planned and actual transfers from the central Government

Table 17 - Transfers received from the Central Government

	2009	2010	2011
Amount Budgeted	394,438,217	224,410,783	210,461,280
Amount Received	417,057,073	211,163,242	301,919,694
Variance	5.7%	5.9%	43.4%

Source: Income Settlement of the years mentioned

ii) Variance between the actual and budgeted amounts for the main transfers

Table 15 indicates that the variance between budgeted and actual amounts received was 5.7%, 5.9% and 43.4% for the last three completed fiscal years.

iii) Timeliness in the receipt of transfers from the Central Government

Due to fiscal difficulties in 2011 SEFIN had to transfer part of the funds (up to 20%) in the form of treasury bonds. A list published by the Treasury shows that some municipalities had not

received their latest monthly quota or the last quarterly quota for year 2011. The amounts due as of January 1, 2012 were between 25 and 50 percent of budgeted amounts

<i>Indicator</i>	<i>Rating</i>	<i>Justification</i>
HLG-1 (M1)	NR	
<i>(i)</i>	A	In no more than one out of the last three years were transfers lower than 95% of the budgeted amount
<i>(ii)</i>	NR	The approved budget shows expenditure on an economic classification basis only and so rating of this dimension is not possible.
<i>(iii)</i>	C	The weighted amount of delayed transfers did not exceed 50% of the planned amounts.

4. Public Sector Reform Process

4.1. Description of the recent and current measures of reforms

The process of municipal management reform began in Honduras in 2009 through the new political-administrative organization scheme adopted by the current Government and described in “*Ley para el establecimiento de una vision de país y la adopción de un Plan de Nación para Honduras*” (CVNP - Law Decree 286-2009). According to the Law of Municipalities, municipal planning must be coordinated with the national development plans (article 15.18) based on the Country Vision and National Plan. The Law specifies that the central government should initiate a process of transferring the responsibility for providing basic services, such as education and health, to municipal governments. Municipalities are required under the new Law to establish planning units with the task of formulating medium and long term development plans.

Central government planning for development and the multi-sectorial and regional coordination of these plans is still in its initial phase and therefore, the impact of this reform at national and local level is still small. The effectiveness at municipal level of the new planning systems is undermined somewhat by a separation of planning and budgeting functions, with budget preparation being the responsibility of the FAD and planning the responsibility of the Manager of Operations Unit (POA). The linkages between the two are weak. The monitoring and evaluation of plans, and the reporting thereof is only just beginning.

Another substantial change in public sector management concerns the Internal Audit System, which began in 2009 to switch its focus from pre-audit activities to post-transactions audit. The TSC stipulated that public entities had to modify their internal audit procedures by December, 2010. Municipalities are faced with a legal inconsistency, however, since the Law of Municipalities provides only for the pre-audit function. Moreover, few municipalities have internal auditors sufficiently qualified to implement the switch in focus. The implementation of this reform at municipal level has therefore been slow. Due to this inconsistency, the Municipal Audit Department of the AMDC has attempted to address the inconsistency by adopting a hybrid position.

4.2. Institutional factors that support reform planning and application

Two main factors will influence the degree of success that AMDC will have in implementing PFM reform:

- The willingness of the present administration to implement reform.
- The conditions of the Syndicated Loan, which establish a formal operational framework that provides for the preparation of realistic budgets, limits discretionary decisions on expenditure, improves the quality of the data used in reporting, and imposes discipline in budget execution. The loan agreement also provides AMDC with a reliable stream of resource inflows, partly through protecting it against creditors.

Annex 1 - Indicator Data

Annex A 1.1 Budget for 2009 fiscal year

2009 Data (HNL)		
	Budget	
	Approved	Actual
Personal Services	592,709,032	692,841,253
Non Personal Services	65,833,795	28,206,809
Materials and Supplies	26,212,109	14,884,939
Capitalized Assets	1,254,516,322	423,144,885
Transfers	45,922,833	60,342,258
Financial Assets	0	0
Other Expenses	0	0
Global Assignments	429,564,741	0
Debt Service	441,680,432	887,334,459
Total Expenditure	2,856,439,264	2,106,754,603

Annex A 1.2 Budget for 2010 fiscal year

2010 Data (HNL)		
	Budget	
	Approved	Actual
Personal Services	621,567,408	559,202,812
Non Personal Services	42,739,143	81,971,240
Materials and Supplies	19,325,000	14,862,082
Capitalized Assets	732,410,805	382,985,517
Transfers	45,922,833	25,359,678
Financial Assets	0	0
Other Expenses	0	0
Global Assignments	271,005,328	0
Debt Service	634,022,691	389,809,184
Total Expenditure	2,366,993,208	1,454,190,513

Annex A 1.3 Budget for 2011 fiscal year

2011 Data (HNL)		
	Budget	
	Approved	Actual
Personal Services	699,875,084	620,267,343
Non Personal Services	90,754,329	87,964,477
Materials and Supplies	34,974,624	16,207,987
Capitalized Assets	981,319,885	486,367,028
Transfers	8,480,850	76,917,606
Financial Assets	0	0
Other Expenses	0	0
Global Assignments	75,000,000	750,000
Debt Service	505,442,873	741,414,197
Total Expenditure	2,395,847,645	2,029,888,638

Annex A 1.4 Internal revenue performance: 2009

Type of Income	2009 (HNL)		
	Initially approved	Actual revenue	Variation
Total Revenues	2,856,439,263	1,983,001,652	-30.58%
Current Income	1,554,390,335	1,313,747,299	-15.48%
<i>Tax Revenues</i>	1,507,890,335	1,305,754,457	-13.41%
<i>Nontax Revenue</i>	46,500,000	7,992,842	-82.81%
Capital Income	1,302,048,928	669,254,353	-48.60%
<i>Loans</i>	795,900,000	140,500,000	-82.35%
<i>Sale of Assets</i>	0	0	
<i>Contribution for Improvements</i>	0	0	
<i>Bond Placement</i>	0	0	
<i>Transfers</i>	403,391,928	417,057,073	3.39%
<i>Subsidies</i>	0	0	
<i>Inheritances, Legacies and Donations</i>	0	0	
<i>Other Capital Income</i>	102,757,000	111,697,280	8.70%
Financial Availability	0	0	
<i>Source: Revenue Budget Settlement 4th quarter, 2009</i>			

Annex A 1.5 Internal revenue performance: 2010

Type of Income	2010 (HNL)		
	Initially approved	Actual Revenue	Variation
Total Revenues	2,366,993,208	1,682,078,534	-28.94%
Current Income	1,892,217,314	1,190,621,435	-37.08%
<i>Tax Revenues</i>	1,682,122,314	1,166,081,175	-30.68%
<i>Nontax Revenue</i>	210,095,000	24,540,260	-88.32%
Capital Income	474,775,894	491,457,099	3.51%
<i>Loans</i>	250,000,000	260,154,953	4.06%
<i>Sale of Assets</i>	0	0	
<i>Contribution for Improvements</i>	0	0	
<i>Bond Placement</i>	0	0	
<i>Transfers</i>	224,410,783	211,163,243	-5.90%
<i>Subsidies</i>	0	0	
<i>Inheritances, Legacies and Donations</i>	0	18,745,328	
<i>Other Capital Income</i>	365,111	1,393,575	281.69%
Financial Availability	0	0	

Source: Revenue Budget Settlement 4th quarter 2010

Annex A 1.6 Internal revenue performance: 2011

Type of Income	2011 (HNL)		
	Initially approved	Actual Revenue	Variation
Total Revenues	2,395,847,645	2,119,628,571	-11.53%
Current Income	1,664,519,365	1,298,019,545	-22.02%
<i>Tax Revenues</i>	1,605,315,808	1,278,936,392	-20.33%
<i>Nontax Revenue</i>	59,203,557	19,083,153	-67.77%
Capital Income	731,328,280	821,609,026	12.34%
<i>Loans</i>	512,000,000	487,633,207	-4.76%
<i>Sale of Assets</i>	0	1,768,426	
<i>Contribution for Improvements</i>	0	0	
<i>Bond Placement</i>	0	0	
<i>Transfers</i>	210,461,280	301,919,694	43.46%
<i>Subsidies</i>	0	0	
<i>Inheritances, Legacies and Donations</i>	8,867,000	21,545,244	142.98%
<i>Other Capital Income</i>	0	8,742,455	
Financial Availability	0	0	

Source: Revenue Budget Settlement 4th quarter 2011

Annex 2 - Summary of performance indicators

Indicator / Method	Indicator Qualification	Qualification of each dimension				Justification
		I	II	III	IV	
A. PFM-OUT-TURNS: Credibility of the budget						
PI-1 (M1)	D	D	---	---	---	Dimension i) The Budget deviation during two of the years analyzed was de 49.5% and 16.21%
PI-2 (M1)	NR	NR	NR	---	---	Dimension i) There is not official information available to evaluate this dimension Dimension ii) There is not official information available to evaluate this dimension
PI-3 (M1)	D	D	---	---	---	Dimension i) Internal revenue was less than 85% of plan in the three years analyzed
PI-4 (M1)	NR	NR	D	---	---	Dimension i) The amount of delayed payments cannot be quantified. Dimension ii) There is no formal follow-up of payment delays, and even though data for this can be obtained from the Payment Orders, there is no evidence that an ad-hoc exercise has been done during the last two years to determine this.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5 (M1)	A	A	---	---	---	Dimension i) The preparation and execution of the AMDC Budget is based on standards and budgetary classifiers that provide administrative, economic and functional information consistent with international standards.
PI-6 (M1)	D	D	---	---	---	Dimension i) Only one of the elements required by international good practices is included in the file presented to the Municipal Council for the Municipal annual budget approval.
PI-7 (M1)	NR	NR	A	---	---	Dimension i) The amounts that are not included or in which incorrect values are registered in the operations cannot be quantified in the financial reports of the municipality. Dimension ii) The expense in cooperation projects financed by donors is insignificant, less than 0.3% of the AMDC expense.
PI-9 (M1)	C	C	NA	---	---	Dimension i) PROMDECA, the only decentralized AMDC entity presents annual audited financial statements, but the AMDC does not make a consolidated report on the global financial risk of the Municipality Dimension ii) This dimension is not evaluated since it is not applicable to the AMDC case.
PI-10 (M1)	C	C	---	---	---	Dimension i) The AMDC complies with three or four of the conditions established by the PEFA methodology.
C. BUDGET CYCLE						
C i) Policy-Based budgeting						
PI-11 (M2)	C+	C	D	A	---	Dimension i) There is a rudimentary calendar for the annual budget preparation, which is complied with. The units do not present detailed expense estimates. Dimension ii) There is no budget circulation and the intervention of political officials is limited to the final revision of the budget. Dimension iii) In the last three years the Municipal Council approved the budgets prior to their applicability.
PI-12 (M2)	D+	D	B	D	NA	Dimension i) There is no multi annual programming of expenses or of allocation of resources to the different municipal functions. Dimension ii) A sustainability analysis on the internal and external debt was done in the year 2010. Dimension iii) The existing development strategies are not linked to budget resources (neither investment nor current expenditures) as City Plan is not costed. Dimension iv) In the period analyzed there have not been any cases of investments like the one analyzed in this dimension.
C (ii) Predictability and Control in Budget Execution						

Indicator / Method	Indicator Qualification	Qualification of each dimension				Justification
		I	II	III	IV	
PI-13 (M2)	B	C	B	B	---	<p>Dimension i) Even though the universality and clarity of the municipal tax laws is adequate, the discretion of municipal official in the definitions of amounts, the application of which has substantially impacted the quantifying of the receivable tax contributors has often been question and has not been equitable.</p> <p>Dimension ii) The revenue plan is easily access public document for the contributor that concentrates all required tax information for the contributor to comply with his/her obligations, but there have not been any contributor awareness raising campaigns.</p> <p>Dimension iii) No functioning Tax Appeals System has been established.</p>
PI-14 (M2)	B	C	B	B	---	<p>Dimension i) Control is made by cross-referencing information between municipal tax registries that are most important, but cross-information is not done with registries of other institutions.</p> <p>Dimension ii) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.</p> <p>Dimension iii) There is annual audit plan that is documented and approved to perform a fiscal study of large contributors, which is based on risk evaluation criteria.</p>
PI-15 (M1)	NR	NR	B	A	---	<p>Dimension i) This cannot be rated, as the data on revenue collection do not identify separately the proportion of the previous years' tax debts collected during the current year.</p> <p>Dimension ii) All daily income collected during the week is placed at the disposition of the AMDC on the following Monday after collection day.</p> <p>Dimension iii) The complete conciliation of income, assessments and transfers is done monthly.</p>
PI-16 (M1)	D+	D	A	D	---	<p>Dimension i) A cash flow is not made, and expenditure is done according to fund availability.</p> <p>Dimension ii) Executing units can commit according to the approved budget.</p> <p>Dimension iii) The budget adjustments within the period were not frequent within it, appear to be less accountable</p>
PI-17 (M2)	A	A	A	A	---	<p>Dimension i) The internal and external debt records are complete, updated and permanently conciliated. The municipal debt reports are included in the accountability quarterly reports and in the Municipality monthly and annual financial statements.</p> <p>Dimension ii) All the Municipality Funds are in the trust fund account, and the available balance can be consulted on line directly with the bank administrating the Fund.</p> <p>Dimension iii) Obtaining loans and granting guarantees can only be authorized by the Municipal Council and is subject to subject to strict controls that assure transparent procedures and the compliance with fiscal and Trust Fund goals pre-established by the Syndicated Loan.</p>
PI-18 (M1)	B+	B	A	A	B	<p>Dimension i) The data on human resources and payroll are automatically linked in the information system and a monthly control is made to assure the accuracy of these registers. The data base however does not have a registry of work positions since this is still in the process of being prepared.</p> <p>Dimension ii) Registry modifications are done on a monthly basis and allow them the payroll the following month. The retroactive adjustments due to changes in registers are not very frequent and their amount is insignificant (less than 3%) as compared to the payroll total.</p> <p>Dimension iii) There are only six persons authorized to register information on the data base of personnel. Only the Mayor can authorize the changes and the Municipal Internal Auditor verifies all the transactions made. A verification report is issued monthly of the changes made.</p> <p>Dimension iv) In the last three years two verifications of positions have been done that covered the entire institution and at least one integrated audit that included the payroll audit.</p>
PI-19 (M2)	D+	A	D	D	D	<p>Dimension i) The norm framework satisfies the six conditions established by the PEFA</p> <p>Dimension ii) There is no reliable information to quantify the dimension</p> <p>Dimension iii) In the AMDC there is no procedure that guarantee systematic recording of contracting in HONDUCOMPRAS. The record of the last six years are not comprehensive.</p> <p>Dimension iv) The first two conditions established by the PEFA methodology are not fulfilled.</p>

Indicator / Method	Indicator Qualification	Qualification of each dimension				Justification
		I	II	III	IV	
PI-20 (M1)	D+	C	D	B	---	<p>Dimension i) Payment control is strict but control over expense quality has a discretionary aspect that reduces the efficiency of the control systems.</p> <p>Dimension ii) With the exceptions of restriction of the Syndicated Law and the procedures used by the human resource management no norms or control procedures.</p> <p>Dimension iii) The transactions are currently registered and processed in a timely and adequate manner both for the budget and accounting respecting the budgetary and accounting regulation, as well as the Syndicated Loan agreement. The external audit reports indicate, however, some areas of non-compliance.</p>
PI-21 (M1)	D+	C	C	D	---	<p>Dimension i) There is an Internal Audit unit that covers the entire operation environment of the AMDC. However, it is mainly focused on control of transactions rather than on systems issues.</p> <p>Dimension ii) Monthly management reports are issued as well as audits reports, but these are not delivered to the TSC or the Finance Ministry.</p> <p>Dimension iii) The Internal Audit is mainly directed to operation and transactional review matters, therefore there Records are not kept of the extent to which recommendations are followed up by management.</p>
C (iii) Accounting, Recording and Reporting						
PI-22 (M2)	B+	A	B	---	---	<p>Dimension i) The conciliation of the single AMDC bank account is performed monthly with daily follow-up.</p> <p>Dimension ii) The settlement compensation and conciliation of suspended accounts, advance payments and rotating funds is done annually in December with very few exceptions</p>
PI-24 (M1)	B+	B	A	B	---	<p>Dimension i) The Budget reports follow the format of the approved budget and includes expenditure commitments. They do not show cumulative performance, only performance during the quarter, which may be misleading, as it may include payments on accounts payables carried over from the previous quarter.</p> <p>Dimension ii) Monthly and quarterly reports are prepared and presented within the two weeks following the reported period end.</p> <p>Dimension iii) The quality of the data is reasonably accurate, but interpreting the data is problematic due to the reports being presented on an aggregated monthly/quarterly basis with no cumulative performance data shown.</p>
PI-25 (M1)	D+	D	A	A	---	<p>Dimension i) Essential information is missing in the financial statements.</p> <p>Dimension ii) AMDC financial statements receive external auditing within six months following the end of the reported fiscal year.</p> <p>Dimension iii) The National Accounting Norm is applied in all the AMDC accounting processes, and the financial statements are always presented on a coherent format.</p>
C (iv) External Scrutiny and Audit						
PI-26 (M1)	D+	D	D	B	---	<p>Dimension i) The last financial auditing and legal compliance report is from 2008 and has not been published; later auditing reports have been left unfinished. The auditing standards are barely evident.</p> <p>Dimension ii) Auditing reports are delivered to the Municipal Council more than twelve month after the closing of the investigation period.</p> <p>Dimension iii) There is continuous follow-up made on the status of these recommendations and their implementation both at the AMDC as well as the TSC, however because of the large number of recommendations that are pending implementation, the effectiveness of this follow-up is questionable.</p>
PI-27 (M1)	D+	D	D	A	B	<p>Dimension i) The information presented to the Municipal Council does not show sufficient detail or explanations to adequately understand the objectives of the budget expense and how it is linked to municipal policies and to the expected management results.</p> <p>Dimension ii) There are no procedures established for analyzing and discussing the budget. The current procedures only refer to formal aspects of the approval process.</p> <p>Dimension iii) There are more than two months for revising and approving the budget.</p> <p>Dimension iv) There are clear rules that allow the Mayor or the Vice-Mayor to reallocate administrative funds.</p>

Indicator / Method	Indicator Qualification	Qualification of each dimension				Justification
		I	II	III	IV	
PI-28 (M1)	D	D	D	D	---	<p>Dimension i) There have been no auditing reports received by the Municipal Council during the period analyzed. The only audit report issued during the period assessed, Audit Report on the 2010 AMDC Financial Statements was never received by the Municipal Council, and therefore the examination of audit reports did not take place.</p> <p>Dimension ii) There have been no auditing reports received by the Municipal Council during the period analyzed. Therefore, no in-depth hearings on key findings were conducted by the Municipal Council during the period assessed.</p> <p>Dimension iii) There have been no auditing reports received by the Municipal Council during the period analyzed. The PEFA methodology cannot be applied. Therefore, no recommendations on actions to be implemented by AMDC were issued by the Municipal Council.</p>
D. DONOR PRACTICE						
E. CENTRAL GOVERNMENT PRACTICES						
HLG-1 (M1)	NC	A	NC	C	---	<p>Dimension i) Transfers were less than 95% of the initially budgeted amount in no more than one of the last three years completed</p> <p>Dimension ii) This indicator cannot be measured, as information is only classified on an economic basis.</p> <p>Dimension iii) The weighted value of transfer delays is not more than 50% of the foreseen amounts to be transferred</p>

Annex 3 - Summary of information sources

Indicator	Concept	Source of information
PI - 1	Aggregate expenditure out-turn compared to original approved budget	Finance and Administration Directorate Annual Income and Expenditure Reports, 2009, 2010 and 2011
PI - 2	Composition of expenditure out-turn compared to original approved budget	Finance and Administration Directorate Annual Income and Expenditure Reports, 2009, 2010 and 2011 Institutional POA
PI - 3	Aggregate revenue out-turn compared to original approved budget	Finance and Administration Directorate Annual Income and Expenditure Reports, 2009, 2010 and 2011
PI - 4	Stock and monitoring of expenditure payment arrears	Finance and Administration Directorate Annual Income and Expenditure Reports, 2009, 2010 and 2011 Accountability Reports, 2009, 2010, and 2011 Financial Statement Audit Report, 2010
PI - 5	Classification of the budget	Finance and Administration Directorate Budget Formulation for Programs Manual (SGJ, 2006) Public Administration Functions Classification by the United Nations Government Finance Statistics Manual (IMF-GFSM 1986 and 2001) Law of Municipalities
PI - 6	Comprehensiveness of information included in budget documentation	Finance and Administration Directorate Vice Mayor Presentation on the Annual Budget Project to the Municipal Council Law of Municipalities and its Regulations Annual Operations Plan Municipal Council Secretariat Law of Municipalities
PI - 7	Extent of unreported government operations	Finance and Administration Directorate 2011 Budget Norm Law of Municipalities and its Regulations Financial Statement Audit Report 2010
PI - 9	Oversight of aggregate fiscal risk from other public sector entities	Law of Municipalities and its Regulations PROMDECA
PI-10	Public access to key fiscal information	Finance and Administration Directorate Law on Transparency and Access to Public Information <i>Cuentas Claras</i> Bulletin October, 2010 IAIP Institute for Access to Public Information
PI-11	Orderliness and participation in the annual budget process	Finance and Administration Directorate Different Managers and Operations Units. UEPEG Budget Formulation for Programs Manual (SGJ, 2006) Annual Operations Plan Capital, City Plan 450 - The city that we want! 2011 Budget Norm Law of Municipalities and its Regulations
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Capital, City Plan 450 - The city that we want! Finance and Administration Directorate International Finance Corporation
PI-13	Transparency of taxpayer obligations and liabilities	Law of Municipalities and its Regulations Finance and Administration Directorate Tax Plan 2010 and 2011 2011 Accountability Report Administrative Procedure Law Information on Internal Audit on disputed audits
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	Finance and Administration Directorate Internal Audit Tax Plan 2010 and 2011 Income settlement report 2009, 2010 and 2011 Auditing Manual of the AMDC
PI-15	Effectiveness in collection of tax payments	Finance and Administration Directorate Internal Audit Financial Statements of the AMDC Financial Statement Audit Report, 2010 Income settlement report 2009, 2010 and 2011

Indicator	Concept	Source of information
PI-16	Predictability in the availability of funds for commitment of expenditures	Finance and Administration Directorate Notes to Units on 30% budget reduction (February 2012) Information collected from several operating units
PI-17	Recording and management of cash balances, debt and guarantees	Excerpt from the Syndicated Loan Contract Financial Statement Audit Report, 2010 Political Constitution of the State
PI-18	Effectiveness of payroll controls	Human Resource Management Labor Code of Honduras Collective Agreement on Working Conditions Payroll scale of the AMDC Budget Manual of the AMDC Staff review minutes
PI-19	Competition, value for money and controls in procurement	Internal Services and Contracts Management State Procurement Law and its Regulations; Law for the creation of HONDUCOMPRAS Flyers and instructive on ONCAE AMDC 2010, 2011 and 2012 Budgets HONDUCOMPRAS General Conditions of the 2011 Annual Budget Law Law on Administrative Procedures
PI-20	Effectiveness of internal controls for non-salary expenditure	Finance and Administration Directorate Leading framework of Internal Control of Public Resources Internal Control Standards issued by TSC Syndicated Loan Terms Financial Statement Audit Report, 2010
PI-21	Effectiveness of internal audit	Internal Audit 2012 Operative Plan for Internal Audit Leading Framework for Public Sector Internal Audit Law of Municipalities and its Regulations
PI-22	Timeliness and regularity of accounts reconciliation	Finance and Administration Directorate Treasury of AMDC Syndicated Loan Terms Information collected from CODEM and other operative units
PI-24	Quality and timeliness of in-year budget reports	Finance and Administration Directorate Financial Statement Audit Report, 2010 Municipal Council Secretariat
PI-25	Quality and timeliness of annual financial statements	Finance and Administration Directorate Financial Statement Audit Report, 2010 Municipal Council Secretariat Budget Guidelines 2011 2006 Public Sector Accounting Manual Standards of Governmental Accounting Subsystem 2006
PI-26	Scope, nature and follow-up of external audit	Follow-up information and recommendations collected by the AI Organic Law of the Supreme Audit Institution and their Regulations Government Auditing Standards 2008 Auditing reports issued by TSC INTOSAI Standards
PI-27	Legislative scrutiny of the annual budget law	Municipal Council Secretariat Law of Municipalities and its Regulations Tax Plan 2011 Budget Guidelines 2011
PI-28	Legislative scrutiny of external audit reports	Audit Report on the 2010 AMDC Financial Statements. Moore Stephens Baggia and Asociados. (2011).
HLG-1	Predictability of central government transfers	Law of Municipalities and its Regulations Finance and Administration Directorate Annual Income and Expenditure Reports, 2009, 2010 and 2011

Annex 4 - Effects of performance in municipal financial management

Mutual links between six dimensions of an open and ordered Municipal PFM system and the levels of budget results

	Aggregated control discipline	Strategic assignment of resources	Efficient service provision
<p><u>Budget credibility</u></p> <p>The budget makes sense and it is applied according to what was predicted.</p>	<p>Income projections are not accurate, and the budget has not been able to adequately balance income with expense.</p> <p>Budget expense commitments are not related to payment capacity therefore accounts to be paid surpass the possibilities of municipal cash flow.</p>	<p>The actual resource allocation is limited by the reduced tax collection. The lack of accurate estimates for municipal income causes budget resource allocation to only be tentative. An important proportion of the budget is not executed.</p> <p>Although the budget initially tries to present a strategic distribution of resources, payment management leads to a discretionary re-allocation of resources and to a loss or reduction of their strategic value.</p>	<p>Some municipal services, such as those referring to municipal infrastructure maintenance are contracted to third parties and can be subject to payment delays, which not only impacts service cost, but also may cause reduction, suspension or interruption of services.</p> <p>It is also possible that because of cash flow or other needs, the budget foreseen for providing a certain service could be reallocated to another expense, causing the initially foreseen service to be unattended.</p>
<p><u>Comprehensiveness and transparency</u></p> <p>The scope of the budget and the risk control supervision is universal, and there is public access to fiscal and budget information.</p>	<p>The budget and their reports are presented as an attachment in an economic expense classification that does not enable the Municipal Council and the public in general adequate budget follow up or the ability to identify expense objectives.</p> <p>The AMDC financial risk to PROMDECA, the only decentralized entity is currently non-existent because the business is solvent.</p>	<p>Budget operation is executed through cost centers that enable the identification of resource allocation and the different municipal functions and operations units.</p> <p>This type of information and the level of classification are administered by few units and are not made public, nor is the Municipal Council informed, so follow-up of municipal allocation is not possible.</p>	<p>Some municipal services, although of reduced amounts, are provided upon discretionary decisions and without transparent qualification criteria. For example some expenses executed by the CODEM as qualified as “emergency services” when in reality they are charitable activities that do not necessarily qualify as public expense and do not lead to sustainable solutions.</p>
<p><u>Policy based-budgeting</u></p>	<p>Development plans, action plans and the budget are not linked to the municipal capacity for obtaining income, so there are no budgetary policies, but payment priorities that can be discretionary.</p>	<p>There are no annual expense budget policies that are notified to the different operational units, so that based on these they may prepare their action plans.</p> <p>The budget is prepared based on the previous year budget.</p> <p>The budget is not prepared in a participatory manner so that the resources that are requested in the POA are not the ones assigned to the FAD.</p>	<p>Primary municipal services, such as solid waste collection, have budget and cash flow priority, so they are normally provided in an on-going and efficient manner.</p>

	Aggregated control discipline	Strategic assignment of resources	Efficient service provision
<u>Predictability and control in budget execution</u>	Because the budget is not backed by sufficient income, the controls are applied to payments, not to expense commitments, causing municipal debt and cuts or discretionary and surprise reallocations in the budget.	In the primary municipal services, such as solid waste collection, budget resources are assured and subject to adequate control.	Municipal services directly provided by the municipality are in general less and are mainly covered under the municipal salary expense, so these services are foreseeable continuous and controlled.
<u>Accounting, recording and reporting</u>	The official budget reports do not allow for follow-up of budget situation during the year, because the quarterly reports only show the movement in the period and not the budget position up to that date, so it is not possible to identify how much of the budget has been committed, paid or collected. This information is available but is not included in the reports, causing the control discipline of the Municipality to rely mainly on expense executors.	Budget reports do not enable follow-up on how municipal resources have been allocated or reallocated in the different municipal programs and functions.	The periodic reports from the Mayor to the Municipal Council describe the work executed but do not make a comparison with the work that was foreseen, so they do not allow for any follow-up on predictability and use of municipal resources that would allow determining whether they were used efficiently.
<u>External scrutiny and audit</u>	The Municipal Council intervention in the approval and follow-up budget execution is at the beginning stage and is distant from municipal finances. Budgets have continuously been approved with insufficient income. Accountability reports that are deficient have been continuously been approved without corrective actions been requested. There is no follow-up of external audit reports.		

Annex 5 - Bibliography

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Annex 6 - List of Stakeholders Interviewed

NAME	POSITION / ORGANIZATION
Aguilar, Rolando	Municipal Internal Auditor / AMDC
Amaya, Danilo	Treasurer / CCIT
Baletta, Carlos	Director, Road Infrastructure Department / AMDC
Benavides, Nelson	President / Public Accountants College
Boquín, Aldo R.	Director, Finance and Administration Directorate / AMDC
Bustillo, Sulema	Manager, Internal Services and Procurement/ AMDC
Calderón, Pamela	Municipal Management Officer/ ONCAE
Castro, Sammy	Director, Public Credit Office / SEFIN
Chang Castillo, Rigoberto	Budget Committee / National Congress
Colindres, Luis	Manager, UMPEG / AMDC
Cruz, Carlos	Manager / PROMDECA
Díaz Lupián, Nahara	Officer, Transparency Portal / AMDC
Fonseca, Martín	Treasurer, Treasury Department / AMDC
Gelmer, Rod	Financial Analyst, Treasury Department / AMDC
Jerezano, David	Training Assistant/ IAIP
Jerezano, Guadalupe	President / IAIP
Kurebayashi, Nahomy	Consultant on Climate Change/ JICA
López Cossette	Secretary / CORPORACION MUNICIPAL
López, Guadalupe	Manager, Legal Department / AHMON
Medina, Rafael	VP, Trust Fund Division / FICOHSA
Merlo, Betzaida	Revenue and Financial Control Manager/ AMDC
Meza, Nelson	Head of accounting/ AMDC
Mineros, Guillermo	Director of Municipal Audit Department / TSC
Núñez, Wilson	Director of Local Strengthening/ SEIP
Ordoñez, Gloria F.	Human Resources Officer / AMDC
Puerto, Marla	Manager, Disaster Mitigation and Prevention Department/ AMDC
Raudales, Julio	Minister / SEPLAN
Rivera Camiya, Sandra	Climate Change Program Officer/ JICA
Rivera, Elizabeth	Director, UPEG / SEFIN
Rivera, José Francisco	Budget Committee / National Congress
Urrutia, Luis	Manager, Local Emergency / CODEM
Zelaya, Selvin	Director of Community Management and HD/ AMDC
Zuniga, Roberto	General Director, Budget Office / SEFIN

Annex 7 - Technical Workshop - List of Participants

NAME	POSITION / ORGANIZATION
Antúnez M., Marjorie	General Secretary / ONCAE
Arauz, Marithe	Manager / AMDC
Artica Romero, Tobías	Legal Advisor, Cadaster Department / AMDC
Baletta, Carlos	Director, Road Infrastructure Department / AMDC
Barahona, Wilfredo	Consultant, AMDC
Blasco, Antonio	Sr Financial Management Specialist / WB
Boquín, Aldo R.	Director, Finance and Administration Directorate / AMDC
Borjas, Carlos	Manager's assistant, Prevention and Mitigation Unit / AMDC
Bustillo, Sulema	Manager, Internal Services and Procurement/ AMDC
Cálix, Rebeca	Technical Assistant / SEIP
Cambar, Sergio	Manager, Revenue Collection Department / AMDC
Coello, Kenia	External Cooperation Coordination Officer / JICA
Colindres, Luis	Manager, UPEG / AMDC
Cruz Muñoz, Luis Fernando	Deputy Manager, Human Resources Department / IAIP
Cruz, Carlos	Manager / PROMDECA
Cruz, Jorge	Manager, Debt and Risk Management Department / SEFIN
Cuadra, Carlos	Deputy Director, UPEG / SEFIN
Díaz Lupián, Nahara	Officer, Transparency Portal / AMDC
Díaz T., Manuel	Manager, Municipal Development Department / AMHON
Díaz, Alba María	Budget Officer / IAIP
Flores M., German H.	Technical Professional / TSC
Helles, Esther	Treasurer / AMDC
Martínez, Manlio	Public Financial Management Consultant / WB
Meza, Nelson	Accounting Officer / AMDC
Molina, Marcela	Budget Analyst / SEFIN
Pineda, Adler Cristhian	Monitoring Officer / SEFIN
Posas, Javier	Honduras Country Head / IFC
Puerto, Marla	Manager, Disaster Mitigation and Prevention Department/ AMDC
Rámirez, Elisa	Alderwoman, Municipal Council / AMDC
Raudales, Julio	Minister / SEPLAN
Rojas, Dusya	Budget Officer / AMDC
Sosa, Belkis C.	Consultant / FOSDEH
Zampaglione, Giuseppe	Country Manager / WB