

Report No.: 55113-CO

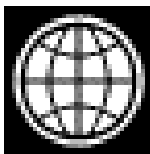
Colombia–National Level Public Financial Management Performance Report

Volume II–Public Financial Management Performance

June 30, 2009

Colombia and Mexico Country Management Unit
Operations Services Department
Latin America and the Caribbean Region
The World Bank

Regional Operations Department
Modernization of the State
Inter-American Development Bank



CURRENCY EQUIVALENTS

Currency Unit = Colombian Pesos (COP)
US\$1 = COP 2,163

GOVERNMENT FISCAL YEAR

January 1 – December 31

MAIN ABBREVIATIONS AND ACRONYMS

BdR	Bank of the Republic	IMF	International Monetary Fund
CGN	Office of the Accountant General of the Nation	IT	Information Technology
CGR	Office of the Controller General of the Republic	MFMP	Medium Term Fiscal Framework
CHIP	Public Financial Information Consolidation System	MGMP	Medium Term Expenditure Framework
CONFIS	Superior Fiscal Policy Council	MHCP	Ministry of Finance and Public Credit
CONPES	National Economic and Social Policy Council	NFPS	Non-financial public sector
DAFP	Public Administration Department	PFM	Public Financial Management
DIAN	National Tax and Customs Directorate	PGN	General Budget of the Nation
DNP	National Planning Department	SIIF	Integrated Financial Information System
IDB	Inter-American Development Bank	SGP	General Participation System
		WB	World Bank

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The General Vice-Ministry and the National Public Budget Department of the Ministry of Finance and Public Credit (MHCP) coordinated the report on behalf of the Government of Colombia. The MHCP and other agencies such as the Office of the Accountant General of the Nation (CGN), the Office of the Controller General of the Republic (CGR), the Public Administration Department (DAFP), the National Tax and Customs Directorate (DIAN), the National Planning Department (DNP), the ministries of Education, Social Protection and Transport, and Congressional advisers, provided invaluable inputs to the study.

PRESENTATION

The Government of Colombia (GOC), the Inter-American Development Bank and the World Bank (Participating Banks) agreed to the preparation of a study of public sector financial management and procurement performance against internationally recognized good practice. This volume presents the Public Financial Management Performance Report (PFMPR).

Objectives. The main objective of this exercise is to provide the GOC with a technical instrument for policy dialogue, action and monitoring, to strengthen the country's public financial management (PFM) systems. Accordingly, the study intends to contribute to the country PFM reforms and to the agreements with the Participating Banks on the scope and nature of their technical and lending support.¹ Ultimately, enhanced PFM performance should help to: (i) inform decision making for fiscal discipline and strategic allocation of public resources; (ii) ensure operational efficiency in the use of funds and delivery of services; and (iii) promote a culture of transparency and accountability.

Other objectives of the study are to document the fiduciary underpinning of the Participating Banks' development policy-based lending programs, to strengthen use of country systems,² and to advance towards alignment and harmonization targets of the Paris Declaration.³ It also aims to contribute to analytical global public goods, by documenting PFM areas where Colombia has advanced beyond other countries.

Strategic engagement. The exercise continues the Participating Banks' PFM policy dialogue, particularly as the GOC seeks to upgrade its systems to international good practices and standards. It is fully consistent with the Participating Banks' country strategies to promote public sector efficiency, good governance and transparency in the context of the GOC's National Development Plan.

Preparatory process. The World Bank led preparation of the report, in coordination with the IDB and the Ministry of Finance and Public Credit (MHCP). Collection of data involved the participation of several other agencies, particularly the Office of the Accountant General of the Nation (CGN), the Office of the Controller General of the Republic (CGR), the Public Administration Department (DAFP), the National Directorate of Tax and Customs (DIAN), the National Planning Department (DNP), the ministries of Education, Social Protection and Transport, and Congressional advisers. Publicly available sources of information were also used.

Methodology. The study is based on the Public Financial Management Performance Measurement Framework developed by the Public Expenditure and Financial Accountability (PEFA) program.⁴ 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.⁵

¹ Among other uses, it is expected that the report will contribute to the conceptual design and preparation of public financial management components of World Bank public sector improvement operations.

² The report provides a high-level overview of the systems' performance and, as such, it is an important input to the overall country systems strategy. But it is not the only input. The decisions from the Participating Banks on use of specific systems or functions (audit, procurement, or others) depend on specific, more in-depth evaluations for which other tools and steps are required.

³ The study provides information pertinent to at least three Paris Declaration targets on donor harmonization and alignment: 2(a) measurable PFM performance enhancements; 2(b) measurable procurement performance enhancements; and 10) joint country analytic work.

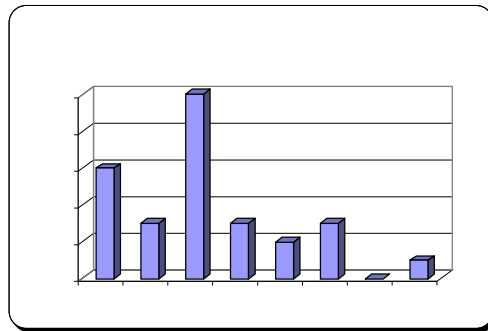
⁴ http://www.pefa.org/pfm_performance_frameworkmn.php

⁵ The PEFA framework also includes three indicators on donor practices that are not considered in this report because, in Colombia, donor funding represents only a small fraction of the budget and does not have a significant differentiated impact on the performance of PFM systems.

Scope. The report is based on information available as of March 31, 2009. The methodology was applied at the central government level, i.e. the coverage of the General Budget of the Nation (PGN), but references are made to pertinent arrangements at the sub-national level.

EXECUTIVE SUMMARY

This Public Financial Management Performance Report (PFMPR) analyzes the performance of Colombia's public financial management (PFM) institutions, systems and processes. It documents areas where performance is close to or follows international good practice, as well as opportunities to further enhance PFM contribution to the goals of strengthening fiscal discipline, enabling more efficient allocation of resources, increasing operational efficiency, and fostering transparency. It is expected that the identified opportunities will strengthen further the Government of Colombia's programs of continuous PFM improvement, as provided for under the National Development Plan pillar regarding *A State at the Service of its Citizens: Efficient and Effective Government*. The main challenges cited in the report could also be an important reference to future development plans and PFM reforms. Ensuring the sustainability and trajectory of PFM programs becomes even more critical in the context of public expenditure policies to deal with the current international economic crisis. The study is based on the 28 high-level indicators and 69 individual dimensions that compose the PFM Performance Measurement Framework.⁶ Each indicator seeks to measure performance of a key PFM element against a scale from A to D. The highest score is warranted for an individual indicator if the core PFM element meets the relevant objective in a complete, orderly, accurate, timely and coordinated way, based on existing good international practices.⁷



http://www.pefa.org/pfm_performance_frameworkmn.php

⁷ Annex 2 includes further information on the scoring methodology.

With the timely and regular production of both budget execution reports and consolidated accrual-based financial statements, Colombia is ahead of many countries. Still, the reliability of certain components of financial information, as reflected in the large number of qualified audit opinions, needs to be addressed. Moreover, the intricate constitutional and legal framework has generated several instances of duplicate and sometimes inconsistent fiscal reporting.

Government external auditing is well institutionalized and brings important checks and balances through comprehensive and opportune integral audits. Still, the large compilation functions that the supreme audit institution is -atypically- charged with, could get in the way of an audit function fully compliant with professional standards. Interestingly, while legislative oversight over financial statements and audit reports is rather well structured, its practical effects are minimal.

The above conclusions are elaborated in the following specific sections.

PFM out-turns. The methodologies used in Colombia for projecting and monitoring budgeted revenues and expenditures, and the coordinated application of these methodologies, have increased the ability of the central government to maintain aggregate fiscal discipline as planned in the budget. The initial expenditure budget is also a predictable instrument for strategic allocation of public resources, with some room still to reduce the level of investment expenditure deviations.

An important feature of the budget information system is the recording of accrued expenditures; however, the lack of identification of payment arrears per se affects the quality of fiscal and budget documentation. Based on existing systems, relatively minor adjustments could be made to compile and reconcile subsidiary records of accounts payable with age profile classifications.

Main challenges and opportunities

- ③ *Periodic generation and monitoring of reliable and complete data on the stock of payment arrears through the integrated financial management system.*

Comprehensiveness and transparency. Fiscal reporting in Colombia has a large coverage, with minimal unreported central government operations. Nevertheless, from an efficiency and transparency point of view, special consideration should be paid to the monitoring -or restriction, when deemed necessary- of the many funds (earmarked revenues, special funds, funds managed by financial agents, etc.) whose execution follows especial procedures.

The budget documentation put forward for legislative and public consideration is comprehensive and meets most international good practices, albeit, its presentation could be improved through more detailed comparators between the budget and the ongoing and preceding years. Efforts have been made to bridge the existing “traditional” budget and execution information with international economic and functional classifications. The latter, however, is only used at an aggregate level during the formulation stage, representing an important departure from international practice.

Important elements of fiscal and budget information are put in the public domain on a timely basis. Increasing, but not yet complete, data on contract awards are also published. Conversely, the public ability to drill down, e.g. to resources available to primary service units, or customize reports for specific purposes is currently very limited. Publication of revenue transparency measures, such as tax expenditures and evasion measurements should also be encouraged

The fiscal responsibility framework and reporting systems provide for regular risk monitoring across vertical and horizontal levels of the public sector, with minor sub-national gaps. These are strong foundations to improve aggregate reporting, particularly of consolidated budget execution and sectoral classification of expenditures at the sub-national level.

Main challenges and opportunities

- ③ *Formulation and execution of the budget on the basis of a functional and sub-functional classification consistent with international standards.*
- ③ *Consolidation of sub-national budget execution reports with sectoral categorization.*
- ③ *Periodic publication of: (i) full statistics on contract award methods; (ii) use of funds at the frontline service provider level in the education and health sectors; and (iii) tax expenditures and evasion estimates.*

Budget planning and approval. From the executive's perspective, the budget planning process in Colombia resembles international good practice through a number of technical instruments that integrate medium-term fiscal and sectoral policies, and reconcile them in the annual budget formulation process. Still, many investment decisions have weak links to their recurrent cost implications, reflecting a system that has traditionally separated investment and operational budgeting. Moreover, there is no clear connection between the public procurement planning and budgeting exercises. The ongoing efforts to overhaul the public investment and procurement systems should address these issues.

The budget formulation process itself follows an established procedural framework in an orderly and timely manner. As more emphasis is put on medium-term frameworks, the process could be enhanced by allowing earlier Cabinet involvement in the setting of aggregate allocations.

As for legislative participation, there is a set of sound procedures that in principle allow extensive scrutiny of the budget. In practice, however, the capacity for in-depth analyses is limited. Moreover, as is often the case in Latin American countries, the executive has large powers to modify the budget during its implementation, with congressional involvement required only in a few cases. The executive can also guarantee expenditures against future budgets.

Main challenges and opportunities

- ③ *Consistent incorporation of recurrent cost implications in the selection of investments and the related medium term estimates.*
- ③ *Earlier approval of aggregate budget ceilings by the Cabinet.*
- ③ *In-depth legislative review of fiscal policies and medium term fiscal frameworks.*
- ③ *Setting of stricter limits on extent and nature of budget amendments by the executive.*

Revenue controls. Tax administration in Colombia is undergoing a substantial modernization process, including the operation of information systems that allow massive data processing and reduce transaction costs for the taxpayer, thus facilitating compliance and assessment. Taxpayers have access to comprehensive tax information and to seemingly fair, albeit not fully independent, appeals systems. These advancements, however, are inevitably constrained by the extremely complex legal framework. Initiatives to bring simplicity and consolidation into the system should therefore be considered again.

Overall good performance is seen in the registration, declaration, and tax audit functions. Moreover, there is a clear trajectory towards consolidation of critical tools, such as the single tax registry, the taxpayer individual accounts, and the risk-based audit programs supported by advanced data mining and cross-checking methodologies. In terms of collection efforts, the operational agreements with the banking sector provide for an orderly inflow of tax revenue, although the collection floating period is significantly larger than the regional average. On the other hand, enforced collection of tax arrears is deficient, calling for specific actions to step up efforts to reduce the stock to more manageable levels.

Of significant relevance is the taking of strong measures to safeguard overall integrity and accuracy of revenue data, by integrating or reconciling the different accounting systems used by the tax

administrator, ensuring consistency between the information from its accounting and statistical records, and guaranteeing timely recording of transactions.

Main challenges and opportunities

- ③ *Overall simplification of the major taxes' legal framework.*
- ③ *Significant increase of the average tax arrears collection ratio and reduction of the stock.*
- ③ *Complete and prompt reconciliation of tax assessments, collections and arrears, including accounting records and statistics.*
- ③ *Reduction of the period from tax collection to deposit in treasury accounts.*

Cash and debt controls. The interconnected systems used in Colombia to project and monitor cash flows on a timely basis, and to provide executing entities with reasonable certainty on the availability of funding, follow international good practice. These tools, together with the transparent and selective use of budget restrictions during the year, contribute to an orderly budget execution.

Good management and control of the government's cash position is exercised, on the basis of a treasury single account that captures most central government revenues. Still, a number of funds operate out of the common payment system, risking the generation of idle funds and additional transaction costs. In the context of SIIF's development, future measures could be introduced to grant the treasury with further control of public sector bank account balances and their consolidation.

The quality of debt records and controls is considered high. Nonetheless, the regular public debt reports could be improved by introducing management-type information with more frequency and by reconciling balances between different sources for data integrity purposes.

Expenditure controls. The comprehensive design of the internal control system, with a standard guiding model, is worth highlighting. Since the model was only recently implemented, its intended results are yet to be fully realized. It will be critical to continue monitoring effectiveness of the model and the internal control risk ratings.

Budget execution procedures, as automated by the integrated financial information system for the central government, adequately control commitment of expenditures and largely mitigate the risk of unauthorized or undocumented outflows. Still, the budget execution via transfers to trust funds and financial agents is a practice that, although not widespread, should be monitored and regulated closer.

Central government payroll controls also seem largely effective, but this assumption should be confirmed continuously through payroll-specific audits, targeting and documenting full coverage on a rolling three-year basis. The ongoing development of a human resource management system will be a good opportunity to strengthen further the linkages between individual records, personnel database and payroll.

The separate Public Procurement volume presents a comprehensive detailed assessment of that function. As far as this report is concerned, an overhaul of the complaints mechanism, increased use of open competition, more complete documentation of procedures, and better statistics are needed to enhance internal controls.

Significant progress has been made through the full operation of internal audit units across the central government. Based on this advancement, the government should now consider making recognized professional standards mandatory, and monitoring their effective application through quality control reviews and performance indicators. In that context, a common statistical system to monitor aggregate implementation of internal improvement plans could also be developed.

Main challenges and opportunities

- ③ *Formal implementation of a system of annual payroll-specific audits, aiming at full coverage on a rolling three-year basis.*
- ③ *Development and implementation of mandatory internal audit professional standards.*
- ③ *Development and implementation of systems to track timeliness and effectiveness of actions on internal audit findings.*
- ③ *Stricter budget execution controls on transfers to trust funds and financial agents.*

Accounting and reporting. The government accounting function in Colombia is well institutionalized and shows relevant advances, such as the comprehensive set of accrual-based government accounting standards, the ample coverage of entities and types of information, and the timely availability of in-year and annual budget execution reports and financial statements. Still, some controls, such as the effective follow-up of non-Treasury managed bank reconciliations, standing advances and similar accounts, could be improved.

The major concern in this area lies, though, on the reliability of certain components of budget reports and financial statements. Special attention should be paid to the overall timeliness and accuracy of revenue reporting, as well as to the several balance sheet issues that have led to a decreasing, but still significant, number of audit qualifications. Other relatively minor problems, such as some instances of noncompliance with timely reporting from individual entities, and the repeated reporting of expenditures under inter-agency agreements, should also be addressed. All this with the objective of safeguarding a comprehensive and effective oversight of the use of funds, and accordingly reducing the opportunity for operational efficiency breaches and fiscal risks.

Building upon the successful experience of financial data collection from health sector frontline service providers, a similar effort could be pursued in the education sector; and, while not directly addressed by this report, there is certainly a need to attend to the important efficiency and transparency obstacles associated with the flow of funds from the central government, passing through departments and municipalities, to hospitals and schools.

Main challenges and opportunities

- ③ *Addressing of various issues that affect integrity of accounting and budget data, such as revenue accounting, some instances of noncompliance with timely reporting, recording of transfers between budget entities, and other issues that have led to audit qualifications.*
- ③ *Periodic generation and monitoring of reconciliation and clearance of balance sheet standing advances and similar accounts.*
- ③ *Periodic data collection and reliable reporting on resources received by service delivery units in the education sector.*

External audit and scrutiny. Based on legislation that provides it with adequate independence and room to exercise its external audit function, the supreme audit office has made important progress through the development of generally sound government auditing standards and procedures. Worth mentioning are the internal control risk assessments, the integral approach to audits, the large coverage of audited entities, the comprehensive reporting, and the consequent improvement plans.

Some areas could still be further enhanced, especially if the auditor were not charged with some instances of reporting (compilation of budget and treasury, finances, and debt data) that are unusual of supreme audit institutions. A formal opinion on budget execution reports, similar to that on financial statements, is a first necessity; the timeliness of individual audit releases, through more upfront audit work, should also be enhanced to provide a stronger basis to the consolidated report; and the delayed

implementation of improvement plans should be analyzed specifically, to determine whether the problems lie in execution or in improper identification of root causes and corrective actions.

On the legislative front, the comprehensive analysis of budgetary, financial, audit and other data is impressive. However, its effects are minimized by limited follow-up.

Main challenges and opportunities

- ③ *Issuance by the supreme audit institution of an audit opinion on budget execution.*
- ③ *Analysis of audit observation recurrence problems. Revision of the proper identification of causes and effective corrective actions.*
- ③ *Stronger follow-up to the legislative resolutions on the annual budget and treasury accounts.*

Fiscal reporting arrangements. There are various instances of duplicate, and sometimes inconsistent, reporting of fiscal position, public debt, financial assets, and budget execution. Granting that some data may need to be compiled differently for different users and purposes, the lack of reconciliations among reports can generate confusion and raise questions about data integrity. In line with international good practice, the supreme audit institution could concentrate on the independent audit and evaluation of fiscal reports, rather than on its compilation. As for the executive, opportunities to streamline and consolidate reporting among finance, planning, and accounting offices could be addressed. While this course of action would take some time due to legal, even constitutional considerations, in a shorter timeframe transparency would be served by firm reconciliation procedures that clearly explain how dissimilar use of sources of information and compilation procedures result in different final figures.

Main challenges and opportunities

- ③ *Periodic reconciliation of fiscal data generated by different sources.*
- ③ *Simplification and clearer division of fiscal reporting responsibilities.*

Prospects for reform. Colombia has shown a very good track record in the successful operationalization of a number of international good PFM practices. While mindful of the complex legal framework and division of responsibilities, there is sufficient capacity and institutional consolidation to address the few areas of opportunity identified in this report, most of which are consistent with the country's reform trajectory. The performance measurement indicators documented in this report could be used by the government as the baseline for a monitoring and evaluation system to assess impact of PFM reforms over time.

PFM Performance Indicator Ratings

No.	PFM out-turns	D	D+	C	C+	B	B+	A
PI-1	Aggregate expenditure out-turn compared to original approved budget							
PI-2	Composition of expenditure out-turn compared to original approved budget							
PI-3	Aggregate revenue out-turn compared to original approved budget							
PI-4	Stock and monitoring of expenditure payment arrears							
	Comprehensiveness and transparency	D	D+	C	C+	B	B+	A
PI-5	Classification of the budget							
PI-6	Comprehensiveness of information included in budget documentation							
PI-7	Extent of unreported government operations							
PI-8	Transparency of inter-governmental fiscal relations							
PI-9	Oversight of aggregate fiscal risk from other public sector entities							
PI-10	Public access to key fiscal information							
	Budget planning and approval	D	D+	C	C+	B	B+	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting							

PI-11	Orderliness and participation in the annual budget process							
PI-27	Legislative scrutiny of the annual budget law							
	Revenue controls	D	D+	C	C+	B	B+	A
PI-13	Transparency of taxpayer obligations and liabilities							
PI-14	Effectiveness of measures for taxpayer registration and tax assessment							
PI-15	Effectiveness in collection of tax payments							
	Cash and debt controls	D	D+	C	C+	B	B+	A
PI-16	Predictability in the availability of funds for commitment of expenditures							
PI-17	Recording and management of cash balances, debt and guarantees							
	Expenditure controls	D	D+	C	C+	B	B+	A
PI-18	Effectiveness of payroll controls							
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							
	Accounting and reporting	D	D+	C	C+	B	B+	A
PI-22	Timeliness and regularity of accounts reconciliation							
PI-23	Availability of information on resources received by service delivery units							
PI-24	Quality and timeliness of in-year budget reports							
PI-25	Quality and timeliness of annual financial statements							
	External audit and scrutiny	D	D+	C	C+	B	B+	A
PI-26	Scope, nature and follow-up of external audit							
PI-28	Legislative scrutiny of external audit reports							

I. COUNTRY BACKGROUND

Country Context

③ With a GDP per capita of about \$4,000, Colombia is a middle income country with both an emerging modern economic structure and entrenched poverty. It is the third largest country in Latin America (population of close to 48 million), and the fourth largest economy. Colombia has a medium level of human development, ranking 80th among 179 countries in the 2008 Human Development Index. Its poverty rate of around 45 percent places the country in the average for Latin America.

③ Colombia is a unitary country divided into 32 regions (departments), which are headed by elected governors. There are also departmental councils composed of locally elected councilors, whose responsibilities include approving the department budget. In addition, there are about 1,100 municipalities with elected mayors and municipal councils. Sub-national governments collectively execute expenditures worth roughly 8 percent of GDP (about a third of total public expenditures) and raise roughly 3 percent of GDP in tax revenue (about a fifth of total tax revenue).

③ Table 1 summarizes overall public sector expenditures and the portion corresponding to the central government.

Table 1: Public Sector Expenditures
(in percent of GDP)

	2005		2006		2007	
	Public sector	Central gov.	Public sector	Central gov.	Public sector	Central gov.
Total expenditure and net lending	26.2	17.8	28.6	18.1	29.0	17.8
Current expenditure	21.2	15.1	23.0	15.3	22.4	14.6
Wages and salaries	5.7	2.1	5.9	2.2	5.8	2.0
Goods and services	3.6	1.3	3.6	1.3	3.8	1.2
Interest	3.4	2.9	3.9	3.5	4.2	3.7
Transfers	6.7	8.6	7.4	8.1	7.3	7.6
<i>Of which: from social security</i>	5.8		6.5		6.6	
Other	1.8	0.2	2.0	0.2	1.4	0.0
Capital expenditure	5.0	2.6	5.6	2.8	6.6	3.2
Fixed capital formation	4.9	1.3	5.5	1.5	6.5	1.9
Transfers	0.0	1.3	0.0	1.2	0.0	1.3
Other	0.0		0.0		0.1	
Net lending	0.0	0.1	0.0	0.1	0.0	0.1

Source: IMF.

③ In the last twenty years, the country has had higher economic growth than the average for Latin America and enjoyed a relatively stable economic environment. Its overall macroeconomic management has been prudent. The country has avoided the hyperinflation that afflicted other Latin American countries, and has had an exemplary debt payment history. It has maintained relatively low external debt ratios, and for the most part a solid external position.

③ The solid economic performance this decade occurred during a period of improving security and favorable external conditions. Between 2003 and 2007, Colombia experienced robust economic growth. Foreign exchange reserves rose and external debt ratios declined. Fiscal deficits were reduced, and public debt was better managed. In 2006 and 2007, Colombia recorded the fastest growth rates in almost two decades (averaging 7.2 percent per year).

Key Economic Indicators for Colombia, 2004-2008

Indicator	2004	2005	2006	2007	2008 (e)
Real GDP growth (%)	4.7	5.7	6.8	7.7	2.5
Inflation (%) (end of period)	5.5	4.9	4.5	5.7	7.7
Nominal Exchange Rate (Average)	2628.6	2320.8	2361.1	2078.3	1966.3
Current Account Balance (% of GDP)	-0.8	-1.3	-1.9	-2.9	-2.8
NFPS Revenues (% of GDP)	30.0	30.6	32.7	33.2	31.6
NFPS Expenditures (% of GDP)	31.2	30.8	33.7	34.2	32.9
NFPS Balance (% of GDP)	-1.5	0.0	-1.2	-1.0	-1.3
Gross Debt of the Non Financial Public Sector (% of GDP) ^{1/}	42.4	38.9	36.0	32.3	31.6 ^{2/}
External Debt/GDP (%)	34.7	26.6	24.7	21.7	17.2
Investment (% of GDP)	20.1	21.6	24.3	24.3	24.8
Public sector	5.9	4.9	6.5	7.7	17.0
Private sector	14.1	16.7	17.8	16.6	7.8

^{1/} Net NFPS as defined by the MHCP. This is defined as gross NFPS debt but netting out government bonds in the hands of the public sector as well as debt of other entities of the NFPS with the Central Government.

^{2/} As of September 2008.

Note: NFPS data includes ECOPETROL. The NFPS balance includes the statistical discrepancy. Data from IMF. Source: MHCP, BdR; IMF and World Bank estimates.

③ While Colombia was in a better shape than many other countries prior to the crisis that emerged in 2008 (in great part because of prudent policies and solid balance sheets), the country is feeling its effects. In 2008, economic growth slowed sharply and major investment banks and sovereign analysts expect either no economic growth or a slight decline in real GDP for 2009. The fiscal position is projected to worsen, with a possible increase of the non-financial public sector deficit to approximately 3.0 percent of GDP in 2009, the highest level in the last five years.

③ With a fiscal situation that requires caution, Colombia has less space for an expansive fiscal policy to face the crisis. As a result, the government is counting on accelerating public and private infrastructure investment as the primary source of anti-cyclical policies, while remaining committed to the 2006-2010 National Development Plan (PND).

Legal and Institutional Framework for Public Financial Management

③ The main public financial management (PFM) arrangements originate in the Constitution, which governs aspects such as the public budget, treasury, internal control, government accounting, and fiscal control (including audits). All of these areas are developed in a relatively complex set of laws and regulations. The main institutional arrangements are summarized below.

③ **General Budget of the Nation (PGN).** In accordance with the Organic Budget Law (*Estatuto Orgánico del Presupuesto*), the PGN is conformed by the national budget⁸ and the budget of other national-level public agencies (*establecimientos públicos*).⁹ The PGN covers the calendar year. Public enterprises follow similar budget principles but are not part of the PGN.

③ The annual PGN is formulated with consideration to various multi-year instruments. The National Development Plan (PND) and Public Investment Plan cover the term of the administration, are prepared by the government after consultation with a national planning council, and are approved

⁸ Includes the executive, legislative and judicial branches, as well as the Office of the Controller's General (CGR), electoral and public prosecution bodies.

⁹ Includes "decentralized" entities attached to the executive branch. Excludes public enterprises.

by Congress. The medium term fiscal framework is prepared by the Ministry of Finance and Public Credit (MHCP) and includes a financial plan and fiscal targets approved by the Superior Fiscal Policy Council (CONFIS).¹⁰ The medium term expenditure framework is prepared by the sectors that comprise the PGN in coordination with the MHCP and the National Planning Department (DNP), and approved at a consolidated level by the National Economic and Social Policy Council (CONPES).¹¹

③ Annual formulation takes place through a series of iterations between line ministries and agencies, represented by sector leaders, and MHCP and DNP. MHCP is more concerned with fiscal considerations and pays special attention to recurrent expenditures, while DNP is more concerned with consistency against the PND and concentrates on the investment budget. The budget proposal itself is presented by the MHCP on behalf of the executive to Congress, through the economic commissions of the Chamber of Representatives and the Senate. Congress approves the PGN into law and the executive formalizes it through a “liquidation” decree.

③ The detailed instruments, timeframes and division of responsibilities for budget formulation in a medium term perspective, approval and modifications, are elaborated in the Budget Planning and Approval section of Chapter II.

③ **Treasury.** All pertinent treasury functions are responsibility of MHCP. It coordinates with the National Tax and Customs Directorate (DIAN) for tax revenues. It manages central government public debt. The MHCP administers the treasury single account system and controls release of national budget funds through the cash plan (PAC), which must be consistent with the fiscal targets approved by CONFIS. It also monitors budget execution, a function shared with DNP on the investment side.

③ Budget execution itself, in terms of committing expenditures, accruing them and issuing payment orders, falls under each line ministry and agency. The procedural controls are, however, largely uniform across the central government. Automation of most financial controls is achieved through the integrated financial information system (SIIF) administered by MHCP. Further discussion can be found in the Expenditure Controls section of Chapter II.

③ **Internal control framework.** The Internal Control Advisory Council is a consultative body that advises the Presidency on the institutionalization, coordinated development and strengthening of internal control of entities at the national and sub-national levels. This Council is presided over by the Director of the Department of Public Administration (DAFP), which sets general policies in the field of internal control, including a standard national model (MECI). Overall responsibility for internal control is placed on directors and managers of the public sector entities. For that purpose, a coordination committee for the internal control system is established at each entity. The Internal Control Offices (OCIs) advise the committee and perform internal audit functions.

③ **Government accounting.** The Office of the Accountant General (CGN), a special administrative unit attached to the MHCP, is responsible for the Public Accounting Regime mandatory at all levels of government. It also prepares the annual General Balance of the Nation (accrual-based financial statements). CGN administers the Public Financial Information Consolidation System (CHIP), a tool through which entities at different levels of government report their accounting balances, revenues and expenditures, and other data.

¹⁰ CONFIS is presided over by the Minister of Finance and Public Credit, and is composed by the Director of the National Planning Department (DNP), the Economic Adviser to the Presidency, and MHCP’s vice-ministers and directors of budget, public credit, tax and customs, and treasury.

¹¹ CONPES is presided over by the President of the Republic and conformed by members of cabinet. There are different compositions depending on the matter of discussion, but the medium term expenditure framework approval is to be done through the extended CONPES, i.e. with all ministries represented.

③ **Government audit.** Fiscal control is established as a public function that at the national level is carried out by the Office of the Controller General (CGR), an autonomous public entity. Fiscal control includes oversight on finances, management and results. The function is broken down in three main roles: (i) macro control, (ii) micro control (audits), and (iii) fiscal responsibility. In terms of organization, seven sectoral delegate controllers of the CGR are in charge of handling processes relating to carrying out individual audits, in the context of a general audit plan (PGA).

③ **Legislative oversight.** The Chamber of Representatives has the responsibility to examine and close (*fenecer*) the annual budget and treasury account. To that effect, its permanent Legal Commission of Accounts collects data, examines CGN-issued financial statements and CGR audit reports, and proposes a resolution for plenary discussion.

Public Financial Management Reform

③ Over the last two decades, Colombia has made significant progress toward improving transparency and enhancing accountability in its PFM systems. Rather than a single umbrella-type reform, specific initiatives were undertaken recently to strengthen fiscal responsibility, introduce formal medium term fiscal and expenditure frameworks, upgrade tax administration information systems and services, consolidate cash flow planning and control, automate budget execution controls and expedite availability of data through integrated information systems, develop a risk-based standard internal control model, modernize procurement legislation and systems, issue comprehensive accrual-based financial statements, and approach audit planning, execution, and follow up on a systematic basis. All of these aspects are elaborated in Chapter II.

③ A critical element of PFM reforms in Colombia is the use of state of the art information technologies (IT) to support PFM processes. For the purposes of this report, four specific systems are worth mentioning:

③ **SIIF.** The Integrated Financial Information System covers the national budget section (around 85 percent) of the PGN in “real time”. The rest of the PGN entities submit their budget execution for input to the system on a monthly basis. SIIF standardizes critical financial management processes, controls and databases, such as those for execution of revenue and expenditure budgets, cash planning and treasury operations, and accounting records. An upgraded version of the IT application (“SIIF Nación 2”) will be rolled out soon. It intends to provide for new functionalities (such as budget formulation, contract management, and control of fixed assets), expanded coverage to the rest of the PGN, and a web-based technological platform.

③ **SUIFP.** The Unified System of Investment and Public Finance, which is being implemented, seeks to link the public investment planning and budgeting processes, integrate various information systems associated with the investment project cycle (such as the National Public Investment Database [BPIN] and the Public Investment Monitoring System [SPI]), and establish automated linkages with SIIF for financial execution monitoring.

③ **CHIP.** The Public Financial Information Consolidation System is a web-based application in full operation that allows entities, at the central and sub-national government levels, to report their accounting records to the CGN. In an ongoing effort to simplify reporting from sub-national governments, it is intended that CHIP becomes the sole source of sub-national reporting of, not only financial, but also other data required by the CGN and other agencies, such as the MHCP, DNP, CGR, and Bank of the Republic (BdR).

③ **MUISCA.** The IT application of the Single Model for Automated Revenues, Services and Control supports all of DIAN’s basic tax administration processes, such as taxpayer registration, filing of

declarations, audits, collections, maintenance of individual taxpayer accounts and aggregate statistics. It also supports customs' operational processes.

③ The PND's pillar of "A State at the Service of its Citizens: Efficient and Effective Government" provides *inter alia* for the continuous improvement of public sector administrative models aiming at enhanced expenditure efficiency. While mindful of the complex legal framework and division of responsibilities, the country's track record points to sufficient capacity and institutional consolidation for the continuous modernization of PFM systems. To that effect, the performance analysis in Chapter II identifies some areas of opportunity.

II. PUBLIC FINANCIAL MANAGEMENT PERFORMANCE

Public Financial Management Out-Turns

③ Budget execution ratios can indicate whether the budget is implemented as intended. To that effect, this section focuses on four indicators: (i) aggregate expenditure out-turn, (ii) composition of expenditure out-turn, (iii) aggregate revenue out-turn, and (iv) stock of expenditure payment arrears.¹²

③ **Expenditures.** The ability to implement budgeted expenditures is an important factor in supporting the government's ability to deliver planned public services for the year. Table 2 shows that recent performance in Colombia has been good overall, as the actual primary expenditures deviated from the budget by five percent or less in two of the three examined years. Larger variations are found, however, in investment budget execution. Externally financed project expenditure is included in the calculation because it amounts to only a fraction of government spending and its management and reporting is largely under the government's control.

Table 2: Comparison of Budgeted and Actual Primary Expenditures

	Budget (COP billions)	Actuals ¹³ (COP billions)	Execution Rate (%)
2005			
Operational expenditures	47,560	48,323	102%
Investment expenditures	12,464	11,512	95%
Total	60,024	59,835	100%
Of which: Externally financed projects		3%	
2006			
Operational expenditures	51,668	50,645	98%
Investment expenditures	14,795	13,501	91%
Total	66,463	64,146	97%
Of which: Externally financed projects		2%	
2007			
Operational expenditures	55,518	54,356	98%
Investment expenditures	21,443	18,362	86%
Total	76,961	72,718	94%
Of which: Externally financed projects		1%	

Source: Own calculations using Ministry of Finance and Public Credit (MHCP) data.

③ **Expenditure composition.** The credibility of the budget can also be measured by the extent to which budget entities receive the resources initially planned. As presented in Table 3, in only one of the three reviewed years has the variance in central government primary expenditure composition¹⁴ exceeded the overall deviation by more than five percent. This volatility decreased in more recent years.

¹² The calculations are based on the General Budget of the Nation (PGN) amounts as originally approved by Congress and the budget execution reports published by the Ministry of Finance and Public Credit (MHCP). The latter include transfers between budget entities (*convenios interadministrativos*) that are recorded as expenditures by both participating entities. Their approximate effect could change slightly the percentages but not the resulting performance indicators.

¹³ Calculated as the amount committed by year-end minus the reserve portion subsequently left unused (*pérdidas de rezago*). See discussion in the Expenditure Controls section below.

¹⁴ Variance in primary expenditure composition is calculated as the absolute weighted average deviation between actual and originally budgeted expenditure, as a percent of budgeted expenditure on the basis of administrative classification (20 budget entities that represented 90 percent of the 2007 budget plus an aggregate of the residual 128 entities).

Table 3: Variance in Primary Expenditure Composition
(in percent of budgeted expenditure)

	Absolute overall deviation ¹⁵	Absolute variance in composition	Difference
2005	0%	6%	6%
2006	3%	5%	2%
2007	5%	7%	2%

Source: Own calculations using MHCP data.

③ **Revenues.** A comparison of budgeted and actual revenue can provide an overall indication of the quality of revenue forecasting, an obvious critical factor since budgeted expenditure allocations and underlying policy priorities are based upon it. As shown in Table 4, central government's domestic revenue collection has not fallen below 98 percent of the originally budgeted estimates in any of the three examined years. And, while some important gaps have been seen in the capital revenue outturn, the performance of tax collections has offset the effect.

Table 4: Comparison of Budgeted and Actual Revenue Collection

	Budget (COP billions)	Actuals (COP billions)	Execution Rate (%)
2005			
Current tax & non-tax revenue	38,997	42,548	109%
Capital & other revenue (excluding debt operations)	15,581	9,546	61%
Other public agencies (<i>establecimientos públicos</i>)	7,462	8,532	114%
Total	62,040	60,626	98%
2006			
Current tax & non-tax revenue	46,316	51,510	111%
Capital & other revenue (excluding debt operations)	13,751	10,648	77%
Other public agencies (<i>establecimientos públicos</i>)	6,621	7,524	114%
Total	66,688	69,682	104%
2007			
Current tax & non-tax revenue	52,910	57,667	109%
Capital & other revenue (excluding debt operations)	22,123	22,249	101%
Other public agencies (<i>establecimientos públicos</i>)	7,237	8,464	117%
Total	82,270	88,380	107%

Source: Own calculations using MHCP data.

③ **Payment arrears.** The identification and control of expenditure payment arrears is of critical importance, as they can constitute a form of non-transparent financing that affects the credibility of budget data and the cost of doing business with the government. Under the accrual recording system in place in Colombia, the stock of accounts payable is available periodically and formalized at the end of each budget year in public reports. However, such balances are not classified by age profile, thus preventing an accurate identification of the portion in arrears. Regardless, Table 5 shows that any amount in arrears at the end of the year would not exceed five percent of the executed budget. There is an increase in the percentage from 2006 to 2007, which could imply delays in payments¹⁶ or an effort to expedite accrual of expenditures.

Table 5: Accounts Payable

¹⁵ See execution rate in Table 2.

¹⁶ A review of a sample of contracts subscribed in 2007 found that in 25 percent of contracts establishing payment deadlines, these were not complied with, with an average delay of 29 days (see Public Procurement volume).

	Stock of accounts payable (COP billions)	Total expenditures ¹⁷ (COP billions)	Percentage (%)
2006	2,364	79,752	3%
2007	3,801	88,932	4%

Source: Own calculations using MHCP data.

③ **PFM out-turns: Performance indicators.**

Indicator	Score	Explanation
PI-1	A	Aggregate expenditure out-turn compared to original approved budget: In no more than one out of the three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
PI-2	B	Composition of expenditure out-turn compared to original approved budget: Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in one of the three years.
PI-3	A	Aggregate revenue out-turn compared to original approved budget: Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the three years.
PI-4	D+	Stock and monitoring of expenditure payment arrears (scoring method M1): (i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (Score C) (ii) Data on accounts payable is generated annually, but it does not identify the stock of arrears. (Score D)

③ **Summary Analysis.** *Premise: In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed, with reasonable margin to make adjustments if the underlying assumptions change.*

③ The methodologies used in Colombia for projecting and monitoring budgeted revenues and expenditures, and the coordinated application of these methodologies, have increased the ability of the central government to maintain aggregate fiscal discipline as planned in the budget. The initial expenditure budget is also a predictable instrument for strategic allocation of public resources, with some room still to reduce the level of investment expenditure deviations and of inter-institutional variances during execution.

③ An important feature of the budget information system is the recording of accrued expenditures; however, the lack of identification of payment arrears per se affects the quality of fiscal and budget documentation. Based on existing systems, relatively minor adjustments could be made to compile subsidiary records of accounts payable with age profile classifications, and reconcile these records with the related overall balances in financial statements.

Comprehensiveness and Transparency

③ This section addresses the comprehensiveness of budget and fiscal risk oversight, as well as public accessibility to pertinent related information.

③ **Budget classification.** For meaningful tracking of expenditures to take place, a robust classification system is required. In this dimension, Colombia's system for formulation, execution and

¹⁷ Calculated as primary expenditures (from Table 2) plus interests.

reporting relies on two main budgetary classifications: administrative (*por entidad*) and by account (*por cuenta*). The latter classifies outlays in operational expenditures, investments, and public debt, with sub-classifiers that combine standard programmatic accounts with lines (*objetos de gasto*) that can be used to produce information consistent with GFSM-based economic classification.¹⁸

③ The budget project also includes presentational annexes with expenditures aggregated by an economic classification based directly on GFSM 1986 and by a functional classification based on COFOG/GFSM 2001. But, as shown in Table 6, these classifications are not used in the budget law or execution reports.

Table 6: Use of Budget Classifications

Budget classification	Formulation	Approval	Execution
Administrative	Yes	Yes	Yes
By Account	Yes	Yes	Yes
Economic (GFSM)	Yes - aggregate	No	No
Functional (GFSM)	Yes - aggregate	No	No

Source: 2007-2009 budget documentation, budget law, and execution reports.

③ **Budget documentation.** For the legislature to undertake its scrutiny and approval functions, the budget documentation should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. Currently, the annual budget documentation that is made available to the Colombian Congress on a systematic basis consists of:

- ③ The Medium-Term Fiscal Framework (MFMP).¹⁹
 - ③ The text proposal for the General Budget of the Nation (PGN), which provides budget allocations per entity and, within each entity, per major accounts (operational, investment, public debt) and programs (for the investment budget). It also includes the general norms of budget management.
 - ③ Annexes detailing the social expenditure and the composition of the revenue budget.
 - ③ The Presidential Message presenting the budget proposal to the legislature with a number of supplementary annexes.
- ③ Selected features of the budget documentation are described in Table 7.

Table 7: Information Included in Budget Documentation

Information criteria	Availability
1. Macro-economic assumptions, including estimates of aggregate growth, inflation and exchange rate.	1. Summarized in the Presidential Message and detailed in the MFMP.
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	2. Idem. ²⁰ Also included: Reconciliation of the budget proposal and the fiscal statistics of the Financial Plan.

¹⁸ For the purposes of this report, the international standard for classification systems is the IMF's Government Finance Statistics Manual (GFSM versions 1986 and 2001), which incorporates the OECD/UN-supported Classification of Functions of Government (COFOG).

¹⁹ The MFMP is presented to the legislature, as a stand-alone document, prior to the budget proposal. It is considered here as part of the budget documentation because one of its primary objectives is to present Congress with the macroeconomic and fiscal situation and projections that underpin the annual budget.

<p>3. Deficit financing, describing anticipated composition.</p> <p>4. Debt stock, including details at least for the beginning of the current year.</p> <p>5. Financial Assets, including details at least for the beginning of the current year.</p> <p>6. Prior year's budget outturn, presented in the same format as the budget proposal.</p> <p>7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.</p> <p>8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year.</p> <p>9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.</p>	<p>3. Included in the MFMP.</p> <p>4 and 5. Debt projections included in the MFMP are net of financial assets. Historical detailed data is readily available in MHCP's public debt reports and CGN's financial statements.</p> <p>6 and 7. Aggregate information is provided in the Presidential message (see No. 8 below), and more detailed information is readily available in MHCP's public reports, but not in the same format as the proposal.</p> <p>8. Included in the Presidential Message.</p> <p>9. Summarized in the Presidential message, the MFMP, and the Investment Annual Operational Plan (POAI).</p>
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Source: 2009 budget documentation and other public reports.

③ **Coverage of government operations.** Budget and fiscal reports should allow a complete picture of central government revenue, expenditures and financing. In that regard, as noted in Chapter I, the Colombian PGN covers the national budget and the budget of other national-level public agencies (*establecimientos públicos*). Budget legislation specifically establishes the *universality* budget principle and calls for incorporation of donor funding into the budget.²¹ Moreover, the budget documentation includes a reconciliation table between budgetary allocations and the fiscal statistics of the Financial Plan, constituting an important safeguard for complete reporting. Finally, in-year execution reports and year-end financial statements cover whole-of-PGN operations.

③ Partial revenues of the Solidarity and Guarantee Fund (around 1.9% of projected central government revenues for 2009) are not part of the budget, but their estimate is included in the annual budget law and its execution in ex-post reporting. Within the budget, there are other special funds (around 14.2% of central government revenues) created with specific purposes and not always subject to the same detailed budget management requirements, but their execution is also included in the fiscal reports.

③ **Transparency of inter-governmental fiscal relations.** While this report is focused on the central government, some features of the fiscal decentralization framework cannot be overlooked given the important expenditure responsibilities of sub-national governments. To start with, clear

²⁰ Fiscal deficit is calculated on the basis of GFSM 1986 with adjustments agreed with the IMF. The latest ROSC-Data Module found that international data quality practices for government finance statistics were observed or largely observed. IMF (2006)

²¹ CGR's 2007 Budget and Treasury Report found that the universality principle was complied with. CGR (2008b)

criteria, such as formulas, for the horizontal allocation of funds among sub-national governments are needed to ensure allocative transparency and medium-term predictability of funds available.

③ Table 8 shows the aggregate revenue composition of sub-national government (departments and municipalities) in Colombia. The transfer system itself, composed primarily by the General Participation System (SGP), represents the lion's share of nationally allocated funds, followed by the royalty system. In both systems, the distributional criteria and formulas are established in legislation and further elaborated in publicly available methodologies.²²

Table 8: Sub-National Revenues, 2007

	Actuals (COP billions)	Overall percentage	Percentage of transfers
Tax & non-tax revenue	14,518	37%	
<i>Rentas cedidas</i> ²³	747	2%	
Other revenue	1,677	4%	
National transfers:			
Transfers (SGP, FOSYGA, ETESA, etc.)	18,221		82%
Royalties	2,994		14%
Co-financing	960		4%
Total national transfers	22,175	57%	100%
Total revenues	39,117	100%	

Source: Own calculations using MHCP and National Planning Department (DNP) data.

③ It is crucial for sub-national governments that they receive firm and reliable information on annual allocations from central government well in advance of the completion of their own budget preparation processes. Reliable but preliminary aggregate data is available to departments and municipalities to project, using historical proportional ratios, their transfer revenues ahead of completing their budget proposals. In the case of the SGP, sub-national governments must program in their local budgets 100 percent of the funds finally approved by the National Economic and Social Policy Council (CONPES), but this information only becomes available in the beginning of the budget year, i.e. after local budgets themselves have been approved. There is usually a need, then, for sub-national governments to slightly modify their budgets accordingly.

③ Correct interpretation of sectoral resource allocation and actual spending effort require tracking of expenditure information at all levels of government and that such information is collected at least annually and consolidated with central government fiscal reports. In Colombia, significant efforts have been made to collect fiscal data from sub-national governments, particularly through the web-based Public Financial Information Consolidation System (CHIP). Through CHIP, most relevant sub-national government agencies report accounting and budgetary data on a quarterly basis.

③ There are problems, however, with the consolidation and reporting of said data. First, the information on sub-national revenues and expenditures is published on an annual basis by both DNP (Fiscal Performance of Departments and Municipalities) and CGR (Situation of State Finances),²⁴ but

²² This report is concerned with the transparency of the allocation system, not with its equity, efficiency or other design features. For a comprehensive discussion on the latter, see World Bank (2009).

²³ Previous central government taxes (excises on liquor, beer, lotteries, and the registry) which are now managed by the departments.

²⁴ Consolidated sub-national data is also published by CGN, but following financial accounting (not budgetary/fiscal statistics) standards.

the consolidated figures show significant differences between both reports.²⁵ Second, the reported amounts are limited to aggregate economic classification lines, without sectoral categorization. Finally, the consolidated information is limited to actual, not budgeted, figures, thus preventing an execution rate analysis.

③ **Oversight of aggregate fiscal risk from non-central government entities.** Central government should monitor and manage fiscal risks with national implications arising from activities of sub-national levels of government, autonomous government agencies and public enterprises. In Colombia, the MHCP, DNP, CGR and Bank of the Republic (BdR) all monitor fiscal performance for their own different purposes. But overall fiscal risk monitoring is primarily with the Superior Fiscal Policy Council (CONFIS).

③ The quarterly and annual fiscal reports of CONFIS cover all major units of the NFPS, i.e. the central government, social security agencies, decentralized institutions, and nonfinancial public corporations.²⁶ Local government fiscal position is determined “below the line” on the basis of BdR’s data. The fiscal reports also include a whole-of-public sector consolidation. Annual national-level public sector consolidated financial statements are issued by the Office of the Accountant General (CGN) and audited by the CGR.

③ As noted earlier, in Colombia most departments and municipalities report their public finances on a quarterly basis and the central government consolidates their fiscal position in annual reports, but completeness of data remains an issue for a minority (in monetary terms) of sub-national entities. Still, there is in place an operational framework of fiscal responsibility regulations that provide for prompt and comprehensive monitoring of fiscal risks.²⁷

③ **Public access to fiscal information.** Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public. In Colombia, citizens have the legal right of access to government information. In terms of active publication of government financial data, Table 9 summarizes the most relevant items. As noted, most data are made available through the internet. However, the ability to drill down or customize information is very narrow.

③ It is also noted that certain revenue policy and administration transparency data, such as tax expenditures, calculations of tax evasion, and value-added tax (VAT) productivity rates are not being published.

²⁵ The amount of total consolidated revenues reported by CGR is 84 percent of that reported by DNP in 2007. The amount of total consolidated expenditures reported by CGR is 78 percent of that reported by DNP in 2007.

²⁶ The latest IMF’s ROSC-Data Module found that international data quality practices for the scope of government finance statistics were observed. IMF (2006).

²⁷ See detailed discussion in World Bank (2009).

Table 9: Publication of Key Fiscal Information

Information criteria	Availability
1. Annual budget documentation (see Table 7 above).	1. The complete set of documents can be easily obtained by the public when it is submitted to the legislature and is available through internet posting. ²⁸
2. In-year budget execution reports.	2. The reports are made available to the public through appropriate means, including internet posting, upon issuance. ²⁹
3. Year-end financial statements.	3. Idem. ³⁰
4. External audit reports.	4. Idem. ³¹
5. Contract awards.	5. National regulations require that information on awards be easily accessible and centralized in the single government procurement internet portal, ³² but compliance by government entities is not yet complete. ³³
6. Resources available to primary service units.	6. Public information on resources at the primary service unit level in at least two sectors (elementary schools and primary health clinics) is not readily available.

Source: Public information.

③ **Comprehensiveness and transparency: Performance indicators.**

Indicator	Score	Explanation
PI-5	C	Classification of the budget: The budget formulation and execution is based on administrative and economic classification using a standard that can produce consistent documentation according to GFMS standards. Functional classification is not used for budget execution purposes.
PI-6	A	Comprehensiveness of information included in budget documentation: Recent budget documentation fulfils 7 of the 9 information benchmarks.
PI-7	A	Extent of unreported government operations (scoring method M1): (i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant. (Score A) (ii) Complete income/expenditure information for more than 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind. (Score A)
PI-8	B	Transparency of inter-governmental fiscal relations (scoring method M2): (i) The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. (Score A). (ii) Sub-national governments are provided reliable information on the allocations to be transferred to them ahead of completing -but not before beginning preparation of- their budget proposals. (Score B) (iii) Fiscal information is collected for more than 90% of sub-national government expenditure and consolidated into annual reports within 12 months of the end of the fiscal year; however, the information is not presented according to sectoral categories and does not include budgeted amounts. (Score D)

²⁸ <http://minhacienda.gov.co>

²⁹ idem.

³⁰ <http://contaduria.gov.co>

³¹ <http://contraloriagen.gov.co>

³² <http://contratos.gov.co>

³³ For a detailed discussion, see baseline indicator 11(a) of the Public Procurement volume.

PI-9	B+	<p>Oversight of aggregate fiscal risk from other public sector entities (scoring method M1):</p> <p>(i) All major autonomous government agencies and public enterprises submit fiscal reports to central government quarterly, and central government consolidates fiscal risk issues into a report at least annually. The consolidated national-level public sector financial statements are audited. (Score A)</p> <p>(ii) The net fiscal position is monitored at least annually for all levels of sub-national government, with some gaps. Central government consolidates overall fiscal risk into annual reports. (Score B)</p>
PI-10	B	<p>Public access to key fiscal information:</p> <p>The government makes available to the public 4 of the 6 examined types of information.</p>

③ **Summary analysis.** *Premise: Comprehensiveness of the budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institutional value that enables external scrutiny of government policies and programs and their implementation.*

③ Fiscal reporting in Colombia has a large coverage, with minimal unreported central government operations. That said, from an efficiency and transparency point of view, special consideration should be paid to the monitoring -or restriction, when deemed necessary- of the many funds (earmarked revenues, special funds, funds managed by financial agents, etc.) whose execution follows especial procedures.

③ The budget documentation put forward for legislative and public consideration is comprehensive and meets most international good practices, albeit its presentation could be improved through more detailed comparators between the budget and the ongoing and preceding years. Efforts have been made to bridge the existing “traditional” budget and execution information with international economic and functional classifications. The latter, however, is only used at an aggregate level during the formulation stage, representing an important departure from international practice.

③ Important elements of fiscal and budget information are put in the public domain on a timely basis. Increasing, but not yet complete, data on contract awards are also published. Conversely, the public ability to drill down, e.g. to resources available to primary service units, or customize reports for specific purposes is currently very limited. With the existing sophisticated financial information systems, there should be enough capacity to fix that limitation. Publication of revenue transparency measures, such as tax expenditures and evasion measurements should also be encouraged.

③ The fiscal responsibility framework and reporting system (SIIF/CHIP) provide for regular risk monitoring across vertical and horizontal levels of the public sector, with minor sub-national gaps. These are strong foundations to improve aggregate reporting, particularly of budget execution and sectoral classification of expenditures at the sub-national level. The differences in aggregate data from DNP and CGR should also be addressed to safeguard the integrity of consolidated sub-national fiscal information.

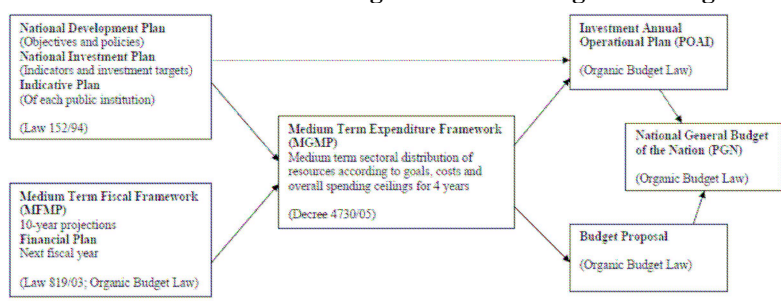
Budget Planning and Approval

③ This section looks at the budget formulation process against three principles: (i) investment and recurrent expenditure decisions should be aligned with the medium-term availability of resources and the sectoral strategies; (ii) effective and orderly participation in the formulation process by executing entities and political leadership impacts the extent to which the budget will reflect macro-

economic, fiscal and sector policies; and (iii) legislative power to authorize the executive to spend public funds should be underpinned by rigorous examination and debate of the budget law.

③ The budget planning framework in Colombia is summarized in Figure 1 and explained in the following paragraphs.

Figure 1: Main Budget Planning Instruments



Source: MHCP

③ **Multi-year perspective.** Fiscal responsibility legislation requires the executive to prepare and submit annually to Congress a Medium Term Fiscal Framework (MFMP). The MFMP is a comprehensive document prepared by MHCP that contains the macroeconomic program and fiscal scenario for the next ten years, with an emphasis on the primary balance and debt targets. It also includes a report on the previous fiscal year performance, the Financial Plan for the next fiscal year, and analyses on quasi-fiscal activities, tax expenditures, fiscal cost of recent legislation, and contingent debts. The MFMP is received by Congress prior to the budget proposal, which in accordance with the same fiscal responsibility legislation has to be consistent with the MFMP targets.

③ Debt sustainability analyses are updated annually and documented in the MFMP. The analyses cover external and domestic net debt, for both the central government and the NFPS, with consideration to four scenarios. A sensitivity analysis taking into account four types of shock is also part of the documentation.

③ From a top-down perspective, the aggregate fiscal spending restrictions of the MFMP are broken down in the Medium Term Expenditure Framework (MGMP) prepared jointly by MHCP and DNP, which establishes indicative four-year ceilings per sector, discriminating between investment and operational expenditures. As in the case of the MFMP, the MGMP is prepared on a rolling basis, with the first year corresponding to the budget proposal. Also included in the MGMP is a brief explanation on differences between the current and previous MGMP amounts.

③ From a bottom-up perspective, the MGMP is constructed on the basis of sector-specific Medium Term Budget Proposals (PMPs) that intend to reflect the impact of current and new sectoral policies. The PMPs include the main budgetary accounts and, as such, cover both operational and investment expenditure. The PMPs are formally discussed between the sector leader entities and their counterparts in MHCP and DNP, forming *technical support groups* and *sectorial committees*.³⁴ Through this discussion process, the PMPs are adjusted and the aggregate MGMP is generated, thus reconciling sectoral projections with macro-fiscal forecasts.

³⁴ Technical support groups are formed by technical mid-level staff. If there are persisting disagreements within the technical support groups, director-level sectoral committee meetings are scheduled.

③ The Investment Annual Operational Plan (POAI) classifies the investment budget by major objectives of the National Development Plan (PND) and by sectors, with a brief explanation of the most important programs. The POAI is prepared by DNP and MHCP, and must be consistent with: (i) the MGMP from a sectoral viewpoint, (ii) the Financial Plan from a fiscal perspective, and (iii) the budget proposal to be presented to Congress. For projects to be included in the POAI, a prior technical review and registration in the National Public Investment Database (BPIN) administered by DNP is required. The POAI and the BPIN, however, suffer from an ambiguous definition of investment projects, thus generating some resource envelopes with different concepts rather than projects per se.³⁵

③ At sectoral ministries, the technical departments prepare the investment cost proposals, the general secretariat prepares recurrent costs, and the planning department is normally responsible for consolidation. The consideration to recurrent cost implications in the selection of investment projects is generally weak, reflecting a budgeting system in which recurrent and investment budgeting have traditionally not been unified. However, there is increasing progress to reverse that situation, particularly in the context of the MGMP/PMP recent introduction, as explained earlier.³⁶

③ **Annual budget formulation.** There is a clear annual budget calendar (see Table 10) that is generally adhered to. The formulation process of the next year's budget starts in late February with the submission by MHCP, in coordination with DNP, of the programming circular to the budget entities. The circular provides the main macroeconomic variables to be used and detailed procedural guidelines. Budget entities are allowed four weeks after receipt of the circular to prepare a pre-budget proposal (due by end of March), and about 14 weeks to finalize it (due the first week of June).

③ Even though the concept of budget ceilings for formulation purposes is not explicitly set in the Colombian budget legislation, the MGMP is used as reference along the formulation process (see Table 10). The MGMP is approved by the extended CONPES, i.e. with attendance by all Ministers, by July 15. Since the budget proposal must be presented to Congress before the end of July, the CONPES basically endorses the proposal presented by the MHCP in coordination with DNP.

③ A particular legal characteristic of the Colombian system is the authorization of *vigencias futuras*, a special instrument that guarantees incorporation in future fiscal years' budgets of resources necessary to execute multi-annual projects and special expenditures. Ordinary *vigencias futuras* are approved by MHCP's Budget Department (by delegation from CONFIS) and must have initiated with at least 15 percent of the appropriation of the fiscal year in which they are approved. Exceptional *vigencias futuras* are limited to certain strategic investments, are approved by CONFIS, and do not require appropriations for the current fiscal year.

³⁵ From 2000-2006, about 51 percent of the investment budget corresponded to capital formation, 13 percent to maintenance, and 36 percent to financial operations or transfers. IDB (2008)

³⁶ At the time of preparation of this report, an effort was also underway to overhaul the BPIN and the Public Investment Monitoring System (SPI), in the context of a prospective Unified System of Investment and Public Finance (SUIFP).

Table 10: Budget Formulation/Submission Calendar

Dates	Process	Reference ceilings	Participants
February	Submission of annual budget formulation circular to budget entities	Current MGMP	MHCP/DNP
Feb. - Apr.	Updating of PMPs, preparation of preliminary budget proposals, and submission to MHCP/DNP		Budget entities (consolidated by sector leaders)
<i>April³⁷</i>	<i>Submission of consolidated preliminary budget proposal to Congress</i>		<i>MHCP</i>
Apr. - May	Analysis and discussion of PMPs by technical support groups	Possible adjustments to MGMP	MHCP/DNP/Sector leaders
May - June	Revision of PMPs and budget proposals, and submission to MHCP/DNP		Budget entities (consolidated by sector leaders)
June	Analysis and discussion of PMPs by sectorial committees (as needed)	Proposed adjustments to MGMP	MHCP/DNP/Sector leaders
<i>June³⁸</i>	<i>Submission of MFMP to Congress</i>		<i>MHCP</i>
June - July ³⁹	Preparation of MGMP and POAI, and submission to CONPES	Confirmed new MGMP	MHCP/DNP
<i>July⁴⁰</i>	<i>Preparation of budget proposal and submission to Congress</i>		<i>MHCP</i>

Source: MHCP and DNP

③ **Legislative approval.** As observed in Table 10 above, prior to the budget proposal, the executive must have presented to the legislature a preliminary budget proposal (first week of April) and the MFMP (mid-June). The scope of legislative scrutiny then covers in principle fiscal policies in a medium term perspective, as well as preliminary details of expenditure and revenue. However, by and large, the congressional review process is concentrated on the budget proposal itself.

③ There is a set of simple but firmly respected procedures for legislative review of the budget proposal (see Table 11). As part of the deliberation process, the Congress economic commissions have to gather the opinion of the BdR. The CGR also usually prepares a review report for congressional use. The Minister of Finance and Public Credit is the executive's formal channel of communication with Congress on budgetary matters. MHCP's General Budget Director supports Congress in the study of the budget proposal.

³⁷ Per legal requirement, a preliminary budget proposal is presented to the economic commissions of the Senate and Chamber of Representatives during the first week of April.

³⁸ Per legal requirement, the MFMP is presented to the economic commissions of the Senate and Chamber of Representatives before June 15.

³⁹ Per regulations, the MGMP and POAI are submitted for CONPES approval before July 15.

⁴⁰ Per legal requirement, the budget proposal is presented by the executive, through the MHCP, to Congress during the first ten days of each legislative session period, which starts on July 20.

Table 11: Legislative Budget Approval Calendar

Deadlines	Process
July 29	Receipt of budget proposal from the executive
Aug. 15	The economic commissions ⁴¹ resolve if the budget proposal adheres to the organic budget law. ⁴²
Sep. 15	The commissions approve the revenue and expenditure budget amount.
Sep. 25	The commissions approve the budget proposal.
Oct. 20	Congress approves the budget law. ⁴³

Source: Constitution and Organic Budget Law

③ As noted, the legislature has close to three months to review and approve the budget proposals. The three most recent budgets (2007-2009) were approved in accordance with the legal provisions, i.e. more than two months in advance of the beginning of the fiscal year, thus allowing for orderly starts of budget execution.

③ **Budget modifications.** The legislative room to introduce modifications to the executive's budget proposal is very limited. It can eliminate or reduce expenditures, but the exceptions to that prerogative are large -debt service, contractual obligations, ordinary services of the administration, and previously approved public investments-. It cannot incorporate or increase expenditures or revenues without MCHP's approval. When a need to modify proposed allocations arises, the commissions submit the pertinent request to the MHCP, which then returns the proposed modifications to Congress for their formal incorporation into the budget law.

③ In the case of in-year budget amendments, legislative approval is required only for overall additions –but not during periods of state of exception, for new grant receipts, or for incorporation of profits from public enterprises that do not exceed 1 percent of the budget-, and reallocations (i) among investment, debt service and operational appropriations or (ii) between different investment programs and/or subprograms. All other modifications fall under the executive's purview.

③ **Budget planning and approval: Performance indicators.**

Indicator	Score	Explanation
PI-12	B+	<p>Multi-year perspective in fiscal planning, expenditure policy and budgeting (scoring method M2):</p> <p>(i) Forecasts of fiscal aggregates (on the basis of main categories of economic and sector classification) are prepared for four years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained. (Score A)</p> <p>(ii) Debt sustainability analysis for external and domestic debt is undertaken annually. (Score A)</p> <p>(iii) Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. (Score A)</p> <p>(iv) Investments are consistently selected on the basis of relevant sector strategies and</p>

⁴¹ The economic commissions of the Senate and Chamber of Representatives deliberate in joint sessions, but vote separately.

⁴² If a commission determines that the budget proposal is not consistent with the Organic Budget Law, it is returned to the MHCP who has to present it again to Congress before August 30.

⁴³ If the budget is not approved by Congress by October 20, the executive's proposal comes into effect with the modifications approved by the economic commissions. If the budget proposal is not presented before the legal deadline or is not approved by Congress, the executive issues the repetition decree before December 10.

		included in forward budget estimates for the sector. However, many investment decisions have weak links their recurrent cost implications. (Score C)
PI-11	B	Orderliness and participation in the annual budget process (scoring method M2): (i) A clear annual budget calendar exists, is generally adhered to and allows ministries and agencies enough time (about 14 weeks from receipt of the budget circular) to meaningfully complete their detailed estimates. (Score A) (ii) Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature. (Score D) (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. (Score A)
PI-27	C+	Legislative scrutiny of the annual budget law (scoring method M1): (i) The legislature's review covers details of expenditure and revenue at a stage where detailed proposals have been finalized. The review of fiscal policies, medium term fiscal framework and priorities at prior stages is minimal. (Score C) (ii) Simple procedures exist for the legislature's budget review and are respected. (Score B) (iii) The legislature has at least two months to review the budget proposals. (Score A) (iv) Clear rules for in-year amendments to the budget without ex-ante approval by the legislature exist, but they allow extensive administrative reallocation as well as expansion of total expenditure. (Score C)

③ **Summary analysis.** *Premise: A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy. Effective scrutiny by the legislature helps keep the executive accountable for its policies.*

③ From the executive's perspective, the budget planning process in Colombia resembles international good practice through a number of technical instruments that integrate medium-term fiscal and sectoral policies, and reconcile them in the annual budget formulation process. Still, many investment decisions have weak links to their recurrent cost implications, reflecting a system that has traditionally separated investment and operational budgeting. Moreover, there is no clear connection between the public procurement planning and budgeting exercises.⁴⁴ The ongoing efforts to overhaul the public investment and procurement systems should address these issues.

③ The budget formulation process itself follows an established procedural framework in an orderly and timely manner. As more emphasis is put on medium-term frameworks, the process could be enhanced by allowing earlier Cabinet involvement in the setting of aggregate allocations, as opposed to the "rubber stamp" role it currently plays.

③ As for legislative participation, there is a set of sound procedures that in principle allow extensive scrutiny of the budget. In practice, however, the capacity for in-depth analyses is limited. Moreover, as is often the case in Latin American countries, the executive has large powers to modify the budget during its implementation, with congressional involvement required only in a few cases. The executive can also guarantee expenditures against future budgets. Given the strong governmental emphasis on fiscal discipline, it is not likely that the limited legislative oversight would have an impact on that level. It may, however, limit accountability for the execution of approved allocations, even when no recent major problems have been seen in that regard, as noted earlier in the PFM Out-Turns section.

⁴⁴ For a detailed discussion, see baseline indicator 3(a) of the Public Procurement volume.

Revenue Controls

③ This section examines selective aspects of tax administration performance from the viewpoint of their contribution to an orderly and predictable budget implementation. Tax administration at the national level is responsibility of the National Tax and Customs Directorate (DIAN), which collects income tax (41 percent of tax collections in 2007), value added tax (28 percent), customs (22 percent), and other taxes. In recent years, DIAN has been implementing the Single Model for Automated Revenues, Services and Control (MUISCA), a management model that relies largely on the use of cutting-edge information technology to support tax administration services.

③ **Transparency of taxpayer obligations and liabilities.** Taxpayer compliance can be facilitated by, inter alia, the clarity and accessibility of legislation and administrative procedures, and the ability to contest administrative rulings. In Colombia, there is a large set of tax laws and regulations, which are compiled in the tax code (*Estatuto Tributario*) and the customs code (*Estatuto Aduanero*). The discretionary powers of the government are limited, but the system is very complex, with more than 1,100 articles and 2,000 complementary norms, generating thousands of legal and technical interpretations per year.⁴⁵ A reform proposed in 2006 to, among other objectives, promote simplicity in the tax legal framework, was not passed.

③ Access to information on tax liabilities and administrative procedures for all major taxes is facilitated through different channels, such as internet posting,⁴⁶ regional offices (*Puntos de ConTacto*), and a call center. Information posted on DIAN's web portal includes not only laws and regulations, but legal resolutions and other technical norms. Publication of information is supplemented by education and communications campaigns.

③ There are two administrative instances of appeal against the tax agency decisions: (i) a reconsideration recourse presented before the public official who issued the resolution, and decided upon by DIAN's legal department; or (ii) a direct revocation recourse presented before and decided upon by DIAN's Director or a designated delegate. If the appeals are not solved within a year of presentation, they are ruled in favor of the contestant. Once the administrative channel is exhausted, the resolutions can be appealed before a judicial court. As shown in Table 12, about two thirds of administrative rulings in 2007 were in favor of the tax administrator, with a similar percentage in terms of monetary amounts. Conversely, at the judicial instance the rulings in favor of the tax administrator were less generous, particularly in terms of funds involved.

Table 12: Tax & Customs Rulings, 2007

	Reconsideration		Revocation		Judicial	
Number of cases :						
In Favor	3,217	67%	696	50%	837	57%
Against	1,186	25%	650	46%	430	29%
Partial	388	8%	55	4%	194	13%
Amounts (COP millions):						
In Favor	284	65%	45	74%	403	27%
Against	154	35%	16	26%	1,068	73%

Source: Own calculations using DIAN data.

③ **Registration and assessment.** Effectiveness in tax assessment depends on various factors, but two key pillars are enforced registration of taxpayers and correct assessment of their liabilities. In

⁴⁵ Government of Colombia (2006).

⁴⁶ <http://www.dian.gov.co>

Colombia, the procedures for assignment of taxpayer identification numbers (NIT) and registration in the single database (RUT) are well documented. The RUT records the basic information of corporations and individuals, allowing some linkages to other government systems, such as the civil registry. Chambers of commerce are legally required to ask for a NIT prior to registering business licenses, and information from agreements with financial sector entities is used by DIAN for data cross checks. Both tax registration and declaration are facilitated through the option of electronic filing of data. Still, the RUT is yet to be fully consolidated, with around 22 percent of current registers made in 2008.

③ Sanctions for noncompliance with registration and tax declaration are legally established and considered sufficiently strong to persuade voluntary compliance and correction,⁴⁷ even when their determination and application are affected by the overall complexity of the tax system. Application of sanctions is more consistent for declaration than for registration offenses.

③ In the audit and investigative front (*fiscalización*), there is an overall tax audit framework (*Orden Marco*) that prescribes the use of audit programs, which are revised on a periodic basis. Although the programs provide only general criteria, there has been an increasing use of MUISCA information systems for behavioral monitoring and data cross-checks (e.g., payments to third parties), with ongoing plans to strengthen data mining and expand cross-checks. That said, risk analyses for audit purposes are still more consistently used in customs -with specific policies and plans for administration and application of selectivity criteria and risk profiles- than in other taxes.

③ **Collections.** The management of tax arrears and receipts is a critical factor in the ability of revenue agencies to fund the treasury. As seen in Table 13, the overall level of tax arrears in Colombia is significant, i.e. the stock represents more than 10 percent of overall annual collections. It is not possible to measure the percentage of tax arrears at the end of the fiscal year that was collected during the next fiscal year, because aggregate collection data do not differentiate receipts against the previously existing stock and the new arrears generated during the year. However, it is clear that the combined collection of arrears does not amount to even 40 percent of the stock.

Table 13: Tax Arrears

	In-year tax collections (COP billions)	End-of-year stock of gross tax arrears (<i>cartera</i>) (COP billions)	Percentage (%)	In-year collection of arrears (COP billions) ⁴⁸
2006	52,779	6,420	12%	
2007	60,149	6,161	10%	2,194
2008				2,358

Source: Own calculations using DIAN data.

③ Actual tax collections are made under contractual arrangements with the banking system, are informed by the financial entities to DIAN and MHCP within a day of collection, and are deposited into MHCP accounts around 14 days after collection (depending on the conditions of each collection agreement). Hence, for programming purposes there is adequate information for MHCP to properly

⁴⁷ The main sanctions for non-compliance with taxpayer registration are the closing of business for one day per each month in delay, and a penalty of 100 tax value units (around US\$1,000) for filing inaccurate information. There is a set of sanctions for non-compliance with tax declaration requirements, including late filing (e.g., between five and ten percent of owed tax per each month of delay), non-filing (e.g., 20 percent of gross income for income tax, and 10 percent of gross income for VAT), and incorrect declarations (depending on the deficiency). Interest accrues on late payments, including those connected to declaration delays.

⁴⁸ Includes collection of previously existing stock and arrears generated during the year.

manage tax cash inflows. However, the 14-day floating day period is significantly larger than the regional average of less than two days.

③ As part of MUISCA's IT development, individual taxpayer accounts (*obligación financiera*) are being built. Tax information is already incorporated, but customs data and some administrative acts are still in process. Hence, a first layer of reconciliation between individual and aggregate tax data is yet to be completed. A second layer of reconciliation between DIAN and MHCP takes place, on a timely basis, for daily and monthly reports on cash receipts. It should be noted, however, that DIAN's accounting records have been seriously questioned by the CGR. Issues reported include delays of up to five months in the recording of transactions, discrepancies between national and regional offices, differences between SIIIF revenue records and DIAN statistics, and deficiencies resulting from the use of two separate accounting applications (MUISCA's accounting module and SIAT).⁴⁹

③ **Revenue controls: Performance indicators.**

Indicator	Score	Explanation
PI-13	B	Transparency of taxpayer obligations and liabilities (scoring method M2): (i) Legislation and procedures for all major taxes are comprehensive, with fairly limited discretionary powers of the government entities involved. The complexity of the system, however, affects clarity of understanding and application. (Score D) (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, supplemented with active taxpayer education campaigns. (Score A) (iii) A tax appeals system of transparent administrative procedures is completely set up and functional, but it is not implemented through fully independent institutional structures. (Score B).
PI-14	B	Effectiveness of measures for taxpayer registration and tax assessment (scoring method M2): (i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. (Score B) (ii) Penalties for non-compliance with registration and declaration requirements are set sufficiently high to act as deterrence, but are not always consistently administered. (Score B) (iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. (Score B)
PI-15	D+	Effectiveness in collection of tax payments (scoring method M1): (i) The tax debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). (Score D) (ii) All tax revenue is paid directly into accounts controlled by the Treasury. (Score A) (iii) Reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place completely. (Score D)

③ **Summary analysis.** *Premise: Predictable and controlled revenue administration is necessary to fund policy and program implementation.*

③ This report does not intend to evaluate overall revenue management capacity, but rather looks at selective areas considered critical to the prompt, accurate and complete funding of the treasury. In that sense, tax administration in Colombia is undergoing a substantial modernization process,

⁴⁹ CGR (2008a; 2008b).

including but not limited to the operation of information systems that allow massive data processing and reduce transaction costs for the taxpayer, thus facilitating compliance and assessment. Taxpayers have functional access to comprehensive tax information and to seemingly fair, albeit not fully independent, appeals systems. These advancements, however, are inevitably constrained by the extremely complex legal framework. Initiatives to bring simplicity and consolidation into the system should therefore be considered again.

③ Overall good performance is seen in the registration, declaration, and audit functions. Moreover, there is a clear trajectory towards consolidation of critical tools, such as the RUT, the taxpayer individual accounts, and the risk-based audit programs supported by advanced data mining and cross-checking methodologies. In terms of collection efforts, the operational agreements with the banking sector provide for an orderly inflow of tax revenue, although the average collection floating period is significantly larger than the regional average. On the other hand, enforced collection of tax arrears is deficient, calling for specific actions to step up efforts to reduce the stock to more manageable levels. Related statistics could also be improved.

③ Of significant relevance is the taking of strong measures to safeguard overall integrity and accuracy of revenue data, by integrating or reconciling the different accounting systems used by DIAN, ensuring consistency between the information from accounting and statistical records, and guaranteeing timely recording of transactions.

Cash and Debt Controls

③ This section addresses the systems and procedures to ensure predictability in the availability of funds for commitment of expenditures, as well as the recording and management of cash balances, debt and guarantees.

③ **Cash flow and availability planning.** Planning, monitoring and management of cash flows and balances are key elements to support budget execution and avoid unnecessary borrowing and interest costs. At the same time, reliable information on the availability of funds to incur expenditures is necessary for the executing entities to implement their work plans.

③ MHCP's Treasury Department prepares a yearly cash flow forecast based on historical revenue patterns, debt schedule, and the Annual/Monthly Cash Program (PAC), discussed below. Moreover, the Treasury updates the cash flow on a monthly and daily basis. This process is facilitated by the daily electronic transfer of data from the commercial banks that collect taxes (as discussed earlier) and from the BdR, where most cash receipts are captured (discussed below).

③ From the budget executing entities' viewpoint, the first parameter is the approved budget, which imposes maximum limits to each entity to commit expenditures under its investment and operational programs. Under those limits, the PGN entities are authorized to commit expenditures from the first day of the fiscal year.

③ The budget is distributed throughout the year in the PAC, which establishes the maximum monthly ceilings for payments out of the treasury single account (discussed below) for entities financed with the national budget, and the maximum monthly payment amounts for other agencies (*establecimientos públicos*) as regards their own revenues. The aggregate PAC is approved by CONFIS, while the entity-specific PACs are proposed by the entities themselves and approved by MHCP's Budget Department. The entities can adjust the PACs on a monthly basis with MHCP's approval. In general, the cited tools provide line ministries with reasonable assurance on the availability of funds to commit expenditures.

③ Still, the government -through Cabinet accord- retains the legal right to reduce or postpone execution of appropriations in case of revenue shortcomings or to ensure macroeconomic coherence. These reductions, however, do not affect already entered budget commitments and are used selectively. In the three examined years, one decree per year was issued and involved amounts that did not significantly affect the original budget (see Table 14). There are other in-year budget modifications, such as increases to reflect additional revenue, grant or credit funding, and adjustments originated by the executing entities themselves, but these do not have a negative impact on the predictability of funding to commit expenditures.

Table 14: In-Year Budget Reductions

	2006	2007	2008
In-year budget reductions (COP billions)	719	1,167	1,500
As a percentage of original primary expenditure budget	1.1%	1.5%	1.7%

Source: Own calculations using CGR/MHCP data.

③ **Cash balances.** Tax revenues, un-earmarked debt inflows, and other receipts are collected in MCHP's bank accounts that are consolidated daily in a treasury single account (*cuenta cajero*) maintained in the BdR.⁵⁰ MHCP also manages separate accounts for some earmarked revenues and for externally-financed projects. Hence, most government cash receipts are handled directly by MHCP. But there are government bank accounts managed directly by other entities, for which the balances cannot be consolidated. This is the case of most special funds and revenues of public agencies (*establecimientos públicos*).

③ **Debt controls.** Two features are analyzed for the purposes of this report: the quality of debt data recording and reporting (which is critical for ensuring accurate debt service budgeting, timely service payments and well planned roll-overs), and the systems for contracting loans and issuing guarantees.

③ Debt management responsibilities are with MHCP's Public Credit Department, which maintains the public debt database in the Colombian Debt Information System. The system contains information on the whole debt cycle for individual operations. Central government debt transactions are updated on a daily basis and, although not directly linked to SIIF, the pertinent information is transmitted electronically and the balances are reconciled on a monthly basis. External debt of non-central government entities are also recorded and monitored. Internal debt of non-central government entities is monitored selectively, e.g. guaranteed operations.

③ Statistical reports covering domestic and foreign debt stock with interest, source, currency and maturity profiles, indicators, and projected debt service, are prepared and published on a monthly basis. Historical debt service and operations are also accessible, but not included in the monthly reports. A more complete Debt Management and Strategy Report is prepared and published on an annual basis by MHCP. More statistical details can be found, however, in CGR's annual Situation of the Public Debt publication. There are some differences in amounts included in both reports.⁵¹

③ The governance framework for contracting loans and issuing guarantees is well defined. Under fixed overall ceilings (*cupo de endeudamiento; cupo de garantías*) established by law, all

⁵⁰ Payments can be made by MHCP directly to the providers of goods and services, or to authorized accounts managed by the budget executing entities in commercial banks for further payment to the providers. MHCP monitors the movements and balances of authorized accounts.

⁵¹ For example, the internal debt stock as of December 31, 2007 reported by CGR is 0.8% larger than that reported by MHCP.

central government debt contracting and issuance of guarantees are authorized by MHCP.⁵² Moreover, favorable opinions are required from CONPES and from the congressional Public Credit Commission in the case of external debt, from CONPES for internal bond issues, and from DNP for investment project financing. Favorable opinions from CONPES and the Public Credit Commission are required for guarantees.

③ General criteria -conformity with the macroeconomic program and Financial Plan, analysis of market conditions, competitive sources of funding, financial condition and debt service status of the concerned entities- is to be used for granting authorizations and opinions. Through the Financial Plan (see Budget Planning section above), which establishes the overall financing needs and strategy, there is a linkage to the medium term fiscal framework.

③ **Cash and debt controls: Performance indicators.**

Indicator	Score	Explanation
PI-16	A	<p>Predictability in the availability of funds for commitment of expenditures (scoring method M1):</p> <p>(i) A cash flow forecast is prepared for the fiscal year, and is updated monthly and daily on the basis of actual cash inflows and outflows. (Score A)</p> <p>(ii) Ministries, departments and agencies are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. (Score A)</p> <p>(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. (Score A).</p>
PI-17	B+	<p>Recording and management of cash balances, debt and guarantees (scoring method M2):</p> <p>(i) Domestic and foreign debt records are complete, updated and reconciled monthly. Data is considered of high integrity, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced annually. (Score B)</p> <p>(ii) Most cash balances are calculated and consolidated daily, but some budgetary funds remain outside the arrangement. (Score B)</p> <p>(iii) Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. (Score A)</p>

③ **Summary analysis.** *Premise: Efficient management of financial assets and liabilities is critical to reduce debt service costs and fiscal risk. Predictable flow of funds is necessary to enable effective management of program implementation.*

③ The interconnected systems used in Colombia to project and monitor cash flows on a timely basis, and to provide executing entities with reasonable certainty on the availability of funding, follow international good practice. These tools, together with the transparent and selective use of budget restrictions during the year, contribute to an orderly budget execution.

③ The MHCP exercises good management and control of the government's cash position, on the basis of a treasury single account that captures most central government revenues. Still, a number of funds operate out of the common payment system (special funds, decentralized entities of a noncommercial nature, and others), risking the generation of idle funds and additional transaction

⁵² MHCP also authorizes external debt of decentralized agencies, public enterprises (when government capital participation exceeds 50 percent), and subnational entities.

costs, and affecting transparency. In the context of SIIF's development, future measures could be introduced to grant MHCP's Treasury further control of public sector bank account balances and their consolidation.

③ The quality of debt records and controls is considered high. Nonetheless, the regular public debt reports could be improved by introducing management-type information with more frequency (as opposed to an annual basis) and by reconciling balances against CGR's reports for data integrity purposes.

Expenditure Controls

③ This section addresses key characteristics of the expenditure cycle from an internal control and operational efficiency perspective.

③ **Payroll controls.** The linkages between personnel databases and payrolls, and related controls, are critical to safeguard this significant part of government expenditure. The largest consolidated set of personnel information for the Colombian central government is in the Single Personnel Information System (SUIP), governed by the Public Administration Department (DAFP). The database includes statistical data, such as the number and classification of public jobs, as well as some administrative information, such as personnel changes and curricula. Data is fed to SUIP on the first five days following each month. An annual statistical report is published by DAFP. But a couple of large segments, uniformed personnel of the public force and teachers,⁵³ are not covered by SUIP.

③ Since SUIP is primarily a statistical reporting system, line ministries apply their own methods and procedures to update changes in personnel and reflect them in payroll, including the use of different IT applications⁵⁴ that are not directly linked to either the SUIP or the SIIF. Line ministries generally have procedures backed by documentation showing the monthly changes in personnel records and the corresponding payroll adjustments.

③ Responsibility to maintain historical data and changes in the personnel database is assigned to the Human Resources Department in each entity, which is also responsible for preparing the payroll that is afterwards entered in SIIF. Updating changes in personnel and payroll databases is generally undertaken monthly and in time for the following month's payments, thus minimizing retroactive adjustments. Overall integrity of the system is indirectly validated by CGR's internal control and audit reports for 2007, which show minimal instances of payroll deficiencies, with one exception: the lack of payroll reconciliation and internal payroll audits in the National Army.⁵⁵

③ There is no specific mandate to perform payroll audits with coverage and periodicity targets. These audits are performed by internal control offices (OCIs) and by the CGR in the context of each general audit, which would usually include payroll reviews, but depending on each specifically designed program.

⁵³ Teachers are formally employed by sub-national governments, but the national government centralizes salary and hiring rules.

⁵⁴ The Ministries of Education and Transport inform that they have started processing payroll through PERNO (*Sistema de Personal de Nomina*), the system currently in use by the District of Bogotá. DAFP is developing a Human Resource Management System (SIGERH) that will be offered but not necessarily made mandatory to public sector entities.

⁵⁵ CGR (2008a; 2008c).

③ **Procurement controls.** A well-functioning procurement system ensures that public funds are used effectively and efficiently. Selective aspects of competition, value for money and controls in procurement are analyzed herein.⁵⁶

③ In accordance with the regulatory framework in effect in 2007, selection would always be carried out through open tendering, except in specific “direct contracting” cases determined by law.⁵⁷ Among the reasons for direct contracting are those of “lesser value” contracts (*menor cuantía*),⁵⁸ but processes of this kind were required to follow the selection process publicly and go through a process similar to that of a brief, simplified open tender. The direct contracting processes for lesser amounts that did not require public bidding were those of “minimal value” (*cuantía mínima*)⁵⁹ and those of confidential nature.

③ A review of contracts subscribed in 2007 in a sample of 10 central governmental entities, showed that around 80 percent of contracts (13 percent by value) fell below the “minimal value” threshold. Of the rest of the contracts, 4 percent (48 percent by value) were public tenders, 50 percent (49 percent by value) were other open processes, and 46 percent (3 percent by value) were not open.⁶⁰ It should be stressed that this data comes from a specific study, because the existing procurement information system does not produce comprehensive aggregate statistics.

③ The above-mentioned review found that reasons listed for the closed direct contracting processes corresponded to the exclusions provided by law at the time. With the new legal procurement framework, open competitive tendering continues to be the default method of procurement. However, under circumstances related to the nature of the contracting purpose, other procedures for open contracting and invitations to bid can be used, such as abridged selection and merit-based award. The circumstances under which sole sourcing apply are also clearly stated in the law. The entities are required to justify, prior to starting a process, the legal basis for the selection modality chosen.

③ The legal framework provides for a complaints mechanism, whereby a complaint is filed first with the concerned public agency. The Inspector General’s Office, the Attorney General’s Office, and the CGR are external review bodies for complaints and accusations; however, proceedings and response times by these authorities are lengthy, which delays the possibility for acting promptly in response to possible irregularities. The decision to award may be reviewed by an autonomous, independent judge. Responses to contract-related protests and disputes that arise during public procurement processes are generally published by the entities through means such as the internet. Rulings by the courts are also usually published.

③ A summary analysis of the complaints mechanism shows that, at the administrative level: (i) there are no exclusive systems for dealing with protests, petitions or complaints; (ii) complaints received during a procurement process must be addressed before issuance of the document awarding the contract; (iii) there is no sole authority established within each entity responsible for halting procurement processes in which irregularities arise; (iv) the fact that timeframes for addressing protests must be defined in each list of bidding conditions, makes it difficult to standardize procedures for the universe of entities; and (v) the numerous steps that a complaint must follow within a particular entity negatively affect the speed and autonomy required for reviewing such matters. Meanwhile, at

⁵⁶ This section is drawn from the Public Procurement volume, which contains a detailed analysis of the public procurement system in Colombia.

⁵⁷ In the Colombian context, “direct contracting” does not equal sole sourcing.

⁵⁸ The “lesser value”, or threshold between “direct contracting” and open tendering, is established according to the size of the entities’ budgets.

⁵⁹ The “minimal value” is calculated as 10 percent of the “lesser value”.

⁶⁰ Figures do not include agreements between public sector entities (*convenios interadministrativos*).

the judicial stage: (i) the court is the only independent and autonomous authority with the capacity to review complaints and disputes, and determine those responsible for irregularities, order settlement of damages and issue sentences; (ii) the timeframes available to those formulating complaints are defined by the regulations; however, timeframes for issuing rulings by the courts are indefinite; (iii) although the judges can rule on a suit over irregularities in a procurement process, they can only do so after the contract has been awarded, by means of an application for annulment and restoration of rights.

③ **Internal controls for expenditures on goods, works and services.** An effective internal control system should be relevant, comprehensive yet cost effective, widely understood and complied with. In Colombia, once the annual budget is approved by the legislature and formalized by the executive, the main financial controls for budget execution are as follows:

- ③ **Annual/monthly cash program (PAC).** As described earlier, the PAC establishes the maximum monthly ceilings for payments out of the treasury single account. It does not restrict commitments per se, but it is an important reference for programming commitments.
- ③ **Budget Availability Certificate (CDP).** Prior to acquiring commitments, the executing entity's budget department must issue a CDP to guarantee the sufficient availability of budget appropriations. The CDP affects budget records on a preliminary basis.
- ③ **Budget commitment.** Commitments are formalized through administrative acts or contracts. Once the commitment is formalized, budget records are affected on a firm basis, with an indication of the related value and timetable. To that effect, the integrated financial information system (SIIF)'s commitment module records pertinent information to identify each contract and monitor its execution.⁶¹
- ③ **Obligation.** This arises when the requirements to oblige payment are met, such as the receipt of goods and services. Obligations represent the execution of commitments and, accordingly, budget records are affected.
- ③ **Payment.** After a payment order is authorized, payments are made to the relevant party through different media, such as electronic deposits or issuance of checks. Payments represent the cancellation of obligations and, as such, affect budget records. For the national budget section of the PGN, MHCP's Treasury executes payments out of the treasury single account or through Treasury authorized accounts (see Cash and Debt section above).
- ③ **Reserves and accounts payables.** Recorded commitments that have not resulted in obligations as of December 31 of each fiscal year generate budget reserves that must be executed during the next fiscal year or otherwise lost. Likewise, obligations that have not been paid as of December 31 of each fiscal year generate accounts payable that must be paid during the next fiscal year or otherwise closed. Execution of reserves and accounts payable remain connected to the originating fiscal year, i.e. do not affect the following fiscal year's execution. Both reserves and accounts payables must be formally constituted by January 20 of the next fiscal year and their execution is reported on separately (*rezago presupuestario*).
- ③ All of the above controls are made operational in the integrated financial information system (SIIF), which as of 2008 covered all PGN revenues and expenditures, and online ("real time") the national budget section (around 85 percent) of the PGN.⁶² The controls are largely complied with.⁶³

⁶¹ The use of the contractual module under SIIF was optional. With the new application (SIIF 2), it becomes a requirement and is expanded to include pre-contractual information.

⁶² With SIIF 2, to be rolled out soon, the rest of the PGN, conformed by "decentralized" public agencies (*establecimientos públicos*), is expected to be covered as well online.

Nonetheless, a minor area of exception is the practice of executing budget appropriations via transfer of resources from central government entities to trust fund and other financial administrators, even though actual implementation takes place subsequently.

③ Other internal controls are organized under the legally established National Internal Control System. A critical element of the system is the Internal Control Standard Model for the Colombian State (MECI), rolled out in 2005. The MECI is structured in three subsystems, strategic, management and evaluation controls, which are broken down into components and elements of control (see Table 15). MECI specifically includes a risk management component that incorporates five elements: (i) the strategic context of internal and external risk factors, (ii) the identification of risks, including causes and effects, (iii) the risk analysis that shows the probability of occurrence, (iv) the valuation to measure the entity's exposure to the impacts of the risk, and (v) the definition of basic criteria for formulating the control standard that is consolidated in the risk management policies.

③ MECI implementation was largely completed in the central government as of the end of 2008, and is expected to progressively increase the relevance, cost effectiveness, understanding and compliance of the Colombian internal control system. For the time being, however, there are still shortcomings. In terms of comprehensiveness, the documentation of specific public procurement procedures needs to be strengthened.⁶⁴ In terms of compliance, the internal control risk classification system developed by the CGR is a useful point of reference. Of the 179 entities evaluated in 2007, 43 percent recorded a low risk (reasonably effective internal control systems), 39 percent a medium risk (control systems with a certain degree of deficiencies that must be corrected to guarantee their effectiveness), and 18 percent a high risk (deficient systems).⁶⁵

③ **Internal audit.** An effective internal audit function should provide regular and adequate feedback to management on the performance of internal control systems. As shown in Table 15 above, MECI contemplates an independent evaluation component that is executed through evaluation of the internal control system and internal audit, with the internal control office (OCI) at each institution being in charge of both. Per legal requirement, all public sector entities have an OCI, whose chief is appointed, reports to, and may be removed by the maximum authority in each entity.⁶⁶

⁶³ No relevant instances of noncompliance with central government expenditure execution controls were found in CGR's 2007 budget, internal control and audit reports. CGR (2008a; 2008b; 2008c).

⁶⁴ See Public Procurement volume, compliance indicator No. 9.

⁶⁵ CGR (2008c).

⁶⁶ DAFP provides a non-binding opinion on the short listed candidates prior to appointment.

Table 15: Components of the Internal Control Standard Model

Internal Control System		
Subsystem	Components	Elements
1. Strategic Control	1.1 Control environment	<ul style="list-style-type: none"> ③ Ethical agreements, commitments or protocols ③ Human talent development ③ Leadership style
	1.2 Strategic Guidance	<ul style="list-style-type: none"> ③ Plans and programs ③ Operation by process model ③ Organizational structure
	1.3 Risk Management	<ul style="list-style-type: none"> ③ Strategic context ③ Risk identification ③ Risk analysis ③ Risk measurement ③ Risk administration policies
2. Management Control	2.1 Control Activities	<ul style="list-style-type: none"> ③ Operational policies ③ Procedures ③ Controls ③ Indicators ③ Manual of procedures
	2.2 Information	<ul style="list-style-type: none"> ③ Primary information ③ Secondary information ③ Information systems
	2.3 Public Communication	<ul style="list-style-type: none"> ③ Organizational communication ③ Informative communication ③ Communications media
3. Evaluation Control	3.1 Self-evaluation	<ul style="list-style-type: none"> ③ Control self-evaluation ③ Management self-evaluation
	3.2 Independent Evaluation	<ul style="list-style-type: none"> ③ Independent evaluation of internal control system ③ Internal auditing
	3.3 Improvement Plans	<ul style="list-style-type: none"> ③ Institutional improvement plan ③ Improvement by processes plan ③ Individual improvement plan

Source: DAFP (2006).

③ Legislation refers to the “generally accepted auditing norms” as mechanism for internal control verification and evaluation. A guide to that effect, Role of Internal Control Offices, specifically recommends -but does not mandates- the International Standards for the Professional Practice in Internal Audit.⁶⁷ Since OCIs are required to evaluate internal control systems on a periodic basis, systemic issues are usually looked at.⁶⁸

③ Norms on OCI reports are contained in the MECI Implementation Manual. The internal audit reports are submitted to the entity’s highest authority, with copies to the administrators responsible for each process, as well as to the institutional Internal Control Coordination Committee (CCCI). In addition, there are a number of legal and regulatory provisions for the issuance of periodic reports, e.g., the annual executive report on internal control system progress for the National Internal Control Advisory Council, the annual accounting internal control report for the CGR and CGN, the semestral

⁶⁷ DAFP/IAIC (2007).

⁶⁸ For example, the Transport Ministry’s OCI has a formal annual audit and follow-up indicative plan and chronogram of activities, broken down by department and macro processes, which is approved by the Ministry’s Directive Committee. Regular audits of the sectoral macro processes include audits of human resources, material resources e.g. fixed assets, contracts, budget execution, information systems, and others.

report on consolidation and monitoring of the improvement plan for the CGR, the bi-monthly findings report for the Presidential Anti-Corruption Program, and others.⁶⁹ Compliance with the established reporting schedule at the central government level is considered high.

③ Management response to OCI evaluations are agreed and formally documented in improvement plans, which consolidate remedial actions and record the related objectives, approval by the pertinent authority, responsible officer, allocation of necessary funds, timeline for implementation, and fulfillment indicators. Execution of the plans is monitored on a regular basis by the OCIs and CCCIs. There is no centralized system that compiles rates of implementation, but interviews held coincided that improvement actions are indeed executed, though with some delays.

③ **Expenditure controls: Performance indicators.**

Indicator	Score	Explanation
PI-18	C+	<p>Effectiveness of payroll controls (scoring method M1):</p> <p>(i) Personnel data and payroll data are not directly linked but the payroll is supported by documentation for changes made to personnel records each month and checked against the previous month's payroll data. However, absence of payroll reconciliations in the National Army is an important concern. (Score C)</p> <p>(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. (Score A)</p> <p>(iii) Authority to change records and payroll is restricted and results in an audit trail. (Score A)</p> <p>(iv) Payroll audits have been undertaken within the last 3 years, but not necessarily covering all central government entities. (Score C)</p>
PI-19	B	<p>Competition, value for money and controls in procurement (scoring method M2):</p> <p>(i) Available data on public contract awards shows that more than 50% but less than 75% of the number of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate (Score B)</p> <p>(ii) Other less competitive methods when used are justified in accordance with clear regulatory requirements. (Score A)</p> <p>(iii) A process defined by legislation exists for submitting and addressing procurement complaints, but does not operate in a manner that provides for timely resolution of complaints. (Score C)</p>
PI-20	B	<p>Effectiveness of internal controls for non-salary expenditure (scoring method M1):</p> <p>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations, with minor areas of exception. (Score B)</p> <p>(ii) Other internal control rules and procedures incorporate a comprehensive set of controls which are widely understood, but given their recent implementation the risk management and cost effectiveness impacts are still in process of realization. (Score B)</p> <p>(iii) Compliance with rules for processing and recording transactions is fairly high, but there are still deficiencies in the overall internal control system effectiveness. (Score B)</p>
PI-21	C	<p>Effectiveness of internal audit (scoring method M1):</p> <p>(i) Internal audit is operational for all central government entities, undertakes system reviews, but may not meet recognized professional standards. (Score C)</p> <p>(ii) Audit reports for specific reviews are issued regularly and are accessible to the SAI. A fixed schedule applies to aggregate reports, the most important of which are submitted to the supreme audit institution. As is often the case in Latin American frameworks, internal audit reports are not submitted to the ministry of finance. (Score C)</p> <p>(iii) Comprehensive action is taken by many managers, but often with delay. (Score C)</p>

⁶⁹ Details on OCI reporting requirements are contained in DAFP/IAIC (2007).

③ **Summary analysis.** *Premise: Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation*

③ The comprehensive design of the internal control system, with a standard guiding model (MECI), is consistent with international good practice. Since the model was only recently implemented, its intended results are yet to be fully realized. It will be critical to continue monitoring effectiveness of the model and the internal control risk ratings produced by the CGR.

③ Budget execution procedures, as automated by SIIF for the central government, adequately control commitment of expenditures and largely mitigate the risk of unauthorized or undocumented outflows. Still, the budget execution via transfers to trust funds and financial agents is a practice that, although not widespread, should be monitored and regulated closer.

③ Central government payroll controls also seem largely effective, but this assumption should be confirmed continuously through payroll-specific audits, targeting and documenting full coverage at least on a rolling three-year basis. The ongoing development of a human resource management system (SIGERH) will be a good opportunity to strengthen further the linkages between individual records, personnel database and payroll.⁷⁰

③ The Public Procurement volume presents a comprehensive assessment of this complex PFM function. As far as this report is concerned, an overhaul of the complaints mechanism, increased use of open competition, more complete documentation of procedures, and better statistics are needed to enhance internal controls.

③ Significant progress has been made through the full operation of OCIs across the central government. Based on this advancement, the government should now consider making recognized internal audit professional standards mandatory, and monitoring their effective application through quality control reviews and performance indicators. In that context, a common statistical system to monitor aggregate implementation of internal improvement plans could also be developed.

Accounting and Reporting

③ This section looks at the adequacy of record keeping and release of financial information for management and scrutiny purposes.

③ **Accounts reconciliation.** Timely and frequent reconciliation of accounting balances from different sources is fundamental for data reliability. In Colombia, all bank accounts held by MHCP's Treasury in the BdR, including the treasury single account, are reconciled on a daily basis. Monthly reconciliation reports for these and other accounts managed by MHCP's Treasury are issued within the next month and rarely show unsolved differences. Other public sector entities reconcile their own bank accounts. Per CGR's 2007 audit, a number of these reconciliations do show problems with unreconciled differences.⁷¹

⁷⁰ It should be noted that a report of the results of the Public Administration Modernization Program is being prepared.

⁷¹ In its 2007 audit and review of internal controls, the CGR found deficiencies in the bank reconciliations of various entities, such as the ministries of Education, Social Protection and Defense, the DIAN, and the Judiciary. No such problems were reported for the MHCP. CGR (2008a; 2008c)

③ Payments made from which no expenditures have yet been recorded are controlled in the entities' accounting records through specific balance sheet accounts. But, even though current accounting norms require that the amount and age profile of open advances be reported in notes to the financial statements, at the time of preparation of this report information other than the balance amount was not available in an accessible format.

③ **Resources received by service delivery units.** The ability of the central government to track resources that were actually received by front-line service delivery units, such as schools and primary health clinics, is crucial. In Colombia, delivery of education and health services takes place at the sub-national level, mostly financed with earmarked transfers.

③ In education, funding from central government transfers comes mainly in the form of SGP and royalty funding to cover payroll, infrastructure investment, other quality investments, and recurrent costs. Then different levels of responsibility -for management, provision of complementing local funds and payments- apply to departments, certified and noncertified municipalities.⁷² As explained in a recent decentralization study,⁷³ a particular problem with frontline providers is that it is often unclear who owns and operates public schools, leading to bureaucratic delays because school authorities are often unsure which level of government they should work with to solve a specific problem and apply budgetary resources. Another problem is that both departmental and municipal levels have an incentive to “under-invest” in schools that they do not clearly operate, which is particularly true for the more than 1,000 noncertified municipalities that perceive that it is the department who is responsible for schools. Moreover, the assignment for education quality is not applied consistently below the municipal level, as each Mayor may apply individual criteria for the allocation of resources to individual schools, which could lead to inappropriate uses of resources. It thus appears that the organization of the service delivery chain remains informal in many areas.

③ As in the case of education, sub-national governments finance health services through a series of different funds, with SGP remaining the most significant. Departmental governments assume provision of second and third level health care services and municipal governments take on provision of primary health care. Public hospitals operate as Social State Enterprises. The above-mentioned study found some efficiency obstacles in all stages of the resource flow from the national level to frontline providers, such as oversupply of first-level providers, fragmentation of public health interventions, and unclear roles of municipalities and departments.

③ Even when there may be similar efficiency problems in the education and health sectors down the chain of service delivery, the availability of information differs. Central collection and processing of information of resources in cash and kind received by schools is non-existent. Conversely, public hospitals report annually their accounting data to departments, which in turn report to the Ministry of Social Protection (MPS) through a web-based system (SIHO) that includes financial and statistical data. The data is compiled by MPS for different reporting needs.

③ **Budget execution reporting.** Timely and regular information on actual budget execution is needed for the entities in charge of fiscal oversight to monitor performance, and for the executing entities to manage their budget. In Colombia, budget execution reports aggregate data by commitment, obligation and payment stages, allowing direct comparison against the original and modified budgets. For entities with online SIIF coverage, this information is usually available in “real time”. Other public agencies are required to report their monthly budget execution to the MHCP within five days

⁷² Among other differences, noncertified municipalities are not authorized to manage human resources, which then remain under the departmental purview. Certified municipalities have similar responsibilities to those of departments.

⁷³ World Bank (2009).

after the end of the month, using the Public Financial Information Consolidation System (CHIP) application and SIIF.⁷⁴ Overall monthly PGN execution reports are consolidated by MHCP within four weeks after the end of the month. The CGR also compiles budget execution data directly from SIIF, and on a quarterly basis from entities that are not covered online by SIIF.

③ Expenditure data is largely accurate, although some instances of reporting noncompliance from entities that are not covered online by SIIF have been identified.⁷⁵ At aggregate PGN execution level, another shortcoming is that execution of transfers between budget entities (*convenios interadministrativos*) are registered as expenditures by the participating entities, causing a minor duplication. However, the principal issue with data accuracy is found in the recording of revenues, as discussed earlier in the Revenue Controls section.

③ **Annual financial statements.** In order to be useful and contribute to transparency, financial statements must be complete, understandable and issued on a timely basis. In Colombia, year-end financial statements are issued by the Office of the Accountant General (CGN), with three levels of consolidation: (i) whole of public sector; (ii) national level; and (iii) sub-national level. In turn, the national level statements also contain financial information by sub-consolidation centers: (i) central government; (ii) decentralized entities; (iii) social security; (iv) non-financial public enterprises; and (v) financial entities. The 2007 financial statements covered the central government in full and the national level practically in full.

③ The financial statements comprise the Balance Sheet, the Statement of Financial Activity, and the Statement of Changes in Patrimony (net assets), as well as notes to the financial statements with accounting policies and explanatory information. The national level financial statements are presented by May 15 of the following year to the CGR for audit purposes and by June 30 to Congress.

③ The accounting standards applicable to government financial statements are compiled in CGN's accrual-based Public Accounting Regime, composed by the public accounting general plan, the procedures manual (including chart of accounts), and the public accounting doctrine.⁷⁶ The Public Accounting Regime is mandatory at all levels of government. The notes to the consolidated financial statements disclose the accounting standards used and, when necessary, the effects of changes in standards.

③ Even though the process and standards for preparation of consolidated financial statements is well established, their reliability depends on the underlying quality of individual reporting entities. In that respect, it should be noted that while there has been a recent pattern of increases in unqualified (clean) audit opinions issued by the CGR, measured by number of entities and by weighting the volume of their assets, there still remains a significant number of qualified (with exceptions) and adverse opinions (see Table 16).

⁷⁴ In early 2009, there have been some delays in SIIF and CHIP reporting, exceeding four weeks after end of period. This is considered a temporary situation connected to the roll out of SIIF's new application (SIIF 2) and is expected to be stabilized during the year.

⁷⁵ CGR's 2007 General Budget and Treasury Account (CGR, 2008b) found that 23 agencies representing altogether less than one percent of the budget did not report their December 2007 budget execution on time.

⁷⁶ The International Public Sector Accounting Standards (IPSAS) are used as reference, rather than fully adopted, in the development and updating of the Public Accounting Regime.

Table 16: Audit Opinions

	Unqualified	Qualified	Adverse	Disclaimer
Percentage of individual entity audits				
2005	24%	56%	17%	3%
2006	42%	31%	23%	4%
2007	51%	32%	16%	1%
Weighted percentage by size of assets				
2005	28%	58%	11%	3%
2006	34%	48%	10%	8%
2007	35%	55%	8%	2%

Source: CGR

③ **Accounting and reporting: Performance indicators.**

Indicator	Score	Explanation
PI-22	NR	Timeliness and regularity of accounts reconciliation (scoring method M2): (i) Bank reconciliation for all Treasury managed bank accounts takes place at least monthly, within 4 weeks from end of month. (Score B) (ii) No data was available in accessible format to assess periodicity and timeliness of reconciliation and clearance of suspense accounts and advances, and quantify un-cleared balances brought forward. (Not Rated)
PI-23	B	Availability of information on resources received by service delivery units: Routine data collection systems provide reliable information on all types of resources received by public health care providers (but not by schools) across the country, with information compiled into reports at least annually.
PI-24	C+	Quality and timeliness of in-year budget reports (scoring method M1): (i) Classification of data allows direct comparison to all items of budget estimates. Expenditure is covered at both commitment and payment stages. (Score A) (ii) Reports are prepared monthly, and issued within 4 weeks of end of period. (Score A) (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports from the executive, but this does not fundamentally undermine their basic usefulness. (Score C)
PI-25	A	Quality and timeliness of annual financial statements (scoring method M1): (i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure, assets and liabilities. (Score A) (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (Score A) (iii) National standards are applied for all statements. (Score A)

③ **Summary analysis.** *Premise: Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making.*

③ The government accounting function in Colombia is well institutionalized and shows relevant advances, such as the comprehensive set of accrual-based government accounting standards, the ample coverage of entities and types of information, and the timely availability of in-year and annual budget execution reports and financial statements. Still, some controls, such as the effective follow-up of non-Treasury managed bank reconciliations, standing advances and similar accounts, could be improved.

③ The major concern in this area lies, though, on the reliability of certain components of budget reports and financial statements. Special attention should be paid to the overall timeliness and accuracy of revenue reporting, as well as the several balance sheet issues that have led to a decreasing, but still significant, number of audit qualifications. Other relatively minor problems, such as some

instances of noncompliance with timely reporting from individual entities, and the repeated reporting of expenditures under inter-agency agreements, should also be addressed. All of this, with the objective of safeguarding a comprehensive and effective oversight of the use of funds, and accordingly reducing the opportunity for operational efficiency breaches and increased fiscal risks.

③ Building upon the successful experience of financial data collection in health sector frontline service providers, a similar effort could be pursued in the education sector. And, while not directly addressed by this report, there is certainly a need to attend to the important efficiency and transparency obstacles associated with the flow of funds from the central government, passing through departments and municipalities, to hospitals and schools.

External Audit and Scrutiny

③ This section analyzes the arrangements for scrutiny of public finances, with an emphasis on the key elements of the external audit function and related legislative scrutiny.

③ **Audits.** A high quality external audit is an essential requirement for safeguarding transparency in the use of public funds. In Colombia, government audits at the national level are performed by the CGR. The auditing policies and procedures are documented in the Guide to Government Auditing with an Integral Focus, the most recent version of which (Audite 3.0) was adopted in 2006. The guide is a systematic process for the simultaneous application of financial, compliance and performance procedures consistent with national government auditing standards set forth by the CGR, including auditor independence and risk based audit planning, among others.⁷⁷ It provides for regular, special and monitoring audits.

③ The audit focus on relevant and systematic issues is addressed through the internal control risk assessment elements that come into consideration in the preparation of the overall bi-annual General Audit Plan (PGA) and in the individual audit programs. As a product of the assessments, a classification of internal control risk according to elements of existence, application and effectiveness of the control procedures, is assigned to each entity (see Expenditure Controls section above).⁷⁸

③ Audit results are consolidated annually in two public reports that are submitted before July 1st of the following fiscal year to the Congress and the President of the Republic: (i) Audit Report on the General Balance of the Nation and (ii) Internal Control System Report and Opinion. For 2007, the internal control evaluation report comprised 179 entities subject to regular audits, representing 92 percent of budget.⁷⁹ In turn, the audit report comprised 207 entities representing 88 percent of the consolidated balance sheet assets.⁸⁰ The CGR issues individual and consolidated opinions on the financial statements (see Accounting and Reporting section above),⁸¹ but not on budget execution per

⁷⁷ INTOSAI's International Standards for Supreme Audit Institutions are used as reference, rather than fully adopted, in the national government auditing standards.

⁷⁸ To further strengthen risk assessments, the CGR has also developed a System of Institutional Risk Indicators (SIRI), a methodological instrument that aims to measure the degree of vulnerability an entity is exposed to in terms of corrupt practices, improper management practices or risks inherent to its business. However, only the corrupt practices risks module is in operation and the last SIRI report formally issued covered fiscal year 2005.

⁷⁹ CGR (2008b).

⁸⁰ CGR (2008a).

⁸¹ A flagged problem is that, in the rush to complete the consolidated audit report within six months from year-end, it is issued while some underlying individual reports have not yet been fully discussed with the audited entities. (Cámara de Representantes, 2008).

se. An annual General Budget and Treasury Account report analyzes budget execution and comments on overall quality of information (see Accounting and Reporting section above).⁸²

③ CGR's individual audit reports are sent to the audited entity. Congress also receives a copy along with the consolidated reports. As response to audit findings, the entities must prepare an improvement plan containing scheduled corrective actions and submit it to the CGR within 15 working days following receipt of the definitive audit report. Every six months, the entity must report to the CGR on its progress and compliance with the plan, which is updated in response to subsequent regular and monitoring audits. There are sanctioning procedures applicable in case of failure to present or comply with the improvement plan. Still, implementation compliance is far from full.⁸³

③ **Legislative oversight.** A way in which the legislature can scrutinize public finances is through legislative bodies that examine the external audit reports and question responsible parties about the reported findings. In Colombia, the Chamber of Representatives has the constitutional function to examine and close (*fenecer*) the annual budget and treasury account. To that effect, its permanent Legal Commission of Accounts examines CGN-issued financial statements and CGR reports. It also collects directly from the examined budget execution entities financial, accounting, budget, administrative and internal control data through formularies designed for that purpose. Hearings are held with CGN, CGR, MHCP and a few line ministries,⁸⁴ supplemented by follow-up commissions.

③ On the basis of its review, the Commission presents the Chamber's plenary with a resolution proposal to close or not the accounts. If the Chamber does not issue a resolution within six months from receipt of the CGR reports, the accounts are considered approved. For the 2005-2007 fiscal years, the legislative resolutions were issued on time. The budget accounts were "not closed" and the general balances were "closed with observations".⁸⁵ These conclusions can be characterized as moral penalties, as no recommendations to the executive are issued or other actions required in practice.

③ **External audit and scrutiny: Performance indicators.**

Indicator	Score	Explanation
PI-26	B	Scope, nature and follow-up of external audit (scoring method M1): (i) Central government entities representing at least 75% of total expenditures are audited annually, covering revenue, expenditure and assets/liabilities. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. (Score B) (ii) Audit reports are submitted to the legislature within 7 months of the end of the period covered. (Score B) (iii) A formal response is made in a timely manner in the form of improvement plans, but implementation of actions is delayed. (Score B)
PI-28	D+	Legislative scrutiny of external audit reports (scoring method M1): (i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (Score B) (ii) In-depth hearings (including follow-up commissions) on key findings take place as a routine, cover fiscal control entities and some other audited entities. (Score B)

⁸² As discussed in the Country Background chapter, per legal requirement the CGR issues annual reports, such as General Budget and Treasury Account, Situation of State Finances, and Situation of Public Debt, which are not typical of supreme audit institutions.

⁸³ Cámara de Representantes (2008).

⁸⁴ For the 2007 review, the ministries of Interior and Justice and Education were summoned.

⁸⁵ A resolution contains more than 800 pages (most CGR and CGN reports are included). The specific reasons behind the decision to close or not the accounts are not explicit, nor are there materiality or other criteria to that effect, but they are mostly connected to the audit qualifications and internal control issues reported by the CGR.

	(iii) No recommendations are being issued by the legislature. (Score D)
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③ **Summary analysis.** *Premise: Effective scrutiny through external audit, complemented by legislative oversight, is an enabling factor in the government's accountability for its fiscal and expenditures policies and their implementation.*

③ Based on legislation that provides it with adequate independence and room to exercise its external audit function, the CGR has made important progress through the development of generally sound government auditing standards and procedures. Worth highlighting are the internal control risk assessments, the integral approach to audits, the large coverage of audited entities, the comprehensive reporting, and the consequent improvement plans.

③ Some areas could still be further enhanced, especially if the CGR were not charged with some instances of compilation of budget and treasury, finances, and debt data that are unusual of supreme audit institutions. A formal opinion on budget execution reports, similar to that on financial statements, is a first necessity; the timeliness of individual audit releases, through more upfront audit work, should also be enhanced to provide a stronger basis to the consolidated report; and the delayed implementation of improvement plans should be analyzed specifically, to determine whether the problems lie in execution or in improper identification of root causes and corrective actions. By enhancing external scrutiny, these actions could increase accountability for efficient and rule-based management of resources.

③ On the legislative front, the comprehensive analysis of budgetary, financial, audit and other data is impressive. However, its effects are minimized by limited follow-up.

Fiscal Reporting Arrangements

③ It should be noted that an area of usual concern in Colombia is the duplicate, and sometimes inconsistent, reporting of different types of fiscal data, as follows:

③ Fiscal balance information aggregated at different levels of government is issued by MHCP/CONFIS in the "Fiscal Closing" reports and by CGR in the "Situation of State Finances" reports. For the sub-national level, DNP also compiles the "Fiscal Performance of Departments and Municipalities". All of them use data compiled by CGN, which is not charged with calculating balances.

③ Public debt and financial asset information is issued by MHCP/CONFIS in various reports, by CGN in the context of financial statements, and in the case of debt by CGR in the "Situation of Public Debt" report.

③ Budget execution information is issued by MHCP in various reports and by CGR in the "General Budget and Treasury Account" report. Both use information compiled by CGN, which is not charged with reporting on budget execution.

③ While granting that some data may need to be compiled differently for different users and purposes, the lack of reconciliations among reports can generate confusion and raise questions about data integrity. In line with international good practice, the CGR could concentrate on the independent audit and evaluation of fiscal reports, rather than on its compilation. As for the executive, opportunities to streamline and consolidate reporting among MHCP/CONFIS, DNP and CGN could be addressed. While this course of action would take some time due to legal, even constitutional considerations, in a shorter timeframe transparency would be served by firm reconciliation procedures that clearly explain how dissimilar use of sources of information and compilation procedures generate

different final figures. That task could be performed by an inter-institutional group representing the different fiscal information issuing entities.

Sub-Nationals

③ As a unitary country, the national-level PFM framework applies or is replicated in departments and municipalities. Even though this study is not focused on sub-national governments, important differences in effective implementation of the national framework are evident. While some departments and large cities, such as Bogotá and Medellín, seem to perform similarly -or in some cases even surpass- central government performance, other entities struggle.

③ Particular areas of opportunity in mid-size sub-national governments are:⁸⁶

- ③ Integration between finance and planning institutions on budget management.
 - ③ Procedures for annual budget formulation, recording of appropriations, and management of budget modifications.
 - ③ Periodic and timely budget execution controls and reporting.
 - ③ Cash flow planning and monitoring and control of cash balances.
 - ③ Central collection and processing of information of resources in cash and kind received by frontline providers, particularly schools.
 - ③ Integrated information systems for budget, treasury and accounting (affects all of the above).
 - ③ Information systems for taxpayer services and tax administration.
 - ③ Procurement planning and contract management.
 - ③ Procurement databases for micro controls and macro statistical analyses. Compliance with the public procurement oversight information system. Interfaces for publication purposes.
 - ③ Controls over use of limited competition.
 - ③ Standardization of procurement documents.
 - ③ Risk-based approaches to internal and external audits, including procurement processes.
- ③ In small cities, conversely, the analysis should focus on whether certain sophisticated national government tools, such as accrual accounting, are effective. A simplified regime, based on straightforward but firm budget execution controls, complemented with citizen oversight mechanisms, may be advisable.

⁸⁶ Includes information from World Bank's *Rapid Assessments and Action Plans to Improve Public Management in Sub-National Governments* and other sources.

ANEXXES

Annex 1 Areas of Opportunity

For discussion purposes, the main challenges and opportunities identified in the report are recapitulated here.

Item	Opportunities and Actions	Responsibility	Basis ⁸⁷	Timing ⁸⁸	TA Needed? ⁸⁹
1.	PFM out-turns <ul style="list-style-type: none"> ▪ Periodic generation and monitoring of reliable and complete data on the stock of payment arrears through the integrated financial management system 	MHCP	ADM	S	Y
2.	Comprehensiveness and transparency <ul style="list-style-type: none"> ▪ Formulation and execution of the budget on the basis of a functional and sub-functional classification consistent with international standards. ▪ Consolidation of sub-national budget execution reports with sectoral categorization. ▪ Periodic publication of: <ul style="list-style-type: none"> (i) full statistics on contract award methods; (ii) use of funds at the frontline service provider level in the education and health sectors; and (iii) tax expenditures and evasion estimates. 	MHCP MHCP, CGN, sub- nationals DNP MEN, MPS DIAN	ADM ADM ADM ADM ADM	S-M S-M S-M S-M S	Y Y KS KS N
3.	Budget planning and approval <ul style="list-style-type: none"> ▪ Consistent incorporation of recurrent cost implications in the selection of investments and the related medium term estimates. ▪ Earlier approval of aggregate budget ceilings by the Cabinet. ▪ In-depth legislative review of fiscal policies and medium term fiscal frameworks. ▪ Setting of stricter limits on extent and nature of budget amendments by the executive. 	DNP, executing entities Various Congress Various	ADM LEG ADM LEG	S-M S-M S-M M	Y N Y KS

⁸⁷ ADM = Administrative action. LEG = Action that would involve changes to legislation or regulations.

⁸⁸ S = Short term (could be substantially implemented within 12 months). M = Medium term (could be implemented within 1 to 5 years). S-M = Short-to-medium term (some aspects, but not all, could be implemented within 12 months).

⁸⁹ N = No additional technical assistance (TA) would be needed (could be implemented with installed capacity). KS = Could be implemented with installed capacity, complemented with international knowledge sharing (KS). Y = Additional TA may be needed.

Item	Opportunities and Actions	Responsibility	Basis ⁸⁷	Timing ⁸⁸	TA Needed? ⁸⁹
4.	<p>Revenue controls</p> <ul style="list-style-type: none"> ▪ Overall simplification of the major taxes' legal framework. ▪ Significant increase of the average tax arrears collection ratio and reduction of the stock. ▪ Complete and prompt reconciliation of tax assessments, collections and arrears, including accounting records and statistics. ▪ Reduction of the period from tax collection to deposit in treasury accounts. 	Various DIAN DIAN DIAN	LEG ADM ADM ADM	M S-M S-M S-M	Y Y Y KS
5.	<p>Expenditure controls</p> <ul style="list-style-type: none"> ▪ Formal implementation of a system of annual payroll-specific audits, aiming at full coverage on a rolling three-year basis. ▪ Development and implementation of mandatory internal audit professional standards. ▪ Development and implementation of systems to track timeliness and effectiveness of actions on internal audit findings. ▪ Stricter budget execution controls on transfers to trust funds and financial agents. 	DAFP, CGR, executing entities DAFP, executing entities MHCP	ADM LEG ADM LEG	S-M S-M S-M S-M	Y Y Y KS
6.	<p>Accounting and reporting</p> <ul style="list-style-type: none"> ▪ Addressing of various issues that affect integrity of accounting and budget data, such as revenue accounting, some instances of noncompliance with timely reporting, recording of transfers between budget entities, and other issues that have led to audit qualifications. ▪ Periodic generation and monitoring of reconciliation and clearance of balance sheet standing advances and similar accounts. ▪ Periodic data collection and reliable reporting on resources received by service delivery units in the education sector. 	MHCP, DIAN, executing entities MHCP, CGN MHCP, MEN, sub- nationals	ADM ADM ADM	S-M S-M S-M	Y N Y

Item	Opportunities and Actions	Respon- sibility	Basis ⁸⁷	Timing ⁸⁸	TA Needed? ⁸⁹
7.	<p>External audit and scrutiny</p> <ul style="list-style-type: none"> ▪ Issuance by the supreme audit institution of an audit opinion on budget execution. ▪ Analysis of audit observation recurrence problems. Revision of the proper identification of causes and effective corrective actions. ▪ Stronger follow-up to the legislative resolutions on the annual budget and treasury accounts. 	CGR CGR Various	LEG ADM ADM	M S-M M	KS Y KS
8.	<p>Fiscal reporting arrangements</p> <ul style="list-style-type: none"> ▪ Periodic reconciliation of fiscal data generated by different sources. ▪ Simplification and clearer division of fiscal reporting responsibilities. 	Various Various	ADM LEG	S-M M	Y KS

Annex 2 Indicator Scoring Methodology

Most of the indicators have a number of dimensions linked to the subject of the indicator. Each of these dimensions must be assessed separately. The overall score for an indicator is then based on the assessments for the individual dimensions of the indicator. Combining the scores for dimensions into the overall score for the indicator is done by Scoring Method 1 (M1) for some indicators and Scoring Method 2 (M2) for other indicators. It is specified in the indicator guidance for each indicator what methodology should be used.

Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). For indicators with 2 or more dimensions, the steps in determining the overall or aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score.
- Combine the scores for the individual dimensions by choosing the lowest score given for any dimension.
- A '+' should be added, where any of the other dimensions are scoring higher (Note: It is NOT possible to choose the score for one of the higher scoring dimensions and add a '-' for any lower scoring dimensions. And it is NOT possible to add a '+' to the score of an indicator with only one listed dimension).

Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though the dimensions all fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without logically having to follow any particular sequence.

Further detailed guidance on the scoring of each of the indicators, including the scoring tables for each indicator, is found in: http://www.pefa.org/pfm_performance_frameworkmn.php.

Annex 3 Persons Interviewed

Name	Unit	Entity
Carolina Soto	National Budget General Directorate	Ministry of Finance and Public Credit (MHCP)
Rutty Paola Ortiz	National Budget General Directorate	MHCP
Claudia Marcela Numa	National Budget General Directorate	MHCP
Jose Mauricio Cuestas	National Budget General Directorate	MHCP
Lelio Rodriguez	National Budget General Directorate	MHCP
Shirley Herreño	National Budget General Directorate	MHCP
Joaquin Florez	National Budget General Directorate	MHCP
Tony Escobar	National Budget General Directorate	MHCP
Camilo Yepes	Public Credit and National Treasury Directorate	MHCP
Nestor Gonzalez	Public Credit and National Treasury Directorate	MHCP
Hernando Ríos	Public Credit and National Treasury Directorate	MHCP
Clara Ines Gonzalez	Public Credit and National Treasury Directorate	MHCP
Moises Arturo Ramos	Public Credit and National Treasury Directorate	MHCP
Luis Alfonso Diaz	Public Credit and National Treasury Directorate	MHCP
David Morales	Integrated Financial Information System Project	MHCP
Jose Elias Parra	Internal Control Office	MHCP
Luis Fajardo	Human Resources Office	MHCP
Margarita Rosas	Investment and Public Finance Directorate	National Planning Department (DNP)
Carolina Gonzalez	Credit Sub-Directorate	DNP
Enrique Javier Bravo	Planning Secretariat	National Tax and Customs Directorate (DIAN)
Plinio Parra	Planning Secretariat	DIAN
Jairo Alberto Cano	Accountant General's Office	Office of the Accountant General of the Nation (CGN)
Yolanda Guerrero	Consolidation of Information Sub-Accountant General's Office	CGN
Ivan Castillo	General and Investigation Sub-Accountant General's Office	CGN
Maria del Pilar Arango	Internal Control Directorate	Public Administration Department (DAFP)
Victoria Eugenia Diaz	Information Systems Office	DAFP
Dolly Amaya		DAFP

Celmiz Frasser		DAFP
Luis Fernando Ayala	Planning Office	Office of the Controller General of the Republic (CGR)
Arturo Quijano	Planning Office	CGR
Jairo Oyaga	Planning Office	CGR
Jose Miguel Zambrano	Planning Office	CGR
Jorge Espitia	Economy and Public Finance Delegate Controller's Office	CGR
Fabian Trujillo	Internal Audit Coordination	Legal Commission of Accounts, Chamber of Representatives
Victor Adolfo Leon	Adviser	Legal Commission of Accounts, Chamber of Representatives
Luz Marina Agudelo	Finances and Administration Sub-Directorate	Ministry of Education
Judith Alejandra Vargas	Internal Control Office	Ministry of Education
Marlen Campo	Finances and Administration Sub-Directorate	Ministry of Transport
Dolores Manjuez	Finances and Administration Sub-Directorate	Ministry of Transport
Bertha Ines Pardo	Finances and Administration Sub-Directorate	Ministry of Transport
Rosa Elvira Avella	Finances and Administration Sub-Directorate	Ministry of Transport
Alvaro Hernán Arias	Finances and Administration Sub-Directorate	Ministry of Transport
Juan Fernando Palacio	Internal Control Office	Ministry of Transport
Rosa Maria Laborde	General Secretariat	Ministry of Social Protection
Alfredo Bernardo Posada	Auditor of the Internal Control Office	Ministry of Social Protection
Rosalba Zambrano	Training Department	Public Administration Superior School

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