

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
NOT FOR PUBLIC USE

HONDURAS

**ADOPTION OF FINANCIAL REPORTING AND AUDITING
STANDARDS**

(TC-03-04-02-9)

DONORS MEMORANDUM

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ABBREVIATIONS

CESI	Committee on Environment and Social Impact
COHPUCP	Colegio Hondureño de Profesionales Universitarios en Contaduría Pública [Honduran Association of University-Trained Public Accountants]
CPM	Colegio de Peritos Mercantiles [Association of Bookkeepers]
HIPC	Heavily Indebted Poor Countries (Initiative)
IAS	International Auditing Standards
IFRS	International Financial Reporting Standards
PCR	Project completion report
PPMR	Project Performance Monitoring Report
PPP	Puebla-Panama Plan

ADOPTION OF FINANCIAL REPORTING AND AUDITING STANDARDS

(TC-03-04-02-9)

EXECUTIVE SUMMARY

Executing agency:	Colegio Hondureño de Profesionales Universitarios en Contaduría Pública [Honduran Association of University-Trained Public Accountants] (COHPUCP)	
Beneficiaries:	Accountants, investors, businesses, and users of financial information	
Amount and source:	IDB: (Window I)	US\$490,000
	Local counterpart:	US\$210,000
	Total:	US\$700,000
Terms:	Execution period:	36 months
	Disbursement period:	42 months
Objectives:	The project's general objective is to make financial information on the performance of Honduran companies more reliable, transparent, objective, and comparable. The specific objective is to adopt and properly apply the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).	
Description:	<p>The program has three components: (i) adoption and dissemination of international financial reporting and auditing standards; (ii) training; and (iii) quality control in the application and use of the standards.</p> <p>Component I will help raise the quality of firms' financial reporting by adopting and implementing the IFRS and the IAS. Component II will facilitate training in, and dissemination of, the standards, as well as promote the technical basis for their implementation. Component III will help the professional associations of accountants and bookkeepers in the area of quality control in accounting firms.</p>	
Environmental and social review:	The Committee on Environment and Social Impact (CESI) reviewed and approved the project without comment on 6 February 2004 (meeting 05-04).	

Coordination with other development banks:	The World Bank expects to conduct an assessment of adoption and observance of the IFRS and the IAS and of the Report on the Observance of Standards and Codes (ROSC) for the Central American region. Project evaluations will take into account the findings of that assessment.
Special contractual conditions:	As a condition precedent to the first disbursement of funds, the executing agency must submit evidence of: (i) the creation of the project's technical committee; and (ii) the selection of the project coordinator. As a special condition for disbursement of Component I, COHPUCP—the executing agency—must sign a technical-assistance agreement with the Colegio de Peritos Mercantiles [Association of Bookkeepers] for the project's institution-strengthening activities. As a special condition for disbursement of Component II (“Training”), an interagency agreement for technical cooperation is to be signed between COHPUCP and CPM, as well as among COHPUCP, the National University and the Pedagogical University.
Exceptions to Bank policy:	None.

I. BACKGROUND AND RATIONALE

A. Background

- 1.1 Signaling the beginning of a new era of transparency and crossborder comparability, a number of developed and developing countries have decided to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). There is consensus in these countries that uniform accounting standards will lead to better information management. The lessons learned in European countries indicate that adopting the IFRS will facilitate credit risk management in financial institutions, increase global capital, communicate performance to investors, promote mergers and acquisitions, and improve corporate governance and transparency. In addition, the use of the IFRS will provide future investors and their partners with clearer information regarding the performance of businesses and their potential to create value.
- 1.2 There is also a trend toward the use of the International Auditing Standards (IAS) and the international auditing practices of the International Federation of Accountants (IFAC). The standards are designed to produce greater uniformity in auditing practices and related services throughout the world, by issuing statements on a range of auditing functions and promoting their acceptance. Internationally, recent situations involving inappropriate accounting standards have made clear the need to accelerate adoption of the IFRS (or to bring national standards into line with them), as well as to monitor compliance through the IAS.

B. Accounting standards in Honduras

- 1.3 The accounting profession in Honduras is currently regulated by the Commerce Code (Title III, Articles 430 to 448), which requires businesses to utilize duly organized double-entry business accounting. However, the Code does not stipulate any particular accounting standard, hence there is no uniform criterion for generating financial information. In practice, accountants use 15 generally accepted accounting principles, which Honduras adopted in the 1940s, based on the generally accepted accounting principles in the United States at that time. As a result, companies do not have high-quality balance sheets. Though there is interest in applying the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS) in the private sector and parts of the public sector, these are not currently in force.
- 1.4 The country's university programs in public and commercial accounting are based on generally accepted standards. Thus, university graduates have little knowledge of the IFRS and the IAS. Unlike in international practice, obtaining a professional license does not require a qualifying examination followed by a year or more of on-the-job experience. Nor is there a system of continuing education for practicing

accountants, though in many countries this is a requirement for maintaining a valid license.

C. Regulatory framework

- 1.5 There is no regulatory framework in Honduras to enforce accounting standards. The country's standards in the private sector are self-regulated through professional associations. The system of sanctions and its procedures need to be updated, as suggested by the fact that no public accountant has been sanctioned in recent years.
- 1.6 In the public sector, only the National Banking and Insurance Commission (CNBS), which regulates the financial sector pursuant to Circular No. 048/2002, has instructed external auditors that their reports should indicate that "the financial statements were prepared based on the international accounting standards (now the IFRS) and the standards issued by the Commission." Should they conflict, the latter prevail. The lack of a regulatory framework prevents the enforcement of current standards, and such a framework is indispensable if the IFRS and IAS are to be properly enforced once they are adopted.
- 1.7 The government has submitted a bill to Parliament to create the regulatory framework needed to adopt and enforce the IFRS and the IAS. It establishes a governing body for the accounting system, called the Technical Board of Accounting and Auditing Standards. The Board is to be a part of the Ministry of Finance, and will have legal status and its own assets. It is to include representatives of the Honduran Association of University-Trained Public Accountants, the Association of Bookkeepers, the National Banking and Insurance Commission, the National University, and the Pedagogical University.
- 1.8 Given this situation, financial statements are not of high quality and are therefore difficult to understand. These deficiencies in financial reporting make data noncomparable with data of similar institutions within the country and abroad. Moreover, shortcomings in reporting have an adverse effect on foreign investors' willingness to invest in the country.

D. The accounting profession in Honduras

- 1.9 There are two professional associations for accountants: the Honduran Association of University-Trained Public Accountants (COHPUCP) and the Association of Bookkeepers (CPM). COHPUCP's members are university graduates in accounting. The organization was created in 1993 and has 800 members. Thirty-two accounting and auditing firms (26 Honduran and 6 foreign) are members of COHPUCP. The members of the CPM are high school graduates in accounting who are bookkeepers or public accountants. It was created in 1966, and as the profession's oldest organization has 37,000 members. Both associations agree on

the need to enforce the IFRS and the IAS in Honduras. This view is shared by the government, accounting firms, business people, regulators, and universities.

- 1.10 The country's participation in an increasingly global economy, the progress toward new free trade agreements with several countries, and the need for foreign investment make it necessary to have precise rules for obtaining sound financial information from firms. As a heavily indebted country benefiting from the HIPC Initiative, Honduras has little access to international capital markets and depends on direct investment. Thus, the improvement of financial information, to make it objective, timely and transparent, may be expected to increase the confidence of domestic and foreign investors.
- 1.11 Recognizing this reality, COHPUCP sent a letter to the Bank on 8 April 2003, asking it, through the MIF, for support in adopting international financial reporting and auditing standards, disseminating them, and providing training in their use for the country's various public accounting sectors, and for assistance in institutional strengthening of the COHPUCP itself.

E. The Bank's strategy and project rationale

- 1.12 The project is consistent with the Bank's strategy for the financial sector in Honduras. It is highly justified, as it promotes the adoption of the IFRS and the IAS, thus ensuring that financial information from Honduran companies will be of high quality, transparent, objective, reliable, and comparable. As a result, the project would have a major indirect impact on increasing domestic and foreign direct investment in Honduras.
- 1.13 The project qualifies for MIF funding under the Technical Cooperation Facility (Window I). The MIF is actively supporting projects designed to promote the implementation and/or harmonization of accounting and auditing standards. This operation is consistent with the objectives of the project cluster, "Supporting competitiveness through international accounting and auditing standards" (document MIF/GN-80), which was submitted to the Donors Committee in May 2002. In this cluster, the MIF finances programs that support efficient private-sector financial markets, which require accurate information generated according to international accounting and auditing standards.
- 1.14 The operation will also be part of the technical-cooperation program in the financial sector, within the Facilitating Commerce Initiative in the Puebla-Panama Plan (PPP) countries. The monetary and financial authorities of the PPP countries assign high priority to improving financial information from firms and making it more transparent. Within this PPP initiative, the MIF has already approved a project on the convergence of accounting standards for Mexico, and similar operations are being prepared for Costa Rica and Panama.

II. BASIC COMPONENTS AND OBJECTIVES

A. Objectives and description

- 2.1 The project's general objective is to make financial information on the performance of Honduran companies more reliable, transparent, objective, and comparable. The specific objective is to adopt and properly apply the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).
- 2.2 To achieve these objectives, the project will support the timely and ongoing adoption of international financial reporting and auditing standards by developing mechanisms for their adequate implementation; provide training for accountants and small and medium-sized auditing firms; update university curricula; and control quality in the accounting profession.

B. Components

1. Component I: Adoption and dissemination of international financial reporting and auditing standards (MIF: US\$108,000)

- 2.3 The purpose of this component is to support the Honduran Association of University-Trained Public Accountants (COHPUCP) and the Association of Bookkeepers (CPM) in adopting and implementing the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS). A baseline and a plan of action will be established for that purpose, by developing processes for implementing the standards that eliminate the differences between Honduran and international standards. This component also contains funding to promote and disseminate the new standards within the business community, through national fora and publicity in major print and other media in Honduras.
- 2.4 The component's principal activities include:
 - a. Developing a plan of action with a timetable for the adoption of the International Accounting Standards, and establishing a baseline and defining the activities needed to do this.
 - b. Developing interpretations and guidelines for implementation and best practices in the framework of the IFRS and the IAS.
 - c. Conducting a campaign to create awareness of the new standards and familiarize merchants, business people and accounting professionals with them. Users of financial information must be made aware of the advantages of adopting the new standards to improve transparency. Workshops will be held to increase awareness, and a publicity campaign will be prepared.

- d. Strengthening the technical and administrative capacity of COHPUCP and the CPM, so that the project can become self-sustainable over time. This involves providing technical assistance to both associations to train instructors to improve their capacity to disseminate information on the standards to their members and the general public, and to create and maintain association websites.

2. Component II: Training (MIF: US\$182,000; Local counterpart: US\$51,000)

- 2.5 The purpose of this component is to encourage professional training in accounting and auditing standards, as well as promote the technical basis for their implementation. It will also provide support for events and activities needed to familiarize interested parties, and the public, with the financial standards that are adopted. It is designed to help the economic, business, educational, and professional sectors in Honduras understand the value of transparency in financial information as a tool for decision making.
- 2.6 This component will facilitate the training of professional accountants who are members of the two associations. It will also provide training on the new standards for accounting firms, university-trained public accountants and bookkeepers in private practice, financial entities, businesses, and teachers at the National University of Honduras and at the Pedagogical University. A series of programs consisting of courses, seminars, a continuing education system, and a diploma in accounting for certification as a professional accountant is also included.
- 2.7 The principal activities in this component are:
 - a. To design and conduct **20 courses** during project execution, in order to provide professionals with **general and theoretical information** on the IFRS and the IAS. An estimated 25 individuals will attend each course; thus, by the end of the program, **500 persons will be trained** in Tegucigalpa, San Pedro Sula, and other Honduran cities.
 - b. To design and hold **30 workshops** during the execution period to provide accountants with **application guidelines and specific case studies** relating to implementation of the IFRS and the IAS. An estimated 15 individuals are expected to attend each workshop; thus, by the end of the program, **450 persons will have been trained through examination of actual cases.**
 - c. To implement a sustainable **continuing education** system for the professional development of accountants. The planned outputs are the preparation and conducting of courses to train accountants in specific subjects, such as operational audits, computer audits, internal controls, etc. Approximately **200 individuals** are expected to enroll in these continuing education courses.

- d. To implement an **accounting diploma**. In order to improve accountants' professional capacity and development, four diploma programs will be offered, each consisting of a series of courses leading to certification for accountants in the use of the IFRS and the IAS. An estimated **125 accountants will be certified**.
 - e. **Courses for training instructors** will be given first. There will be four courses with 20 students each, expected to produce 80 instructors for theoretical and practical courses, as well as instructors at the university level. Criteria such as years of teaching experience, professional history and familiarity with the subjects being taught will be considered in selecting instructors. Candidates' knowledge will also be evaluated. Once they are selected and trained, the instructors will define the profile for participants in the continuing education courses and, in particular, for the accounting diploma. Instructors' fees and travel expenses, as well as teaching materials, will be funded. For all levels of training, an evaluation of existing knowledge will be required. Following the course, there will be a practical evaluation and monitoring of the bimonthly courses.
 - f. To improve and modernize university-level training in accounting and auditing. The National University and the Pedagogical University will be encouraged to review and update curricula to train future generations of accountants in the new standards. This activity will include funding for an international consultant to prepare the proposal for a new curriculum to be implemented in the universities.
- 2.8 A consultant with experience in teaching will be hired to design the courses for accountants, instructors and professors and to act in an advisory capacity; and two international consultants will be hired to conduct the continuing education courses.

3. Component III: Quality control in the application and use of the standards (MIF: US\$50,000; Local counterpart: \$26,000)

- 2.9 The purpose of this component is to help the two associations in the area of quality control in accounting firms. This involves reviewing and implementing changes in professional practices in Honduras. A mechanism involving a technical and ethical comptroller will be developed for the profession within the associations.
- 2.10 This component will include funding for consulting services for the following activities:
- a. Creating the structure and providing the technical assistance needed to evaluate the financial statements of a representative sample of Honduran firms prepared and audited using the IFRS and the IAS.

- b. Developing application guidelines for the IFRS and the IAS for medium-sized companies.
 - c. Establishing disciplinary procedures for failure to comply with the Code of Professional Ethics.
 - d. Evaluating the regulatory framework and making recommendations to improve the supervisory, institutional, and governance capacity of the associations.
- 2.11 Three consultants, or a consulting firm, specializing in auditing quality control will be hired for the activities in this component.

III. COST, FINANCING AND SUSTAINABILITY

A. Cost and financing

- 3.1 The cost of the program is estimated at US\$700,000. The MIF will provide US\$490,000 (70%) in nonreimbursable financing from Window I. The balance of US\$210,000 (30%) will come from local counterpart resources, with at least 50% in cash. The estimated budget for the project is as follows:

Budget items	MIF (70%)	Local (30%)	TOTAL
Component I - Adoption and dissemination of the IFRS and the IAS	\$108,000		108,000
Component II - Training	182,000	51,000	233,000
Component III - Quality control in the application and use of the standards	50,000	26,000	76,000
Project coordination	90,000	45,000	135,000
Advisor for the training program	20,000	15,000	35,000
Administrative costs		63,000	63,000
Monitoring and evaluation	20,000		20,000
Audits		10,000	10,000
Cluster activities (*)	15,000		15,000
Contingencies	5,000		5,000
Total	490,000	210,000	700,000

(*) This amount (US\$15,000) will be deducted from the total MIF contribution going to the beneficiary at the time of signing of the loan agreement, without any need for a disbursement request from the beneficiary, and will be used by the Bank for cluster activities.

B. Sustainability

- 3.2 The program objectives will be upheld by ensuring the strengthening of the Association of University-Trained Public Accountants and of the Association of

Bookkeepers, in order to provide high-quality services and products to the profession. The project's financial sustainability will derive from the resources obtained through the dissemination and training activities that the associations will offer their members (enrollment fees, issuing of standards, continuing education program, printed material, monographs).

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The Honduran Association of University-Trained Public Accountants (COHPUCP) will serve as the project's executing agency, and will be responsible to the Bank for achieving the objectives of the operation and for managing both MIF and local counterpart funds.

B. Execution mechanism

- 4.2 For execution, a project coordinator will be hired using MIF funds. The coordinator will be supported by an accounting/financial administrator and an administrative assistant, both of whom will be paid with the counterpart funds contributed in cash. An ad hoc technical committee will be formed to supervise the work of the executing agency and coordinator. The technical committee will include representatives of COHPUCP, the CPM, the National University, the Pedagogical University, and the Ministry of Finance. The executing agency will submit the action plan for the technical committee's approval (budget, work timetable, hiring, training). The coordinator will report to the committee, on a quarterly basis, regarding progress on the plan of action.

C. Project readiness

- 4.3 The project is ready for implementation, and the formation of the technical committee and selection of the project coordinator are pending. Commitments to participate have been obtained from the entities that will be on the technical committee. Draft terms of reference for the coordinator have also been prepared.

D. Execution and disbursement periods

- 4.4 Execution and disbursement periods of 36 and 42 months, respectively, are anticipated. A revolving fund consisting of 10% of the MIF contribution will be created, to be disbursed and administered through a separate account. The executing agency will submit to the Bank's Country Office in Honduras semiannual financial statements on the status of the revolving fund. Disbursements of the grant funds, procurement of goods, and contracting of consulting services will be carried out according to Bank and MIF procedures.

- 4.5 Within a period of 90 days from the date of the last project disbursement, the executing agency will also prepare and submit to the Bank the final financial statements relating to the MIF contribution and local counterpart funds. These will be audited by an independent auditing firm acceptable to the Bank.

V. MONITORING AND EVALUATION

A. Monitoring

- 5.1 Project execution will be supervised by the Bank's Country Office in Honduras. To facilitate the process, the executing agency will prepare a semiannual progress report based on the objectives and indicators in the logical framework, in a format acceptable to the Bank, within 30 days of the end of each six-month period in the calendar year. A final program report will also be prepared, to be delivered to the Bank 30 days after execution has been completed.
- 5.2 In addition, the executing agency will provide the Bank's Country Office with copies of all reports and documents prepared by consultants hired for project execution. This information will allow the Country Office to monitor the project during the six-month periods, and will also support disbursement requests.
- 5.3 The MIF will use the funds from the line item for "cluster activities" in the budget table to hire a technical advisor to help the executing agencies of all projects in the cluster compile data and carry out cluster-related events.

B. Evaluation

- 5.4 The Bank will hire individual consultants to conduct an evaluation of the project in month 20, or when 30% of MIF funds have been disbursed, as well as a final evaluation three months after the conclusion of the project and before the final disbursement. The evaluations will detail: (i) the degree of completion of the activities; (ii) the achievement of the objectives and indicators described in the logical framework; and (iii) the performance of the executing agency. The World Bank expects to conduct an assessment of adoption and observance of the IFRS and the IAS, and of the Report on the Observance of Standards and Codes (ROSC) for the Central American region. Project evaluations will take into account the findings of that assessment.

VI. BENEFITS AND RISKS OF THE PROGRAM

A. Benefits

- 6.1 The project's value added lies in the MIF's contribution to achieving higher quality and more transparent, objective and reliable financial information that is

comparable nationally and internationally on firms' economic activities. This is of great importance for a heavily indebted poor country that needs domestic and foreign investment and does not have access to international capital markets. MIF involvement in this project will also promote closer links between the country's two professional accounting associations, which have similar objectives but different interests.

B. Risks

- 6.2 The main risk of the operation lies in the difficulty that the participating entities could have in meeting the commitment to provide local counterpart funds. To mitigate this risk, the Ministry of Finance and the country's major auditing firms have committed to making a substantial contribution in the initial stage of the project. In addition, all those involved have formally pledged to make contributions to promote the successful execution of the project. Although it would be desirable for a law to be passed strengthening the regulatory framework for accounting, failure to do so would not pose any risk for project execution.

VII. ENVIRONMENTAL AND SOCIAL REVIEW

- 7.1 The Committee on Environment and Social Impact reviewed and approved the project without comment on 6 February 2003 (CESI 05-04). Given the nature of this project, it has no direct or indirect adverse environmental or social impact.

HONDURAS- LOGICAL FRAMEWORK
ADOPTION OF INTERNATIONAL FINANCIAL REPORTING AND AUDITING STANDARDS (TC-03-04-02-9)

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
<p>The program’s general objective is to help improve financial reporting on the performance of Honduran companies, in order to make it more reliable, transparent, objective, and comparable.</p>	<p>Three years after project completion:</p> <ul style="list-style-type: none"> • Private firms’ access to bank credit increases by 15%. • Reduction in the number of reconcilements of banks and of firms listed on the stock exchange. (More precise estimates will be made using the baseline results.) 	<ul style="list-style-type: none"> • Ex post evaluation • Annual report of the National Banking and Insurance Commission 	<p>There is a willingness on the part of private enterprises to move forward in increasing transparency and improving financial reporting.</p> <p>The Government of Honduras supports the Association of University-Trained Public Accountants and the Association of Bookkeepers regarding the need to apply the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).</p>
PURPOSE			
<p>To adopt and properly apply the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).</p>	<p>Upon completion of the project:</p> <ul style="list-style-type: none"> • 75% of the IFRS are applied in Honduras. • 50% of the IAS are applied in Honduras. • Financial statements of the 50 main companies are prepared and audited using criteria in line with the IFRS and the IAS. 	<ul style="list-style-type: none"> • Surveys • Legal regulations • Reports of the associations • Midterm and final project evaluation reports • Project Performance Monitoring Report (PPMR) • Project completion report (PCR) 	<p>The Association of University-Trained Public Accountants and the Association of Bookkeepers continue to support the project, under the terms originally agreed.</p>

	<ul style="list-style-type: none"> • There is an increase of 60% in the number of accountants and accounting firms preparing audited financial statements in accordance with the IFRS and IAS adopted. • 40% of the professionals trained are applying the IFRS and the IAS. 		
COMPONENTS			
I. Adoption and dissemination of international financial reporting and auditing standards	<p>Upon completion of the project:</p> <ul style="list-style-type: none"> • Plan of action is instituted. • At least 1,000 persons are receiving information on the new standards. 	<ul style="list-style-type: none"> • Baseline report • Plan of action • Reports from the associations • Twice-yearly progress reports to the IDB from the executing agency • Standards issued and published by the associations • Midterm and final evaluations • PPMR • PCR 	<p>Users of financial information recognize the Association of University-Trained Public Accountants and the Association of Bookkeepers as the appropriate entities to issue standards.</p> <p>There is interest in Honduras in applying the IFRS and the IAS.</p>

<p>II. Training</p>	<p>Upon completion of the project:</p> <ul style="list-style-type: none"> • 80 educators are trained during the first six months of execution. • 500 accountants are trained by the end of the program, through 20 theoretical and general courses. • By the end of the program, 450 accounting professionals receive guides covering application and practical case studies, through 30 workshops. • A continuing education system is instituted to offer specialized courses for 200 accounting professionals. • A diploma in accounting is prepared and conducted in a period of 12 months. • A minimum of 125 accountants are certified through 4 diploma programs. • 100% of the IFRS and the IAS are incorporated in the curricula of the National University and the Pedagogical University. 	<ul style="list-style-type: none"> • Record of enrollment and training • Workshop and course materials • Record of certifications of the associations • Curricula of Honduran universities • Midterm and final evaluations • PPMR • PCR 	<p>There is ongoing interest on the part of accountants and bookkeepers in professional refresher training.</p> <p>There is interest on the part of Honduran accountants in becoming certified, in order to broaden their professional horizons.</p>
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<p>III. Quality control in the application and use of the standards</p>	<p>Upon completion of the project:</p> <ul style="list-style-type: none"> • The structure for evaluating the financial statements of 100% of regulated entities is established during the first 18 months of execution. • Guidelines for applying the IFRS and the IAS for medium-sized enterprises are prepared during the first year. • A Code of Professional Ethics is published and approved within the first 18 months. • A system of sanctions is approved during the second half of the second year. 	<ul style="list-style-type: none"> • Code of Professional Ethics • Twice-yearly progress reports to the IDB from the executing agency • Midterm and final evaluations • PPMR • PCR 	<p>The Government of Honduras is interested in supervising the accounting profession in order to improve the quality of financial statements.</p> <p>Accountants are committed to introducing professional quality control systems.</p>
<p>ACTIVITIES</p>			
<p>Component I</p> <p>1.1 Institute plan of action</p> <p>1.2 Prepare interpretations, guidelines on implementation and practices</p> <p>1.3 Dissemination events</p> <p>1.4 Design and implement websites for both associations</p>	<ul style="list-style-type: none"> • Plan of action is developed for adopting the IFRS in a period of 18 months. • 41 interpretations and guidelines are prepared during the first 8 months of the first year. • Dissemination campaign on the IFRS is carried out in the first year. • COHPUCP and CPM websites are created in the third quarter of the first year. 		<p>COHPUCP succeeds in finding a qualified project coordinator to carry out the proposed activities.</p>

Component II			
<p>2.1 Prepare and conduct instructor-training courses</p> <p>2.2 Prepare and conduct 20 theoretical and general courses</p> <p>2.3 Prepare and conduct 30 practical workshops</p> <p>2.4 Institute a continuing education program</p> <p>2.5 Institute and conduct an accounting diploma</p> <p>2.6 Review university curricula</p>	<ul style="list-style-type: none"> • 4 20-person courses for instructors/educators are conducted. • 20 25-person courses are conducted. • 30 workshops on case studies are conducted for at least 450 persons in a period of 36 months. • A continuing education program is instituted at the 24-month point to train 200 persons. • 4 diploma programs are developed at the 24-month point to certify 125 accounting professionals. 		

Component III			
<p>3.1 Identify a representative sample of Honduran companies</p> <p>3.2 Evaluate the financial statements from the sample</p> <p>3.3 Prepare guidelines for application of the IFRS and the IAS for medium-sized enterprises</p> <p>3.4 Modify the Code of Professional Ethics</p>	<ul style="list-style-type: none"> • Sample for the review of financial statements is identified at the 24-month point. • Financial statements of the sample are evaluated between the 24th and 36th month. • Application guidelines for medium-sized enterprises are prepared at the 30-month point. • Code of Professional Ethics is modified at the 30-month point. 		

Honduras									
International Financial Reporting and Auditing Standards									
Itemized budget in U.S. dollars									
Account	Components	Details	No.	Unit cost	Total	MIF	Association		
						70%	In cash	In kind	
	Component I - Adoption and dissemination of international financial reporting and auditing standards					\$108,000	\$108,000		
1.1	Plan of action								
1.1.a	Conduct a baseline survey	Consultant	1	\$20,000	\$20,000	\$20,000			
	Develop interpretations, guidelines and best practices for the IFRS and the IAS								
1.2		Consultant	1	\$7,000	\$7,000	\$7,000			
1.3	Publicity and awareness-building campaign				\$24,000	\$24,000			
1.4	Strengthen the technical and administrative capacity of COHPUCP and the CPM	Consultant and logistic support			\$15,000	\$15,000			
	Create websites and Internet connection for 36 months								
1.4.1	Associations		2	\$3,500	\$7,000	\$7,000			
1.4.2	Procurement of teaching material	IAS	60	\$70	\$4,200	\$4,200			
1.4.3	Computer equipment	PC and software	6	\$2,000	\$12,000	\$12,000			
	Projection and teleconferencing equipment		1	\$18,800	\$18,800	\$18,800			
	Component II - Training					\$233,000	\$182,000	\$13,000	\$38,000
2.1	Training program for instructors								
2.1.a	Consultant to design instructor training plan	Consultant x 6 months	1	\$30,000	\$30,000	\$30,000			
2.2	Training and curriculum courses and workshops	Courses, 30 months			\$93,000	\$65,000	\$8,000	\$20,000	
2.2.a	4 20-person courses for instructors		4						
2.2.b	20 25-person courses for professionals		16						
2.2.c	30 case-study workshops for 450 persons		30						
2.3	Distance education and certification program	Consultants	2	\$20,000	\$40,000	\$40,000			
2.4	Review and updating curricula								
2.4.a	Include IFRS and IAS in National Univ.				\$17,000	\$10,000		\$7,000	
2.4.b	Include IFRS and IAS in Pedagogical Univ.				\$11,000	\$7,000		\$4,000	
2.5	Training professionals								
2.5.a	4 diploma programs to certify 125 accountants	Courses, 30 months			\$42,000	\$30,000	\$5,000	\$7,000	
	Component III - Quality control in the application and use of the standards					\$76,000	\$50,000	\$26,000	
3.1	Quality control methodology	Consulting firm			\$40,000	\$30,000	\$10,000		
3.1.a	Representative sample of companies				\$10,000	\$5,000	\$5,000		
	Guidelines for application of IFRS for medium-sized enterprises				\$6,000		\$6,000		
3.2	Professional ethics	Legal consultant	1	\$20,000	\$20,000	\$15,000	\$5,000		
3.3.a	Review of the Code of Professional Ethics								
3.3.b	Define disciplinary procedures								
3.3.c	Oversight of the sanctions system								
4.1	Project coordinator	36 months	1	\$2,500	\$90,000	\$90,000			
4.2	Project accountant	36 months		\$1,250	\$45,000			\$45,000	
4.3	Advisor for training program				\$35,000	\$20,000	\$15,000		
5.1	Office expenditures	36 months	1	\$289	\$10,400		\$10,400		
5.2	Rent	36 months	1	\$600	\$21,600		\$21,600		
5.3	Secretary	36 months	2	\$500	\$31,000		\$16,000	\$15,000	
6.1	Monitoring and evaluation	Midterm and final	2	\$10,000	\$20,000	\$20,000			
7.1	Audits				\$10,000		\$10,000		
8.1	Cluster activities				\$15,000	\$15,000			
9.1	Contingencies				\$5,000	\$5,000			
TOTAL					\$700,000	\$490,000	\$112,000	\$98,000	
Percentage						70	16	14	

**RELATED PROJECTS IN HONDURAS AND IN THE ACCOUNTING AND AUDITING CLUSTER
ADOPTION OF INTERNATIONAL FINANCIAL REPORTING AND AUDITING STANDARDS**

TC-03-4-02-9

A. Similar or related MIF projects

Project number and date of approval	Project name, executing agency, and amount	Date of signature and disbursement period, in months	Percentage disbursed	Comments
ATN/MT-5235-HO 29 May 1996	Strengthening of the Banking and Insurance Commission US\$1,530,000 (MIF contribution) Banking and Insurance Commission and Central Bank of Honduras (BCH)	9 August 1996 24 months	100%	Completed
ATN/MT-7240-HO 13 November 2000	Program to Strengthen the Financial Sector US\$1,456,872 (MIF contribution) Central Bank of Honduras	31 January 2001 36 months	62%	Currently being executed satisfactorily

B. Similar or related Bank projects

Project number and date of approval	Project name, executing agency, and amount	Date of signature and disbursement period, in months	Percentage disbursed	Comments
HO-0219 11 February 2004	Financial Sector Loan Ministry of Finance (SEFIN) and Banking and Insurance Commission (CNBS), through the Superintendency of Banks US\$25 million	30 March 2004 36 months	0%	Contract awaiting ratification by the Congress
ATN/SF-8104-HO 12 November 2002	Modernization of the Information System Ministry of Finance US\$150,000 (FSO contribution)	9 January 2003 12 months	28.6%	Has experienced delays, requiring a 15-month extension of the execution period.
ATN/SF-7320-HO 7 February 2001	Support for Strengthening National Accounts Central Bank of Honduras US\$750,000 (FSO contribution)	23 February 2001 36 months	77.9%	Currently being executed satisfactorily
ATN/SF-8344-HO 23 June 2003	Strengthening the Financial System's Regulatory Framework Ministry of the Interior and Justice US\$146,075	2 July 2003 12 months	82.7%	Currently being executed satisfactorily and on schedule.

C. Projects related to the same sector or beneficiary

See section A.

D. Projects in the accounting and auditing cluster

Project number and date of approval	Project name, executing agency, and amount	Date of signature and disbursement period, in months	Percentage disbursed	Comments
ATN/MT-8113-JA 20 November 2002	Improving the application of and compliance with international accounting and auditing standards Institute of Chartered Accountants of Jamaica (ICAJ) US\$665,000 (MIF contribution)	21 March 2003 36 months	10%	The project was deemed eligible for first disbursement in November 2003. The project coordinator was hired in April 2004. The delay was due largely to the lack of experts on the subject in the region. Project activities, which were suspended while awaiting the hiring of the coordinator, will begin anew in July 2004 after a new work plan is received in late June.
ATN/MT-8114-TT 20 November 2002	Improving the application of and compliance with international accounting and auditing standards Institute of Chartered Accountants of Trinidad and Tobago (ICATT) US\$665,000 (MIF contribution)	12 March 2003 36 months	10%	The project has experienced a series of delays, due to the nonresponse of the project coordinator. The executing agency decided to suspend the coordinator's contract and take steps to hire a replacement. The new coordinator is expected to be in place in July 2004.
ATN/MT-8243-ME 12 March 2003	Convergence with international accounting standards for financial information Mexican Institute of Public Accountants, A.C. (IMCP) US\$1,700,000 (MIF contribution)	30 July 2003 36 months	21%	The project is being executed satisfactorily and on schedule.

Project number and date of approval	Project name, executing agency, and amount	Date of signature and disbursement period, in months	Percentage disbursed	Comments
ATN/MT-8476-UR 10 October 2003	International Financial Reporting and Auditing Standards Uruguayan Association of Accountants, Economists, and Administrators US\$420,000 (MIF contribution)	15 December 2003 36 months	10%	The first disbursement has been made, and the executing agency has begun to conduct preliminary activities.
ATN/MT-8617-CH 21 January 2004	International Financial Reporting and Auditing Standards Chilean Association of Accountants, A.G. US\$750,000 (MIF contribution)	17 May 2004 36 months	0%	The executing agency is working on meeting the conditions precedent to the first disbursement; evidence of the fulfillment of those conditions is expected to be presented to the Bank in July 2004.