

PUBLIC FINANCIAL MANAGEMENT REFORMS: IPSASs ROLE IN LATIN-AMERICA

Short Title: Public Financial Management Reforms in Latin-America

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PUBLIC FINANCIAL MANAGEMENT REFORMS: THE ROLE OF IPSAS IN LATIN-AMERICA

Summary:

During the last thirty years, many public administration reforms promoted by *New Public Management* have been undertaken. These reforms have spread to Latin-American countries and include changes in governmental accounting systems, where the implementation of *International Public Sector Accounting Standards*, IPSASs, has been a stimulus for modernization. This paper aims to clarify the situation of IPSASs implementation in the Latin-American context as well as the stimuli for and effects of their implementation. The analysis shows that there is an emerging international trend to adopt IPSASs in Latin-American countries although at the same time, there are evident obstacles to achieving reform goals. In Colombia, reforms are still underway and the usefulness of IPSASs to improve decision-making at an organizational level cannot be evaluated. Meanwhile, in Peru, the modernization is more rhetorical than real and many efforts remain to be made for the effective implementation.

Key Words: Governmental accounting reforms; Financial management reforms, IPSASs, Accounting harmonization, Adaptation to IPSASs.

INTRODUCTION

The introduction of the accrual basis in government accounting systems is one of the initial and perhaps determining steps in the reform of public financial management (Ball and Pflugrath, 2012). It is argued that the change from cash accounting to accrual has positive impacts on accountability and public decision-making (Lüder and Jones, 2003; PwC, 2013), enhancing administrative efficiency, effectiveness and economy in accordance with *New Public Management*– NPM – (Hood, 1995; Caperchione, 2006; Lapsley, 2009). Nevertheless, this trend has its critics (Chan, 2003; Benito et al., 2007; Ellwood and Newberry, 2006, 2007; Robb and Newberry, 2007; Arnaboldi and Lapsley, 2009; Lapsley et al., 2009; Biondi, 2012; Wynne, 2012; Oulasvirta, 2013).

In this context, International Public Sector Accounting Standards, IPSASs, are becoming the international benchmark for accrual-based government financial information (Ernst & Young, 2011), as noted in the European Commission report (2013b) on the suitability of IPSASs for European Union (EU) Member States. One option that countries can choose is first to implement the cash basis IPSAS and then to develop a route for the transition to accrual accounting (Hughes, 2013), as recommended by the International Consortium on Governmental Financial Management (ICGFM, 2013) and the International Monetary Fund (IMF, 2011) for developing countries.

In Latin America, various public administration reforms are currently under way, including IPSASs adoption. However, there are few studies and little information on their achievements and progress (Caba and López, 2003, 2007; Torres, 2004; Navarro and Rodríguez, 2007, 2011; Araya et al., 2011a, 2011b, Gómez and Montesinos, 2012).

This lack of evidence on the progress of the reforms justifies the study and critical assessment of the situation in Latin America.

This paper aims to examine the current state of play in the adoption and harmonisation of these rules internationally and in Latin America. It also explores the conditions associated with the early adoption of IPSASs in Colombia and Peru and the achievements of the process. It contributes to the literature about public sector accounting reforms from four perspectives. First, it shows the real state of the art in Latin-American countries, especially with respect to the implementation of IPSASs, at a moment when research is required in this field because there is not enough information about the extent of IPSAS implementation and the benefits it can bring (European Commission, 2013a and 2013c). Empirical works in the field are scarce (Caba and López, 2007; Christiaens et al., 2010; Christiaens et al., 2015) and do not focus on Latin-American countries or are not updated with the latest initiatives.

Second, the paper seeks to characterise and critically assess the context and effects of introducing accrual into public-sector accounting systems through IPSAS in Colombia and Peru, countries where there is no literature on the subject. Using a critical qualitative methodological approach (Ryan et al., 2002), we apply structured analysis to institutional information from public and private entities (available on the web) and conduct in-depth interviews with frontline players in two Latin-American public-sector accounting regulatory bodies: Colombia and Peru. IPSASs have been legally implemented in these countries. The results of these processes were triangulated (Flick, 2004).

Third, it has been argued that IPSASs can be a stimulus for reforming and modernizing public sector accounting but there is no evidence about countries that choose this option.

This paper tries to fill this gap by using a comparative perspective with the cases of Colombia and Peru, which are the countries that have made the greatest efforts to implement the IPSASs. Furthermore, there is similarity in the process: both countries have been passed different legal documents that aim to implement IPSASs in order to improve financial reporting and transparency, but this is more formal than real.

Finally, the paper sheds light on the problems and weaknesses of IPSASs implementation in practice. Many countries are now moving towards IPSASs and the experiences of pioneer countries can serve as lesson to others.

Our analysis shows that, despite criticisms about the implementation of accrual and business accounting in the public sector, the trend in Latin American countries is towards incorporating IPSASs. In this process, the role of multilateral organisations has been a determining factor, and it seems to be an international trend (Adhikari et al., 2013). Six countries have carried out IPSASs implementation processes and another ten countries are studying the issue before taking a decision.

The rest of the paper consists of five sections. The first provides a summary of IPSASs and their international implementation, underlining the current challenges of the model and the situation in Latin America. The second presents the theoretical framework. The third explains the research questions and the method used in the case study, which is focused on Colombia and Peru, to characterise the process of IPSAS implementation in these countries. The fourth presents the main results of the case study. Finally, some short conclusions are considered.

THE IPSASs AND THEIR INTERNATIONAL IMPLEMENTATION-

Characterisation of the IPSASs

The Public Sector Committee of the *International Federation of Accountants* (IFAC), later renamed *International Public Sector Accounting Standards Board* (IPSASB), was established in 1986 and is responsible for developing the IPSASs, accrual-based standards for the preparation of general purpose financial statements. With these standards, the IPSASB aims to enhance the quality, consistency, and transparency of public sector financial reporting worldwide (IPSASB, 2014a).

IPSASs are based on International Financial Reporting Standards (IFRSs), taking into account some specific features of the public sector. Thirty-eight IPSASs have been issued, six of them not based on any IFRS¹ because they refer to transactions or special characteristics of the public sector (IPSASB, 2014b).

The adoption of IFRSs as a benchmark for issuing IPSASs is criticised in the literature because they do not consider public sector dynamics (Grossi and Soverchia, 2011; Biondi, 2012). The IFRSs approach is designed for entities whose objective is to maximise the firm's value, but it is meaningless for governments, which attempt to fulfil operational objectives intended to satisfy social needs and achieve collective well-being (Biondi, 2012). Useful information for public sector accountability and decision-making is not necessarily the same as that needed by investors and finance providers (Sunder, 2002).

Aware of this criticism, the IPSASB has developed a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. One of its aims is to consider public sector characteristics for the definition and measurement of the elements

of the financial statements while focusing on users' needs for accountability and decision-making purposes (IPSASB, 2014d).

Challenges of the IPSASs model

The analyses of the trends and regulatory process that the IPSASB has promoted permit the identification of three challenges facing the IPSASs model.

Firstly, the recently approved Conceptual Framework requires changes in various standards to ensure that the model is coherent and consistent (Chan, 2008). One remaining controversial issue is the application of fair value in public sector entities. Many public sector operations occur in the context of non-exchange transactions, which requires the adoption of bases other than market prices for measuring assets and liabilities. The IPSASB (2014d) considers a wide variety of measurement criteria in its Conceptual Framework and defines the application of market value mainly when open, active and orderly markets exist.

Secondly, after achieving coherence and consistency, it is important that the model satisfies the information needs of the main users of public financial information in order to achieve the legitimacy that comes from wide acceptance (Chan, 2008). The studies of Ernst & Young (2011) and PwC (2013) show that finance providers, international financial institutions and rating agencies are not the most significant users of public sector information. There is an on-going debate on the suitability of the IPSASs for achieving comparable financial information across EU member states and some public sector audit institutions are critical of their application (European Commission, 2013a). Meanwhile, many standard setters, international organizations and professional associations support the IPSASs (for example, the Chartered Institute of Public Finance

and Accountancy in the UK, Mason, 2012). The European Commission has decided to develop European Public Sector Accounting Standards, based on IPSASs.

Thirdly, it is important to clarify how the financial information produced under the IPSASs and other information, such as the budget, public finance statistics and national accounting, will converge. Divergent criteria have led to conciliation efforts but generating problems of interpretation and evaluation by users and managers who do not have specialised knowledge of such matters (European Commission, 2013a). In fact, the importance of the budget, which is not directly dealt with in the IPSASs, in some countries can even constitute a risk to the implementation of IPSASs in countries where the budget is the corner stone of the accounting system, as in the case of Finland (Oulasvirta, 2013).

There is increasing pressure to face these and other challenges because in recent years, there have been some initiatives at the international level to implement or adopt the IPSAS, a process that we characterise below. With this aim, in 2014, the IPSASB Governance Review Group (“the Review Group”) was formed to propose future governance and oversight arrangements for the IPSASB.

IPSAS implementation at the international level and in Latin America.

In the private sector, international accounting regulation has gone through stages of harmonisation of criteria to arrive at the current trend towards convergence on a set of principles. Pacter (2005) proposes elements for differentiating harmonisation from adoption. Harmonisation means an international standard that is a benchmark for locally issued rules, responding to contexts but avoiding clashes with the benchmark standard (Pacter, 2005). Adoption implies the incorporation of all the criteria of the international

standards into a local regulation. Convergence assumes the coexistence of different sets of standards but with criteria "converging" towards the same principles.

In this context, given that the only point of reference in the international field is the IPSAS model, the process will be of adoption in countries that want to modernise their cash basis accounting. In jurisdictions that already have accrual accounting, the process could involve harmonisation. Consequently, the approach in the international arena can be characterised by the word *implementation*, meaning the incorporation of the IPSASs (by adoption or harmonisation) into a jurisdiction's legal system.

Internationally, multilateral bodies have been the main promoters of harmonisation, seeking to set an example by applying the IPSASs to their own information systems (Benito et al. 2007; Fuertes, 2008; Grossi and Soverchia, 2011). Table 1 lists the multilateral institutions and regional organisms that have adopted IPSASs.

(INSERT TABLE 1)

The first multilateral institution to adopt IPSASs was the OECD in 2000. In 2002, the NATO Council decided that its financial statements should also follow IPSASs (NATO, 2010). The 2007 and 2009 OAS General Assemblies decided to study their feasibility and subsequently adopted IPSASs for their financial information (OAS, 2011).

IPSASs implementation by the European Commission (EC) and the UN shows certain peculiarities. The operational complexity, the nature of the resources that they control and their areas of responsibility, make them significant cases for evaluating the achievements and obstacles in the adoption process (Montesinos, 2004; Grossi and Soverchia, 2011; Alesani et al., 2012).

In 2006 the UN General Assembly agreed to adopt IPSASs for the United Nations system (UN, 2010). The FAO was the first organisation to complete adoption (Alesani

et al., 2012). The complexity lies in the size and diversity of UN spheres of activity. This situation creates obstacles for implementation and the subsequent fair and true view in the consolidated information (Alesani et al., 2012).

The EC accounting rules have been based on IPSASs since 2004 and, at the same time, cash basis budgetary accounting is maintained. The main differences with the IPSASs occur in the consolidation criteria (Grossi and Soverchia, 2011; Biondi and Soverchia, 2011)

The adoption of the IPSASs by multilateral bodies and supranational institutions contributes to the legitimacy of the standards. In particular, this process has had an impact on the interest in the implementation of IPSASs in the European Union Member States. This is shown in the 2012 Eurostat Public Consultation, where respondents' support for IPSASs is based on their implementation and use by international bodies (European Commission, 2013a).

At the same time, international organizations promote IPSASs implementation in developing countries and are aware of the difficulties that this can have in practice. For example, the ICGFM (2013) has published the IPSAS Compilation Guide for Developing Countries, a Roadmap on path from cash based reporting to accrual-based IPSAS, and the self-assessment document to identify the progress toward implementation of accrual accounting. The compilation guide (ICGFM, 2013, p. 3) recommends a path for the development of the accounting system with "a progressive movement to full accruals: first getting cash accounting to work well; progressively integrating operating accounts and financial asset and liability accounts (to move to modified accruals); introducing more elements of accrual recording, and finally recognizing nonfinancial assets". Similarly, the International Monetary Fund (IMF,

2011) recommends that developing countries first improve the compilation of cash-based data and then gradually introduce the compilation of accrual-based data. Although statistical reports and financial statements have different objectives (Parry, 2011), the IPSASB and the IMF are working on the harmonization of accrual accounting procedures in financial statements and in statistical reporting.

It is difficult to clearly establish the international expansion of IPSASs implementation and to what extent they are being applied in practice. Some documents summarize which countries have adopted the standards (Christiaens et al., 2010; Ernst & Young, 2011; Ernst & Young, 2012; IPSASB, 2012b; IPSASB, 2014e; PwC, 2014) and some academic research contains details about their implementation in specific areas and countries. Table 2 shows these points of views about the state of IPSAS implementation in the international arena.

(INSERT TABLE 2)

None of the countries in the European Union have directly adopted IPSASs. In all these countries, national accounting standards are adapted to IPSASs. Countries with Anglo-Saxon accounting systems have been more willing to incorporate the NPM (Torres, 2004; Benito et al, 2007; Grossi and Soverchia, 2011). Countries like the UK, New Zealand and Australia are front-runners in the adoption of accrual and even in the direct adoption of IFRSs for the public sector (Pilcher, 2011; Brusca et al., 2013). The New Zealand Accounting Standards Board has recently passed a set of standards for public benefit entities (PBEs) which are largely based on IPSASs (Crook, 2014).

There is no clear idea of the state of IPSASs adoption in Latin America either. Since the mid 1990s, public financial management reforms have been implemented, including

accrual and to a lesser extent IPSASs adoption (Caba and López, 2003, 2007; Torres, 2004; Navarro and Rodríguez, 2007, 2011).

Table 3 provides an overview of IPSASs implementation in Latin America, differentiating three possible stages in the process and identifying the countries that have made specific progress with implementation.

(INSERT TABLE 3)

Three countries have made the greatest advances in the adoption of IPSASs: Peru, Colombia and Costa Rica, although in the latter the process has been postponed three times. This justifies the selection of Peru and Colombia as case studies in this paper, as they are two Latin-American countries that can be considered pioneers in the application of the IPSASs and with many similarities. In both countries legal documents and rules have been approved with the aim of implementing the IPSASs. This has been to some extent a response to successive observations of the National Audit Office in both countries, where the audit reports had an adverse opinion or a disclaimer of opinion (see Table 4). The standards boards of these countries aimed to modernize their accounting systems in order to avoid these problems in the financial statements.

The authorities in Peru and the IPSASB say that IPSASs were adopted in 2002, but the regulations show that the process occurred irregularly and in a mainly formal manner. Harmonization is still in progress and in 2013 a new legal document makes the implementation of IPSASs official.

In Colombia, efforts have recently been made to update accounting regulations with the latest IPSASs and IFRSs for public companies (Gómez and Montesinos, 2012). The harmonized Public Accounting Regime approved in 2007 included criteria from each of the 21 IPSAS issued which did not conflict with Colombia's regulatory, social and

economic structure. A dual philosophy was maintained by retaining a cash basis budgetary accounting system.

In Costa Rica there has been also an innovative legal adoption of IPSASs (Araya et al., 2011a, 2011b), but the practical adoption process has been postponed three times. The latest decision in Decree No. 36961-H/2011 postponed implementation until 2016 (Espinosa, 2012).

Other Latin American countries publicly state, in their official documents and websites, that they are carrying out evaluations and studies to define their policy with regard to IPSASs. This group of countries includes Brazil, Chile, Uruguay and Mexico.

It can be concluded that there is a clear trend towards the global positioning of IPSASs as there is no other international regulatory standard for the public sector (Ernst & Young, 2011; Mason, 2012; European Commission, 2013b). Supranational and multilateral bodies have a clear role as the main promoters of the model. However, the extent to which successful application in these organisations can be generalised to governments is open to debate.

THEORETICAL FRAMEWORK

In the literature, there are many theoretical frameworks that explain the reforms of public financial management that can be used as a support for studying the implementation of IPSASs. Under the NPM, many scholars argue that the reforms are a response to the need to improve both decision-making processes and accountability. In this case, the main stimulus for reform is the rational search for instruments to modernize the State (Lüder, 2002).

Some authors have analysed the introduction of reforms and innovation into public sector entities and their implications in practice through institutional theory (Scapens

1994; Burns and Scapens 2000). From this perspective, authors claim that accounting practices are influenced by institutional arrangements and social processes.

Institutional theory could explain the introduction of accounting innovations to meet external requirements and thus reinforce legitimacy by giving only an impression of rationality and efficiency, but not necessarily using the system to improve internal performance or efficiency (Taylor, 2009; Modell 2004, 2009; Meyer and Rowan, 1977).

Carpenter and Feroz (2001) show that institutional theory explains the adoption of generally accepted accounting principles in local and state governments in the U.S., institutional pressures to change leading to the introduction of external financial reporting after the financial crisis in some governments, such as the city of New York.

Under this perspective, researchers argue that the stimuli sometimes obey the dynamics of isomorphism with the intention to present an improvement in the processes and systems, as a result of demands and external pressures and seeking legitimacy (Lande, 2006). According to Meyer and Rowan (1977), similar organizations tend to conform to each other and become increasingly similar. Designing a formal structure that adheres to accepted principles an organization aims to demonstrate that it is acting properly.

Powell and Di Maggio (1983) refer to institutional isomorphism when organizations compete in order to obtain institutional legitimacy. These authors distinguish three types of isomorphism: coercive, derived from external pressure, like laws, sovereign institutions or more powerful organizations; mimetic, which derives from an imitation process, occurring especially when uncertainty is dominant; and normative, that refers to the opportunity to comply with a model regarded as a successful one.

Another conceptual framework used in the literature to analyse accounting reforms in the public sector is the contingency model, later renamed the Financial Management

Reform Process Model (FMR Model), developed by Lüder (1992, 1994, 2002), who models the relationship between the political and administrative environment and the public accounting system. The contingency model establishes some independent variables that allow us to explain the introduction of innovations in the accounting system of a country: stimuli, social variables, administrative variables and barriers. We will focus mainly on stimuli and barriers. According to the FMR model, stimuli are events that occur at the initial stage of the process and create a positive impact for the adoption of IPSASs by national governments. Implementation barriers are environmental conditions that create a negative impact on the process of implementation.

RESEARCH QUESTIONS AND METHOD

Colombia and Peru are in a process of reforming their public sector accounting systems through the implementation of IPSASs at national level, with some developments that incorporate the criteria of international standards in the local regulation (Pacter, 2005). Our aim is the characterization of the factors that influenced the harmonization processes of public sector accounting regulation with IPSASs in these countries and the implications of the process in practice.

Using the conceptual framework previously described, our research questions are the following:

Research question 1: What have been the main reasons for Colombia and Peru deciding to introduce the IPSASs?. Using the Lüder model (2002), we aim to show the stimuli for and barriers to the introduction of reforms. Our aim is to test the influence of institutional theory in this context.

Research question 2: What have been the main effects and results of introducing accrual into public sector accounting systems through IPSASs in Colombia and Peru? Our aim is to test whether there are really any useful improvements as a consequence of IPSASs adoption or whether it is mainly rhetorical.

Research question 3: What are the main challenges or difficulties that the introduction of accrual and IPSASs have had in this context?.

In a critical qualitative methodological approach (Ryan et al., 2002), we apply structured analysis to institutional information from public and private entities (data from the Audit Reports and other reports available on the web) and conducted in-depth interviews with frontline players in two Latin-American public sector accounting regulatory bodies: Colombia and Peru. IPSASs have been legally implemented in these countries by adapting the National Standards to the IPSASs. In Colombia, the reform of accounting standards in 2007 aimed to implement the IPSASs for governmental entities and in Peru a new accounting standard in 2009 introduced the criteria of the IPSAS. The results of these processes were triangulated (Flick, 2004).

Semi-structured interviews with four key actors in the public sector accounting standards setters of Colombia and Peru were conducted (*Contaduría General de la Nación de Colombia* and *Dirección General de Contabilidad Pública de Perú*).

The interviews took place individually in Bogota (Colombia) and Lima (Peru) and consisted of questions about two topics: a) the stimuli for and barriers to the reform process of financial management and IPSAS implementation and b) the results obtained from the process. The interpretation follows the approach of characterization of Ryan et al. (2002).

RESULTS

Key factors influencing IPSAS implementation in Colombia and Peru

In Colombia and Peru, the determinant stimulus in the harmonization or adoption process of IPSASs has been the aim to modernize accounting systems, trying to increase transparency in the use of financial resources. In both countries the National Audit Offices highlighted the insufficiencies of the financial reporting of the government. As can be seen in Table 4, since 2002 in both countries the audit report has never given an unqualified opinion. In fact, in 2002 the Colombian report gave an adverse opinion and the Peruvian a disclaimer of opinion.

(INSERT TABLE 4)

This made the government aware of the need to modernize its accounting systems. The government wanted to achieve legitimization and the most viable option was to use international standards. This was seen also to fit in the context of globalization, the dynamic processes for regional integration and the search for increasing competitiveness in the public sector (Contraloria General de la Republica de Colombia, 2013). To a certain extent, all this was a consequence of the international trend towards the implementation of IPSAS.

International organizations have played an important role through two complementary policies: promoting the adoption of IPSASs and setting examples. The adoption of IPSASs has been encouraged by the World Bank (2004), the IMF and the OECD as part of their recommendations to improve the accountability and transparency of public sector entities. The World Bank and the IMF cooperate actively through their financial assistance and capacity development programs (PwC, 2013). Furthermore, there has been a process of legitimization of IPSASs due to their adoption by international

organizations. The IPSASs have become a clear and useful reference when requesting faithful financial information from countries and public sector entities.

In this regard, one of the interviewees pointed out that:

“...the model of public financial management is a model seen in all the countries [of the region]. Multinational agencies (International Monetary Fund, the World Bank, and the Inter-American Development Bank) have promoted these reforms; they are driving this financial reform in all our countries, and I would say, that the main stimulus has been the impulse from multilateral agencies and in second place the need for the reform of the State”. (Key Actor B)

This shows that in Latin America, the drive from multilateral bodies towards IPSASs is achieved by making them a determining factor in aid for development, macroeconomic stability programmes and the promotion of structural reforms (Torres, 2004; Caba and López, 2007). Referring to institutional theory, we can say that the adoption of IPSAS in Colombia and Peru has been mainly by mimetic, with some components of normative isomorphism.

Furthermore, it is important to highlight that major international accounting and auditing firms (The Big Four) have not been important actors in the process of harmonization with IPSASs. In this regard, one of the interviewees said:

“The participation of the auditing firms has been very important in the process of international standards for private sector, but not for the public sector....before, big and small auditing firms were not interested in public sector. Now, just recently, some of them have become interested in the public sector”. (Key Actor B)

Another interviewee, argued that:

“In Colombia the main public sector consultants were academics and professionals that were not linked to the main audit firms” (Key Actor A)

The lack of influence of these firms in these reforms could be explained by public sector characteristics, with accounting and financial systems very different to the business sector. However, the introduction of the IPSASs clearly implies that the generally

accepted accounting principles of business accounting are being transferred to public sector accounting. As a consequence, these firms can clearly benefit from the implementation of business principles and tools (Christensen and Skaerbaek, 2010).

Referring to the FMR model, it must be highlighted that there are also some barriers that threaten IPSASs implementation: the lack of trained staff and knowledge of the standards; administrative and organizational insufficiencies; the predominance of a culture of legal fulfilment which makes it difficult to estimate different aspects that the IPSASs require; and difficulties in the interpretation of some technical criteria of the IPSASs. In fact, the Report of the Contraloria General de la Republica de Colombia (2014) emphasises these difficulties for the implementation of the IPSASs.

First, technological tools and human resources are necessary for the implementation of the standards. In this regard, when we asked if the information is produced in strict compliance with IPSAS, a key actor from Peru stated:

“The exercise to formalize IPSASs in Peru was interrupted...this is because the necessary tools don't exist to fully implement it, and their approval would imply a straitjacket...that it would not be possible to accomplish and, therefore, there would be an exposure to administrative sanctions...from the Contraloria General de la República. On the other hand, even more important, the Dirección General de Contabilidad Pública...decided to develop its own accounting model, mainly taking the IPSASs as its reference without continuing with their adoption”.

This implies that in Peru the implementation process is also an adaptation of local standards to IPSASs; that is, indirect application rather than direct application. Furthermore, implementation requires important resources for training, as is evidenced by PwC (2014), and a process of preparation and a gradual introduction.

Although training needs can be a barrier and create problems for the real application of IPSASs, IPSAS implementation, in the cases studied, is valued positively, as it

promotes learning by technical staff and regulatory entities linked with the production of public sector accounting and financial information.

“International standards have a level of complexity that changes the traditional way in which accounting has been done until now, and this requires a learning process, that undoubtedly started in the Contaduría. We have to understand, know and see how to apply the IPSAS model and this has some advantages”. (Key Actor C).

Furthermore, accrual and IPSASs implementation is not simply a technical process, but involves transformations in political rationality and the very conception of the State (Robb and Newberry, 2007; Kurunmäki et al., 2011), including an ideological perspective (neoliberal) with deep effects on democratic processes and social welfare (Ellwood and Newberry, 2007). From this perspective, the incorporation of NPM and the use of accrual accounting generate a political rationality and incorporate a set of calculation techniques that reduce State autonomy and legitimacy.

Effects and results of the process

The implementation of IPSASs in Colombia and Peru has been more legal than practical, because of the problems that emerged and that we identified above. The reforms have been approved but are still in the process of application and it is difficult to evaluate the outcomes of the process. The criteria used to recognize and measure the elements of the financial statements are not totally adapted to the IPSASs. In fact, Table 4 shows that the opinion of the Report of the National Audit Office in both countries has not improved. They still have a qualified opinion and a disclaimer of opinion.

It seems that accountability continues to be the main aim of the information in the opinion of the interviewees. One of them states:

“...I think that the Ministerio de Economía is one of the main users...because, as I was saying, this information allows us to know and monitor the achievements of the goals of the government]...[the Contraloría is another main user because the

information permits external control and accountability. ...And, of course, the multinational agencies are very important users". (Key Actor B)

Multilateral agencies are the main promoters of the reforms and, at the same time, among the most important users of the information that is produced. These agencies request new information from governments to monitor and evaluate the implementation of policies.

Finally, the key actors admit future achievements and advantages of the reforms and IPSAS implementation in two directions: they can contribute to improving the quality of financial reporting, accountability and transparency and they enhance international comparability. In this regard, one of the interviewees said

"...to improve comparability and the quality of information are the main aims of the project. Improving the information can lead to a better rating of the credit entities of the country bringing lower cost. With better information it is also easier to manage debt sustainability and macroeconomic balance policies". (Key Actor C).

Main challenges for IPSASs and accrual accounting in Colombia and Peru.

The application of accrual and IPSASs has generated four types of difficulties that can hinder the success of the process in these countries:

1. The first group of problems is related to the application of accrual concepts in revenues. There are problems with the recognition of some taxes, especially income tax, that are collected after the accrual and need to be estimated previously. At the same time, the impairment losses are very difficult to estimate. Moreover, the decentralization of the collecting of taxes and other incomes by the Treasury can make it difficult to recognize the revenues with the accrual principle.
2. Problems with assets. There are some difficulties arising from the lack of individual inventories and it is complicated to estimate the amortization. It is also difficult to

evaluate and recognize some specific assets, such as heritage and infrastructure assets.

Furthermore, fair value has many problems in this context.

This problem has been highlighted in the literature and some authors (Mautz, 1989; Pallot, 1997; Lapsley et al., 2009; Biondi, 2012) consider that some conceptual and operational elements of business accounting are not appropriate for the public sector.

3. Problems derived from the preponderance of budgetary criteria, when the political debate is focused on the budget, meaning that the financial information is relegated to a lower level. In fact, at the economic level, decision-making is based on macroeconomic information obtained from budgetary information.

The literature points out that, due to the political and legal process in the public sector, there is a preponderance of budgetary information (Benito et al., 2007; Anessi-Pessina and Steccolini, 2007). As a result, accrual is inefficient, because it requires great efforts but provides few benefits (Robinson, 1998). For this reason, rhetoric and isomorphism prevail (Guthrie, 1998; Pilcher, 2011), so entities end up producing financial information that is used to rationalise and legitimise rather than to promote decision-making or better accountability (Lapsley, 1999; Lande, 2006).

4. Problems with the application of IPSASs concerning consolidated statements because there are not homogenous criteria in all the entities to be consolidated (Contraloría General de la República del Perú, 2007, 2008; CGN, 2013).

It is difficult to define the scope of consolidated financial statements. It is also complex to find an economic sense in consolidated numbers. Finally, there are serious doubts about the usefulness of consolidated statements for the accountability of governmental entities (Grossi and Steccolini, 2015).

Despite these challenges, the pressure to modernise public administration and the idea that the unification of accounting practices is suitable for globalisation, continue to promote the inclusion of accrual and IPSASs in the public sector at international (Fuertes 2008; Lapsley et al., 2009; Brusca et al., 2013) and has spread to Colombia and Peru.

CONCLUSIONS

The IPSASB embarked on a project to identify an accounting model for the public sector based on business sector accounting that has constituted a useful reference for governments to reform public financial systems and introduce accrual accounting. The implementation of IPSASs in the international field seems to be a tool for the modernization, harmonization and comparability of the financial reporting of governments.

The commitment and efforts of supranational organisations and multilateral institutions reveal their active role in legitimating the IPSASs and promoting their adoption. In the European Union, the Commission has decided to develop European Public Sector Accounting Standards for Member States, based on the IPSASs, which can be considered another achievement for the legitimization of the IPSASs in the international context. Some European countries such as Spain, have already implemented the IPSAS, and others, such as Portugal, are in the process of adopting them.

These ideas have also spread to Latin America and most Latin America countries are involved in a process of reform of public financial management systems. The decisions taken by several countries appear to indicate that IPSASs will be incorporated into national legal structures. Six countries have begun implementation processes: Peru,

Costa Rica, Colombia, Brazil, Chile and Uruguay. Another ten countries are evaluating which route to take.

Using Colombia and Peru as case studies, this paper shows that institutional theory can explain the efforts toward the implementation of the IPSASs in both countries. A process of isomorphism has been a key factor for IPSAS adoption in the cases of Peru and Colombia. The main stimulus for the implementation of the IPSASs has been modernization of the accounting systems, the National Audit Office of both countries playing an important role. In both cases, the audit report showed the insufficiencies of the accounting system used by the governments of both countries.

In this context, the governments aimed to modernize their accounting systems to improve transparency and the content of the financial reporting. To do it, they considered that IPSASs are the main way to achieve the legitimization of the process, as they have international prestige. This is due to the role of multilateral bodies in Latin America. In particular, the World Bank and the IMF recommendations for implementing accrual in governments have played a decisive role, given that both cooperate actively through their financial assistance and capacity development programs in Latin American countries.

The process of implementation of the IPSASs is on-going, but the key actors in the process of reform admit that there are some positive aspects of the reform and that this can be a road for improving the quality of financial reporting and the comparability of information. However, some challenges have also been identified, including problems with accruals in revenues and the treatment of assets. One of the main barriers has been the need for training and technologies for the implementation, the result of which has

been slowing down of the process in both countries and the introduction has been more legal than practical. At the moment, it is a little early to assess the main implications of the implementation of the IPSASs in Latin American countries but it seems that criticisms raised in the literature can be applied. The application of IPSASs is more rhetorical than practical. In these countries, the financial statements are not being used in decision-making process in government entities. In Colombia, current public policy points to a future implementation of the latest IPSASs. Meanwhile, in Peru a manual has been issued to put into practice the IPSASs adopted during the last decade. In sum, the IPSASs are still seen as a goal.

Notes

¹ Of these six IPSASs, one is based on an interpretation - IFRIC (IPSAS 32) and the other five have no reference in that normative framework (IPSAS 21 -24 and first-time Adoption of Accrual Basis IPSASs).

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Table 1. International institutions and bodies that have adopted IPSASs.

Institution	Adoption year
<i>Organization for Economic Co-operation and Development - OECD</i>	2000.
<i>North Atlantic Treaty Organization – NATO –.</i>	2002. Beginning in 2006.
<i>European Commission – EC –</i>	2004. Beginning in 2005.
<i>United Nations System – UN –</i>	Beginning in 2006. FAO completed 2009. UNPD completed 2012.
<i>Organization of American States – OAS –</i>	2009. Beginning in January 2012. Expected 2015.

Source: IPSASB (2012b, 2014e)

Table 2. Central governments that are applying IPSASs.

Research source or report	PwC (2014)	IPSASB (2012a; 2014e).	Ernst & Young (2012).	Ernst & Young (2011).
Scope or sample Scenario	<p>Study of 28 countries in EU.</p> <p><i>IPSAS are considered as primary basis for developing national standards with explicit reference:</i> Estonia, Lithuania, Portugal and Spain</p> <p><i>IPSAS are considered in practice as primary basis for national standards but not explicit reference:</i> Austria, Latvia, Slovakia and Sweden</p> <p><i>IPSAS are used as a source of inspiration for national standards although no explicit reference is made:</i> Belgium, Croatia, Cyprus, Czech Republic, Denmark, France, Romania, Slovenia, United Kingdom</p> <p><i>IPSAS are not considered as a source of inspiration:</i> Bulgaria, Finland, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland</p>	<p>International adoption</p> <p>Countries with IPSAS: Austria, Brazil, Cambodia, Costa Rica, Spain, Peru, South Africa, Switzerland, Vietnam, Kenya</p>	<p>Study of 27 countries in EU</p> <p>Countries applying IPSAS: United Kingdom, Malta, Sweden, Estonia, Czech Republic, Romania, Spain, Austria, Lithuania</p>	<p>Study of 33 central governments</p> <p>Without individual data, <i>eight</i> countries follow IPSAS.</p>

Table 3. *Implementation of IPSASs in Latin-America*

Process	Countries	Countries with advanced implantation
<i>Countries with implementation processes</i>	Brazil, Chile, Colombia, Costa Rica, Peru, Uruguay.	Peru (adoption of IPSASs 1-20)
<i>Countries with study processes, but without implementation</i>	Argentina, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Dominican Republic, Venezuela.	Colombia (Harmonization to IPSASs 1-21) Costa Rica (Adoption; only some entities have implanted the standards).
<i>Countries without public position</i>	Bolivia, Cuba, Haiti, Nicaragua	

Table 4. *National Audit Office Report about Government Financial Statements*

Year	Colombia	Peru
2002	Adverse Opinion	Disclaimer of Opinion
2003	Qualified Opinion	Qualified Opinion
2004	Qualified Opinion	Qualified Opinion
2005	Qualified Opinion	Disclaimer of Opinion
2006	Qualified Opinion	Qualified Opinion
2007	Qualified Opinion	Qualified Opinion
2008	Qualified Opinion	Qualified Opinion
2009	Qualified Opinion	Qualified Opinion
2010	Qualified Opinion	Qualified Opinion
2011	Qualified Opinion	Qualified Opinion
2012	Qualified Opinion	Qualified Opinion
2013	Disclaimer of Opinion	Qualified Opinion
2014	Qualified Opinion	Disclaimer of Opinion

Source: Contraloría General de la República de Colombia (2014) and Contraloría General de la República del Perú (2014).