

# Chapter 5

## Modernization of Governmental Accounting Systems: Situation in the Central American Region

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### ABSTRACT

*The countries in the Central American region, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, have carried out a reform process of their public financial management systems, seeking to guarantee higher-quality, reliable and timely information, using mainly the International Public Sector Accounting Standards (IPSAS). In this context, the chapter has a double objective. On the one hand, valuing from the Model of Contingency of the Professor Lüder, the influence of the environment in the implementation of processes of innovation in systems of government financial management in the Central American region. On the other hand analyze the main implementation strategies in the process of adoption or adaptation of IPSAS in these countries. For this purpose, interviews have been made with those responsible for the process of implementation of IPSAS in the countries of the region, as well as an in-depth review of the documents and legislation issued in government financial administration in these countries.*

### INTRODUCTION

The public sector is currently undergoing a reform process aimed at making public management an efficient and effective instrument, in which transparency and accountability prevail (Deaconu, Nistor, & Filip, 2011). Public accounting information systems are not detached from this modernisation process; indeed, they are key elements within it (Lombrado & Zanin, 2013).

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## ***Modernization of Governmental Accounting Systems***

The aim of accounting reform is to transform government accounting from a system that is scarcely informative into one offering comprehensive and reliable information about public finance and providing a foundation to improve the financial control of government activities, i.e. into an accounting system which is more informative and useful for decision-making and accountability (Lüder, 1992).

In this regard, the introduction of accrual-based government accounting should be linked to the implementation of a more informative accounting system, one which provides more and/or better information; in other words, one that gives an accurate picture of management activities and results (Lüder, 2001). Authors such as Caba, López, and Ortiz (2009), Chan, Jones, and Lüder (1996) and Ouda (2001, 2004) describe the introduction of accrual-based accounting and, therefore, the implementation of the International Public Sector Accounting Standards (IPSAS), as a total, radical innovation of government accounting systems because, among other benefits, it enables accounting systems to provide greater utility (Lüder, 1992).

These reforms acquired an international focus in 2001, when the International Federation of Accountants (IFAC), through its Public Sector Committee, published IPSAS, to provide an international regulatory framework, requiring high-quality financial information and facilitating convergence between international and national standards, thus improving the quality and standardisation of financial information worldwide (IFAC, 2007; Christiaens, Vanhee, Rossi, Aversano, & Cauwenberge, 2014).

International organisations such as the OECD, NATO and the EU have already adopted IPSAS (Christiaens, Reyniers, & Rolle, 2010), and others, such as the IMF and the World Bank, have urged governments (especially those of developing countries) to adopt them (Chang, Chen, & Chow, 2008).

In recent years, the countries of Central America – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama – have reformed their public financial management systems, to provide high-quality, reliable and timely information, thus benefiting decision-making, enabling compliance with the recommendations of financial and international cooperation institutions, and improving transparency and accountability (Araya, Caba, & López, 2011).

The reforms undertaken have addressed two lines of action; to enact new legislation concerning public financial management, and to design programmes to enhance and modernise financial information systems. In the first respect, among other measures, accrual-based recording will be incorporated into government accounting systems.

These countries regularly send financial information to the IMF and other institutions. To standardise the provision of such information, the IMF issued its Government Finance Statistics Manual in 2001, and countries were required to adapt their financial information to these guidelines. This publication, together with the growing acceptance of the IFAC international standards (Benito, Brusca, & Montesinos, 2007), has resulted in a growing convergence of government accounting systems.

The countries considered in this study are all members of the Central American Integration System (SICA), whose aims include achieving an economic union. They all need comparable financial data, and for this purpose the use of common accounting standards is highly desirable. Therefore, the application of IPSAS in this region could open the way to the modernisation of public accounting systems and enhance the preparation and comparability of national accounts.

Although subject to differing environmental circumstances, the countries of Central America, to a greater or lesser extent, have all carried out actions to align their accounting systems with the IFAC standards for the public sector (ICAP, 2005; Araya et al., 2011; Benito et al., 2007).

The chapter proposed has a twofold objective. On the one hand, using Lüder's (2001) Contingency Model, to evaluate the influence of the environment on the reform of government financial management

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