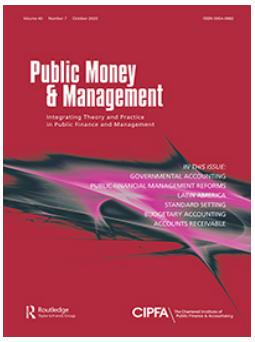

Public Money & Management

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rpmm20

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To cite this article: Carmen Alejandra Ocampo-Salazar (2020) New development: Governmental accounting reforms in Latin America. The case of the municipality of Medellín, Colombia, Public Money & Management, 40:7, 527-530, DOI: 10.1080/09540962.2020.1766196

To link to this article: https://doi.org/10.1080/09540962.2020.1766196

Published online: 04 Jun 2020.

PUBLIC MONEY & MANAGEMENT
2020, VOL. 40, NO. 7, 527–530
https://doi.org/10.1080/09540962.2020.1766196

Routledge
Taylor & Francis Group

New development: Governmental accounting reforms in Latin America. The case of the municipality of Medellín, Colombia

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ABSTRACT
Government accounting reforms in Medellín (Colombia) were promoted with the adoption of New Public Management principles. The reforms began by introducing accrual accounting, using this financial information for decision-making and, finally, adopting international standardization and comparability. This article shows how and why the government of Medellín modernized its public financial management systems to achieve transparency, accountability and efficiency.

IMPACT
This article will be of value to practitioners by showing how one major city, Medellín in Colombia, has carefully modernized its accounting and financial reporting and management. The author also identifies important challenges arising from the business governance model being adopted by public sector entities. This model reduces the political and social aspects of city governance; instead, it positions cities as a fundamental part of the global economic system. The article highlights that one of the challenges of government accounting reforms is to broaden its spectrum to incorporate logic consistent with public responsibility, rather than focusing solely on business logic.

KEYWORDS
Accounting reforms; governmental accounting; Medellín; New Public Management

Introduction

New Public Management (NPM) reforms swept across Latin America after the 1990s and have transformed government at all levels. Efficiency and competitiveness were sought through duties of control, regulation and surveillance (Ramírez, 2012, p. 83). Public sector accounting reforms served as vehicles to inject private sector management ideas into the public sector (Hood, 1991, 1995). The welfare state became an issue of the past.

Public sector accounting reforms introduced book-keeping practices with a high business component, financial language and content, based on the accrual principle (double entry) and on International Financial Reporting Standards (IFRS). This principle represents a particular way of reasoning and acting upon events and processes (Miller, 2001), and constitutes a pivotal cornerstone in contemporary business development (Weber, 1997). Furthermore, it enables comparability and consistency with financial globalization parameters (Brusca et al., 2016).

Accordingly, transparency, accountability, governance, and fiscal sustainability became key discourses in government accounting reforms in Latin America (World Bank, 2015). In this context, according to Gómez and Montesinos (2012), the Colombian case is significant because it:

- Pioneered reforms in the region.
- Maintained the dualism in its information systems with a budgetary basis.
- Introduced standardization based on International Public Sector Accounting Standards (IPSAS).

In Colombia, the municipality of Medellín introduced accounting reforms that modified employee management and the governing of citizens and improved public sector management. The article presents the research method, findings and discussion, and the implications and challenges for academia and accounting practitioners.

Research method

A documentary research method was used. Documents are conceived as an accumulated existence of oral or written discourses (Foucault, 2005). The analysis of municipal archives and 20 interviews with public officials allowed accounting reform discourses to be identified. Documents from 1990 to 2018 were examined; they included institutional reports, press releases and regulations. Interviewees are referenced in the article using an alphanumeric code (I#) and the date of the interview.

Findings and discussion

Institutional conditions and milestones were behind accounting reforms to introduce private sector practices to the public sector. This article defines institutional conditions as the regional and national circumstances necessary for reforms to emerge. In contrast, milestones are local events leading to reforms. In Colombia, as in Latin America—where Argentina, Brazil, Chile and Mexico were the first adopters of NPM principles (Ramírez, 2012), three stages set the background for the adoption of accounting reforms. Four milestones, inspired by NPM, make Medellín the key Latin American municipality for studying the advance of entrepreneurial government in the region.

Institutional conditions

In Latin America, between 1919 and 1931, the USA-led Kemmerer Mission encouraged legislation to implement institutional reforms to modernize and control public finances. In Colombia, Law 42 1923 reorganized governmental accounts and created the General Comptroller's Office of the Republic (CGR): the entity responsible for accounting standards in the country. Law 42 required accounting based on the cash method, a registration system that would be able to record revenue at the time of collection and expenses at the moment of payment, without the use of accruals.

Six decades later, the advent of NPM led to constitutional changes in most Latin American countries and to governmental accounting reforms. These reforms incorporated business criteria into the public domain in three stages:

- Insertion of the accrual logic.
- Usefulness of the accounting information.
- Financial standardization and international comparability.

In 1991, the new Colombian Political Constitution embedded NPM principles and created the position of the General Accountant (Article 354). Four years later, the Colombian Government established the General Directorate of Public Accounting, now the General Accounting Office of the Nation (CGN), issuing the first mandatory public sector General Public Accounting Plan (Resolution 4444 of 1995) based on accrual accounting. Medellín's city government was the first public sector body to incorporate this plan; the reforms were carried out in three stages.

Phase 1: Accrual logic

In the first phase (1996–1999), the city incorporated the accrual principle for the first time. But, unlike private sector accounting, Colombia included cash accounting in the chart of accounts (General Public Accounting Plan) in an innovative way, with so-called 'zero-budget accounts', in order to better control financial planning. However, zero-budget accounts were later eliminated for political and technical reasons (interviews: I1, I2 and I3, 28 July 2016). This first stage was presented to the public with the slogan 'Clear accounts, transparent state!'(I1, 23 June 2016). However, the financial statements produced were limited by lack of inventories and public services, incomplete records, unqualified personnel, inadequate accounting software, and shortcomings in the procedure manuals and in the accounting culture (*El Colombiano, 1998*). Despite these limitations, in the 2000s, an equity valuation of the municipality was published.

Phase 2: Information usefulness

The second phase (2000–2006) was about information usefulness for decision-making. Through Resolution 400 of 2000, the CGN modified the conceptual framework of public sector accounting so that accounting information would support state management and governance. This regulation required governmental accounting to measure the performance of the public sector entity being reported on (Palacio, 2000). This public accounting reform, as in several Latin American countries, was considered essential for public accountability, transparency and the efficient and effective management of state resources (World Bank, 2015).

However, government accounting information in Medellín lacked reliability and accuracy for decision-making purposes, with, for example, backlogs of bank reconciliations, accounts overvalued or undervalued and an absence of accounting receipts (*El Colombiano, 2004*). Given these shortcomings, Colombia enacted laws to regulate public accounting restructuring (Law 716 of 2001, extended and modified by Laws 863 of 2003, 901 of 2004 and 998 of 2005). Medellín set out to promptly restructure its accounting. In fact, this town was the first Colombian city to gain fiscal efficiency in 2006, as well as to receive the first 'clean' rating of its 2005 financial statements (I4, 5 September 2017).

Phase 3: Fiscal discipline

The third phase (2007–2018) involved financial standardization and international comparability. Latin American nations sought to strengthen fiscal discipline through government accounting following the 2008 financial crisis (Ladipo et al., 2009), as well as to comply with the OECD's adhesion commitments. Consequently, the CGN encouraged changes to the public sector accounting regulations, harmonizing the accounting model with 21 IPSAS through Resolutions 354, 355 and 356 of 2007. Resolution 357 of 2008 enhanced internal accounting control. New institutional and international requirements of accounting convergence were added through Law 1314 of 2009. Resolution 533 of 2015 established a public sector accounting system consistent with OECD parameters.

Medellín now uses an international standardized public sector accounting model that strengthens financial and public management. Accounting for investments, loans and the implementation of the accounting policies manual were the main obstacles involved (I3, 22 April 2019), as well as challenges in including all municipal entities. Decisions continue to be based on accounting rather than budgetary information. Nonetheless, independent reports show there have been achievements. Moody's Investors Service and Fitch Ratings indicate good financial performance. In addition, the CGR has been rating Medellín's financial statements as clean since 2005. The city has been recognized as the financially most efficient municipality in the country.

The incentives of the managerial logic

Medellín was a pioneer in adopting NPM in Colombia; four milestones stand out. The first milestone (1992) was an early adaptation of double-entry accounting, before it was compulsory at the national level. This accounting reform led to discussions about transparency, accountability, the restructuring of public debt and selling bonds (Alcaldía de Medellín, 1995). Along with this, the need for regulation was considered in terms of performance, efficiency, effectiveness, results, investment, profits, customers, risk and debt. The municipality described itself as a company and used terms to do with the commodification of state action such as 'mayor-manager', 'citizen shareholder' and 'social profitability' (McDonald, 2015).

The second milestone (2003) was the technological strengthening of the municipality's accounting and financial divisions. Brazil, Chile and Mexico initiated the acquisition of electronic platforms and accounting software (Ladipo et al., 2009). Colombia, in general, lagged behind these countries. However, since 2003, Medellín has been investing significant resources in purchasing robust technology, for example buying into SAP (I5, 4 December 2017). Using SAP led to accounting improvements that integrated previously scattered data. However, the lack of technological training, absence of system controls and technical inconsistencies delayed the proper use of SAP for three years (I4, 5 December 2017). In addition, financial data integration led to the development of electronic government services.

The third milestone (2004) was that the quality of accounting information was now sufficient to talk about providing transparency. According to a World Bank (2015) survey, only Ecuador and El Salvador were at this level. In terms of Latin American cities, Medellín has received a clean opinion of its financial statements since 2005, consistent with the city's goal to deliver transparency. One concern is that the need for transparency can result in an excessive amount of formats, reports and indicators that blur transparency through hyper-communication, hyper-information and hyper-visibility (Han, 2016, p. 149).

Finally, the fourth milestone (since 2008) was investment in modernizing accounting. Investments in government accounting reforms, including consolidated financial statements, led to the creation of the Medellín Municipality Public Conglomerate—the first entity of its kind in Latin America (Saavedra, 2015). The commitment to financial modernization earned Medellín the Dubai International Award for Best Practices; as well as being designated as one of the 'Best Cities to do Business' by *América Economía*.

Implications and challenges

Medellín's government accounting reforms were gradual. Cash accounting was replaced by NPM-friendly accruals and international accounting standards were adopted. This change of emphasis means that the city now thinks in terms of managing an economic citizenship, instead of a political or social one.

The case of Medellín has been a success story in achieving accounting transparency and improving public financial management. However, the challenge now is to make sure that the financial management of the city includes political and social factors, as well as the economic and financial spheres of government.

The academic challenge going forward is to study the implications of having governmental accounting being combined budgetary accounting. Interviewees emphasized that, in Colombia, public sector financial management had been significantly strengthened by integrating accrual accounting and budgeting. The minimal interconnection between budget and accounting complicates local managers' decision-making.

In summary, this article has explained the managerial vision behind the government accounting reforms in Medellín. A current key challenge in the reforms is to connect budgeting and accounting in 'zero accounts'. Overcoming this hurdle would empower the political and social component in accounting, which has been marginalized by the adoption of NPM in the city's management.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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