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CLAI - The Center for Latin American Issues

School of Business

HARMONIZATION OF ACCOUNTING STANDARDS

An analysis of its benefits

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1. Introduction

The globalization has affected every part of the world. The main outcome of a global world is competitiveness. Every country and every state needs to understand that competitiveness is a race that has started a long time ago and it is going to continue whether they are aware of it or not. In this matter, governments need to be fully aware of the factors that affect the competitiveness, such as reliable and high quality financial reporting information.

In this matter, national harmonization of accounting standards appears to be inevitable. Previous studies suggest that harmonizing accounting standards may result in more comparable accounting methods and numbers, and that effective regulatory oversight will be important in reaching this outcome.

“Harmonization of accounting standards” can be defined as the continuous process of ensuring that the generally accepted accounting principles are formulated, aligned and updated to international best practices with suitable modifications and fine tuning considering the domestic conditions.

National harmonization of accounting standards is needed due to the increasing globalization and competitiveness of governments and services. Harmonization ensures reliable and high quality financial reporting. Competitiveness can be defined as a government's ability to attract and retain investment, and this can be measured in terms of providing optimal routes of communication, security, legal certainty but also transparency in the government finance information presented and healthy public finances, so any investor can have certainty where to invest. These can be achieved through accounting harmonization.

This creates an atmosphere of competition between different states, and provides vital and reliable information in a country. The benefits of having a harmonized information in a country can be seen in the world economy, in order to make easier trade between countries and eliminate unnecessary costs by not

having perfect information. In other hand by improving financial markets information and transparent and comparable government accountability information, investment decisions and financial-based management decisions could be made with less risk.

One of the most important benefits of harmonization is that it allows comparing data and information between the 31 States and the Federal District of the Mexican Republic. It also allows analysis of best practices. In this way, it eliminates unreliable information generated by each state, which is obtained under a variety of methods without a theoretical basis and that sometimes presents overestimated or underestimated data.

Harmonization benefits the States that are competitive, as it increases the administrative certainty and confidence of domestic and international investors. For the state itself, it may decrease the costs to training public employees and it may reduce the cost of implementing further methods of measurement.

In a global world, harmonization of accounting policy would help provide a "level playing field". This would bring confidence because regulators and auditors will be receiving the same information, facilitating the evaluation process. Investors and managers will be able to make more valuable decisions. World resources will be better managed and allocated. It is possible, due to their necessity, to have international harmonization of accounting standards.

As the harmonization is implemented, it would be of great assistance to the federal government if the information is computed on similar accounting principles and practices it would make it easier to conduct the competitive and operational analyses. It will also make it easier for the income and outcome subsecretariats (or revenue and expenditure departments) to manage critical relationships between each other, and it will also make it easier to give feedback to the citizenship and the media with more reliable information.

The government would be the one that would benefit the most out of the harmonization, as the communication of accounting information within the departments would become easier.

The harmonization will allow states to describe their current practices and to compare them with the best national practices. The harmonization can thus play an important role in helping each national and state statistical agency to put in place global standards.

Some of the benefits of harmonization are as follow:

- It ensures reliable and high quality reporting.
- In certain cases, it can prove to be crucial to the economic and financial development of a state and a country
- It enables a systematic review and evaluation of the performance of the states and the nation as a whole.
- It makes the comparison of the performance of a state against the other states of Mexico and national data easier and more meaningful.
- It adds to the international credibility of a state and a country
- It provides a level playing field for all the states.

where the importance of the harmonization of accounting standards is mentioned. It briefly describes how the harmonization may result in more comparable accounting methods and data and how harmonization ensures reliable and high quality financial reporting.

Chapter 2 assesses the data needs of accounting standarization. It describes how the vision for accounting standarization has evolved in Mexico. It also explains how the law ensures that the general criteria for accounting harmonization is followed by the federal, state and municipal governments in this country.

In this chapter is explained the considerations that must be followed in

order to have information of quality. The financial reports and statements should be prepared in accordance with the practices, methods and procedures established in the law, especially with the general and particular rules.

In this way, it is important to mention that this chapter explains all the quality considerations that must be met in the information included. All the financial statements must include information that allows proper interpretation of the economic and financial situation, with an unbiased understanding of the phenomenon of measurement.

Chapter 3 describes how a strong and stable framework supports the structure which is the foundation of the accounting harmonization. The needed legal framework focuses on the results of the harmonization of all states information in order to have reliable and comparable data for end users.

It is explained the work of the CONAC and how it plays an important role in providing data and information needed to monitor the convergence criteria of all the accounting practices. It mentions all the accounting technician documents that must be ready and the manuals stated in the articles 40 and 41 of the accounting law.

In this chapter is mentioned the characteristics of the Government Accounting System which is a tool for diagnosing current practices in each state and provides a guided path toward a strategic plan for moving towards harmonized standards.

It is listed the set of recommendations that all 31 states and the Federal District of the Mexican Republic must follow in order to achieve the national harmonization of accounting standards.

It is also presented the information that all the government agencies must generate periodically in order to keep the flow of accounting information through the government agencies.

Chapter 4 presents an analysis of best practices. This chapter mentions the work plan that all the state and federal governments should follow in order to achieve harmonization in the national accounting practices. It describes the degree of compliance and fulfillment of each state based on the decisions of the National Council of Accounting Harmonization (CONAC).

In the chapter 5 there is an analytical point of view of the necessity of the harmonization of accounting standards and how the benefits exceed the cost for the production of this harmonized information. It is important to mention that some set of recommendations are given in order to ensure the integrity of the standards of the information.

The last chapter is the conclusion where it is promptly mentioned the multiple benefits for the states and the federation. In reference to the benefits it is highlighted how standardization should not be viewed as an obligation but as an opportunity to belong and be a part of the globalization of markets worldwide, with real accounting professionals, interested in pursuing the common good among users of information.

2. Data Needs of Accounting Standardization

2.1 Evolving vision for Accounting Standardization

On December of 2008 was published in Mexico the General Law of Government Accounting (LGCG) by its Spanish acronym, in the Federal Official Newspaper, its main purpose is to establish the general criteria that will rule the government accounting.

The LGCG is mandatory for the executive, legislative and judicial branches of the federation. It is also a must for the federal agencies, councils of municipalities, administrative political organs, and for the entities of the parastatal public administration.

The coordinating body for the harmonization of governmental accounting is the National Council of Accounting Harmonization (CONAN) by its Spanish acronym, which seeks the issuance of accounting standards and guidelines for the generation of financial information to apply to all the public entities.

The CONAC plays a unique role because the policy instruments and financial issues must be implemented by public authorities, through modifications, additions or amendments to its legal framework, which could include the possible modification of laws and administrative regulations of local character, as the case.

Therefore, the CONAC under the Accounting Act is required to have a monitoring mechanism to report the degree of progress in implementing the decisions of the organ. The CONAC Technical Secretary conducts the registration of instruments that state, municipality and territorial demarcation states must adopt and implement in their respective areas of competence.

The Technical Secretary will be responsible for publishing such information, making sure that everyone can have easy access to it. This complies with the purpose to provide the citizenship a monitoring tool, It is also

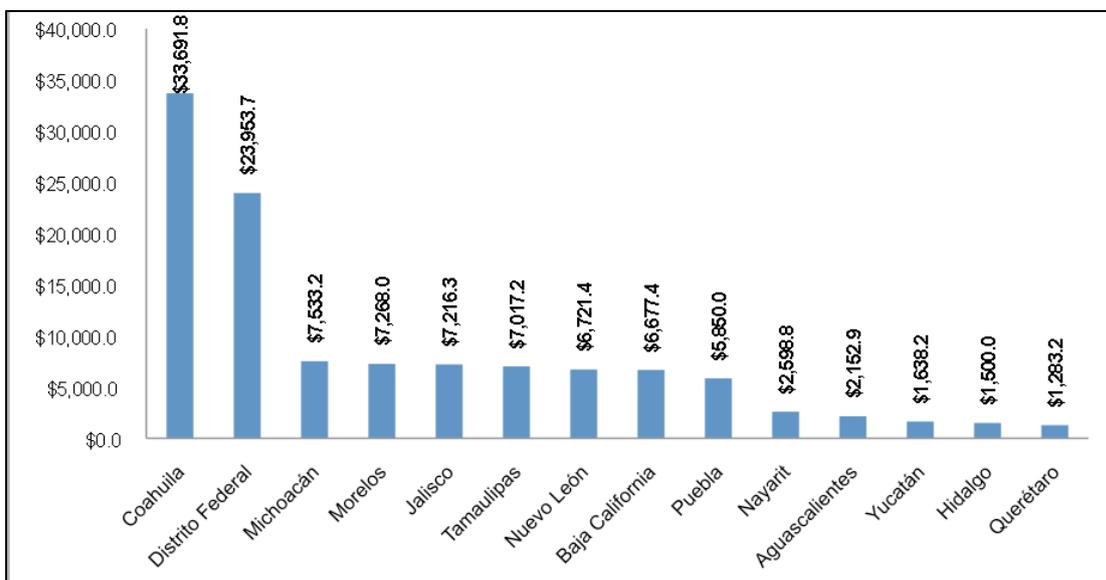
important to mention that the state and municipality governments that not achieve its goals imposed by the CONAC, will not be able to register in the Bureau of Bonds and Government Loans Guarantees.

In this regard, the Treasury Secretary of the Federal Government can not register in the Bureau of Bonds and Government Loans Guarantees entities and municipalities referred to in Article 9 of the Fiscal Coordination Law.

The implications for states and municipalities that fail to harmonize their accounting practices is that they will not be able to access financing through debt, and they will not guarantee the payment of this fee using its federal revenue sharing. This policy would limit the investment in public works of the most backward states and municipalities in accounting.

The previous point can be clearly seen in the following table, which shows the level of debt they incurred several states during 2011, and as 90% of this is supported with federal revenue sharing that is why the importance of all states comply with the points set by the CONAC.

Table 1



Data.-State governments to publish in their quarterly reports, 2011 signed credit with commercial Banks in millions of pesos

Credit support subnational debt contracted with commercial Banks in millions of pesos

Credit Suport	debt acquired	percentage
Federal Revenue Sharings	\$ 170,865.30	90%
own revenues	\$ 17,722.20	9%
Other revenues	\$ 1,141.30	1%

www.shcp.gob.mx/Estados/Deuda_Publica_EFM/2011/Paginas/3erTrimestre.aspx

In this sense, it is plausible that municipalities with a greater degree of marginalization and lower public budget, would be the most backward in terms of trained human resources and accounting practices. This due to the high correlation between the marginalization of the municipalities and the low level of education.

This could generate a vicious circle for the most marginalized municipalities, where the poorest municipalities would have more difficult access to greater financial resources, because their lack of technical ability in accounting.

Therefore it is recommended that the implementation of accounting harmonization in the municipalities is supported by the states, as the axis in terms of technical resources and training in accounting practices. It is not suggested that the state develops the work that corresponds to each municipality, as it is considered that the autonomy of the municipality must be respected. But it is strongly suggested that the state permanently provides technical training for people who are in charge of management accounting information.

This public policy could be linked with personnel certification schemes e.g. the civil service, where they generate the necessary human resources to perform the necessary technical work in accounting government areas, where public servants remain a reality. Where capable and trained public servants

remain in their jobs for a considerable period of time.

The technical capacity of public servants is considered as a critical success factor to achieve the accounting harmonization. In this respect it is very expensive in terms of time and financial resources for the state and / or municipality to train new public servers that change every 6 years when there is an election coming up.

In countries where there is accounting information available one can know that the technical areas responsible for the management of information are almost constant and the degree of staff turnover is minimal. That is why it is suggested in this research, that the states and municipalities of the Mexican Republic support certification schemes of public servants, incorporating incentive measurements for retention of the people that work in this technical areas. So that when a government election happens, the new government has no incentive to replace civil servants in charge of management accounting information.

It is important to mention that under the current accounting law the states must assume a strategic position in harmonization activities for each of their municipalities to achieve the objectives that the law requires. State governments should provide the necessary cooperation and assistance to the governments of municipalities, for these members to achieve their accounting goals, based on the decisions reached by the CONAC.

This agreement was subject to opinion of the Advisory Committee, which integrated various working groups, with the participation of representatives of states, municipalities, the Superior Audit of the Federation, state agencies of audit, the Institute of Technical Development Public Finances, the Mexican Institute of Public Accountants and the National Federation of the Mexican Association of Public Accountants.

According to article 21 of the Accounting Law, accounting is based on a conceptual framework that represents the fundamental concepts for the

elaboration of standards, accounting, valuation and presentation of reliable and comparable financial information to meet user needs. The accounting law also is allowed to be recognized and interpreted by experts and stakeholders in public finance.

According to the previous information and based on Articles 6 and 9, fraction 1 of the LGCG, the CONAC developed the **Governmental Accounting Framework** and it has the following sections:

- Basic principles of Government Accounting
- Standards and Methodology for the Determination of timing of Accounting
- Classifier by object of expenditure
- Classifier income categories
- Chart of Accounts
- Standards and methodology for the determination of the timing of the income accounting
- Main rules of registration and valuation of assets (General Items)

2.2 Data quality considerations

Qualities of financial information to produce

The quality characteristics are the essential requirements that the budgetary accounting information should fulfill in the government field. These characteristics also apply to the preparation of the final statements. The quality characteristics establish a guide for selecting accounting methods to decide which information to reveal in such states. It also helps follow up the accomplishment of the goals by providing useful information to support decision-making and even to facilitate monitoring, control, and evaluating of the performance of the public entities.

The Governmental Accounting is primarily a registration system that processes economic, budgetary and financial events of public entities. The financial reports and statements should be prepared in accordance with the practices, methods and procedures established in the law, especially with the particular laws and general rules. These reports and statements should also be prepared within the laws for the purpose of generating information that have validity and relevance in the fields of public entities, that are reliable and comparable and that meet the needs and requirements of the audit accountability and that provide certainty and transparency in government financial management.

The reports and financial statements prepared must include all information that allows proper interpretation of the economic and financial situation, so that it accurately and clearly reflects the results achieved in the development of the powers granted to the legally public entity.

To meet these information objectives is essential to have the following characteristics: utility, reliability, relevance, understandability, and comparability, as well as other attributes associated with each of them, such as: timeliness, accuracy, representativeness, objectivity, verifiability, sufficient information, predictability and relative importance.

1) Utility

For the financial information to be useful it should meet the requirements for accountability, fiscalization and decision-making in general. It also must have the quality to provide data that would serve the purposes of those who use it, it also must satisfy the reasonable the needs of different users, concerning the financial management of public authorities, taking into account the institutional hierarchy of these users.

To be useful, the accounting information produced must be effective and efficient. In other words information must contain what is expected from it and it

should be produced effectively with a minimum of waste or unnecessary effort.

2) Reliability

The reliability of the budgetary accounting information gives acceptance and confidence to the recipients and users.

The information must be impartial, free from errors, representative and accurate. It also must picture events and transactions which have occurred.

For information to be reliable and certain, it should represent faithfully the performance management and financial position of the accounting transactions and it must include accurate and truthful information, in order to be able to permit and facilitate accountability and oversight.

There are some other features that must be associated in order to have reliable information. These features are as follows:

A) Accuracy

For the information to be accurate must include all of the inclusion of events that actually occurred, as well as proper and rigorous measurement, based on principles, standards, methods and procedures that ensure complete disclosure in reports and financial statements. This methods and procedures must be public and available for everyone, and should meet all the technical requirements of the General Law of Government Accounting (LGCG).

Accounting and budgetary information should show events, transactions that actually occurred, correctly recorded, valued and properly supported by documentary evidence and supporting original documentation. The accuracy feature includes that the administration and management will show the righteous application of revenues, expenditures and funds used in the execution of government programs during the fiscal year.

B) Representation

The financial information should be representative, there should be consistency in the content, and economic substance of transactions or events that have affected the public entity economically.

The information should contain the relevant aspects that accurately describe economic events, financial and property of public entity, under the circumstances, from which the information emerged.

C) Objectivity

Financial information should be presented in an impartial manner, meaning that should not manipulated or distorted. The objectivity implies that the data contained in the financial statements represent the reality of the public entity and are made under strict rules of technique provided by the Government Accounting System (SCG) by its spanish acronym.

The financial statements should be free of bias, should not be influenced by judgments that produce a predetermined outcome, otherwise the information loses its reliability.

D) Verifiability

The financial information was generated with the rigorous requirements of the rules, procedures, methods and accounting systems, so as to allow testing and validation at any time, from one entity to another and from one period to another.

The verifiability of operations should facilitate the recording of data by the entities empowered by law to perform the monitoring, evaluation and oversight of financial management.

E) Sufficient Information

The financial information shall include sufficient information to show the significant aspects, which involves a process of identification and selection of concepts to be included and how they should be recognized.

This feature refers to the incorporation in the financial statements and notes, given that influence decisions, to assess and monitor the financial situation of the public entity, as well as changes that affect the public treasury; care that the volume of information is not detrimental to their usefulness, and may lead to important aspects go unnoticed to the end user.

3) Relevance

It is the quality to reflect the highlights of the financial situation of the public entity.

The information has relevance when it influences the decisions of users. Must have predictive value, for example that could help users who use it to predict future consequences, arising from past events.

For the information to be relevant it must also have the possibility of prediction and confirmation. Financial information must contain sufficient elements to help to make predictions. It also should help to confirm or change the expectations or forecasts, allowing general users evaluate the accuracy and precision of such information.

4) Understandability

Financial information must be prepared in such a way that facilitates the understanding of the various users, however, information should not be excluded for reasons of difficulty understanding.

For this purpose it is essential that, in turn, general users have the ability to analyze financial information, as well as sufficient knowledge of economic activities.

5) Comparability

The financial information should be prepared in such a way that allows comparison over time. Information should be formulated under criteria related to identification, valuation, registration and presentation, with generally applicable standards. This way information will allow the possibility to compare the financial position, results and fulfillment with legal provisions of the public entity. All of the above with the purpose to provide authorized entities to make analysis, evaluation and audit of the management and proper accountability.

Restrictions on the quality characteristics

The qualitative characteristics of financial information contained in financial statements, as well as those associated with them have some restrictions. From the above concepts are derived relationships between opportunity, provisional status and balance of quality characteristics.

1) Opportunity

Financial information must be available when required and when circumstances require so. The opportunity in information has the purpose to allow users to use information whenever they need it and make timely decisions. The information that is not timely filed will lose its relevance.

2) Provisional status

The financial information presented not always show finished events; which may limit the accuracy of the information. For this reason, there is the need to make periodic measurements in the life of conventional public entity, in order to present the results of operation, financial position and its changes.

3) Balance between quality characteristics

To meet the goal of financial statements an appropriate balance is required in the qualitative characteristics of information. This means that fulfillment should be directed to the research for an optimal point, rather than to the obtaining the maximum levels of all quality characteristics. All of the above which implies the proper application of professional judgment in each case.

3. Key lessons for an efficient accounting standarization

3.1 Development of a Legal Framework

A strong and stable legal framework supports the structure which is the foundation of the Accounting Harmonization, and its growth shows us several important lessons for the governance of the CONAC and their legal orders. The righteous legal framework does not focus on details that make up the body but in the main questions to clarify the position of the body within the national system and how it plays a coordinating role within the federal and municipal entities. The needed legal framework focuses on the results of the harmonization of all states information to have reliable and comparable data for end users.

It is for this that the CONAC plays an important role in providing data and information necessary to monitor the convergence criteria or fiscal rules which are intended to be an effective means by which promotes comparable accounting practices and harmonization of all statistical methods.

The CONAC must be endowed with a strong governance structure, so that when a regulatory body that must have the necessary legal basis to support with professionalism and confidence to published results obtained by the states and municipalities. Adequate supervision and above all accountability, should be given high priority in the guidelines that guide the CONAC.

An appropriate institutional framework needs the support of a legal structure and it includes good laws and good enforcement. An appropriate legal framework should include the support of a law of the national agency in this case the CONAC, the tools necessary to regulate the activities of all Federal agencies.

Considering now that in the framework of the accounting law, the states must assume a strategic position in harmonization activities for each of their municipalities to achieve fulfillment with the objectives that the law requires.

The governments of the states must provide the necessary cooperation and assistance to the governments of municipalities, so that they achieve the harmonization of its accounting, based on the decisions of the CONAC.

It is for that reason that the agreement is published, which establishes the dates on which the Federal Government, the states and municipal must comply with their obligations under the Fourth Transitory Article of the General Law of Government Accounting (LGCG).

The Fourth Transitory Article applies for institutions and Municipalities: The executive, legislative and judicial organs of autonomous states, the councils of the municipalities and administrative political organs of the territorial boundaries of Mexico City.

Below are listed the dates that must be fulfilled in order to achieve the accounting harmonization:

1) Provided no later than December 31, 2010 of the following accounting technician documents:

- Conceptual Framework
- Basic postulates
- Classifier by object of expenditure
- Expenditure by Type Sorter
- Revenue by Category Classifier
- Accounting Chart of Accounts
- Spending time accounting
- Revenue accounting Moment
- Governmental Accounting Manual
- Main Registration and Valuation Standards Heritage

- Physical progress indicators to measure financial

2) Beginning January 1, 2012 will be made based cumulative accounting records and adherence to the conceptual framework, basic principles, standards and methodologies to establish financial times, binders and manuals governmental accounting and according to harmonized the respective conversion matrix with the characteristics mentioned in Articles 40 and 41 of the LGCG. Likewise, from the date fixed shall give budgetary and programmatic accounting information on the technical basis provided in the records referred.

3) The states shall issue the public accounts under the structure set out in Article 53 and 54, same will be published for consultation in the general population, from the beginning of the year corresponding to year 2012.

4) The city councils of the municipalities and administrative political organs of the territorial boundaries of the Federal District, according to its legal nature issued periodic information and develop their public accounts in accordance with the provisions of Article 55 of this law, from January 1, 2013.

5) The performance stars from January 1, 2013

- Integrate the inventory of movable and immovable property referred to law.
- Make the accounting records and the valuation of assets.
- Generate performance indicators on the performance of its goals.
- Post-accounting information, budgetary and programmatic in their respective web sites.
- Operation and generation of real-time financial information on the exercise of the income and expenditure and public finance.

3.2 Methodological Harmonization

Comparability of data is a key requirement of statistical information, and

this requires adopting common methodologies in compiling, processing, and disseminating data. That is, each national and state agency need to use common standards and accounting frameworks to compile regional data. Under the current institutional framework, data are either not comparable or not available. Where data are available, agencies cannot easily assemble data for the states as a group.

While national statistical offices are responsible for producing most statistics, either exclusively or in collaboration with other agencies, some do not produce the datasets traditionally generated by national statistical offices. As a result, creating coordination mechanisms to foster effective collaboration would be a complex task. In some instances, reorganization of responsibilities may be more effective.

The CONAC data standards initiative plays a useful supporting role in data comparability. The Government Accounting System (SCG) must allow a tool for diagnosing current practices in each state and provides a guided path toward a strategic plan for moving toward harmonized standards.

The SCG will apply to all public entities. It will have delimited and specific accounting and budgetary operations arising from the governance and other economic flows. It will also generate reliable, timely, and understandable financial statements, which will be expressed in monetary terms.

The system will consist of the set of records, procedures, criteria and reports, structured on the basis of common technical principles designed to capture, assess, record, classify, report and interpret, transactions, changes and events, which derived from the activity economic, modify the financial position of government and public finances.

All public entities must ensure that the System will:

- Reflect the implementation of the principles, general and specific accounting rules and instruments established by the law.

- Make easier the recognition of revenue operations, expenses, assets, liabilities and equity of public entities.
- Automatically integrate the annual accounting operating budget.
- Allow that data are carried out considering the cumulative basis for the integration of budgetary and accounting information.
- Show a consistent record of each transaction that creates rights and obligations of the economic and financial management of the public entities.
- Generate real-time financial statements, budget execution and other information that contributes to decision making and transparency,. It will also help the planning process based on results, evaluation and accountability.
- Make easier the registration and control of inventories of movable and immovable property of public entities.

3.3 Producer of Regional Data

The different secretaries of each state responsible for coordinating the mandates of the CONAC are conducting meetings to coordinate the adjustments to their accounting systems. While the data emission remains in the hands of state agencies, in practice, the CONAC is an active partner in this process.

The fact of harmonizing accounting to the 31 states and the Federal District of the Mexican Republic, along with the various powers that shape it, and besides this is counting the 2438 municipalities in the whole Mexican territory, this implies a daunting task in every way, both human resources and technological. For the above, that would have its own merits CONAC in generating support guidelines and foster integration and accounting of all federal agencies.

This point is reinforced by the evolution of the CONAC over a long period, recognizing that data preparation is a long term process.

The 31 states and the Federal District and the Secretaría de Hacienda (Income Secretary) meet regularly to discuss issues of common concern. For some time, these meetings have focused on the statistical requirements of both the states and the national agencies. In December 2008, the heads of the National Council of Accounting Harmonization (CONAC) adopted a vision of measures to consolidate and further develop joint statistical work in the country. The set of recommendations covers the following measures:

- Emphasize unification of statistics laws in the 31 states and Distrito Federal.
- Adopt a common methodology in building a data warehouse containing a broad base of comparable data of the states.
- Improve human development statistics and indicators.
- Unify classifications of statistics.
- Coordinate and cooperate in building and networking special statistical databases.

3.4 Resources Needed for Harmonization

With regard to the Federation and the 31 states and the Federal District of the Mexican Republic, the accounting systems of the agencies of the executive, legislative and judicial powers, as well as all government institutions would allow the periodic generation of the following information:

- Statement of financial position
- Statement of Changes in public finance
- Statement of Changes in Financial Position
- Reports on contingent liabilities
- Notes to Financial Statements
- State active analytical
- Analytical State debt and other liabilities according to:
 - Short and long term as well as internal and external origin
 - Sources of funding
 - By currency of procurement

- Creditor country
- State income analytical economic classification by source of funding.
- Yearly analytical state budget divided in:
 - administrative
 - Economic and by object of expenditure
 - Functional and programmatic
- Net Debt
- Interest on Debt
- Cash flow
- Spending by program category
- Investment programs and projects
- Performance indicators

4. An analysis of best practices

4.1 Sample of selected mexican states

In May 2010 the National Council of Accounting Harmonization (CONAC) met with states and vote in favor a Work Plan which was approved unanimously.

The Work Plan establishes that the National Council of Accounting Harmonization (CONAC) must meet at least three times a year in order to fulfill with the provisions of Article Number 3, section 4 of the LGCG in which the main focus is issuing the principal recording and valuation rules, heritage, structure chart of accounts and accounting manual.

It also issues the methodological framework concerning the form and terms which should be driven the component analysis of public finances in relation to the objectives and priorities of the harmonization process.

According to the progress report submitted by the CONAC on December

31st. of 2011, the status of compliance of each states are as follows:

ADOPTION AND IMPLEMENTATION OF THE DECISION OF CONAC			
Full Compliance 1	Compliance of the Executive Branch	Partial Compliance	Have not Reported any Advances
Distrito Federal	Chihuahua	Campeche	Aguascalientes
Estado de México	Quintana Roo	Chiapas	Baja California
Guanajuato	Puebla	Durango	Baja California Sur
		Jalisco	Coahuila
		Morelos	Colima
		Nuevo Leon	Guerrero
		Oaxaca de Juarez	Hidalgo
		Queretaro	Michoacan
		Sinaloa	Nayarit
		Tabasco	San Luis Potosi
		Tlaxcala	Sonora
		Yucatan	Tamaulipas
			Veracruz
			Zacatecas

Source: CONAC can be checked in their website.

After reviewing all the CONAC agreements, it is clear that there is a breakthrough in the field of accounting harmonization in Mexico. Thus, it is interesting to analyze successful cases of implementing new measurement information systems, since it is considered vital to the successful implementation of accounting harmonization.

First of all, it is considered that accounting harmonization should be viewed as a process where continuous improvement should be part of the culture of public servants, especially those in charge of measuring governmental accounting.

As seen in analysis of Kathryn E. Newcomer, who recognizes that: "Implementing and using performance measurement systems require much more of managers than technical measurement skills. In fact, experience in government jurisdictions across the world has shown that effective use of performance measurement to improve program management presents managers with complex communication, analytical, political and measurement challenges".

The idea of highlighting complex communication, analytical, political and measurement challenges is to increase the chances of success in the

implementation of accounting harmonization in each of the states of the Mexican Republic.

It is in this way, that in section 2.1 of this paper is mentioned that for accounting harmonization in Mexico to be successfully implemented, efforts should be directed to train all public servants associated with the management of the accounting information. And not only that, once these public servants have the knowledge and the ability to manage accounting information correctly, there is the need to generate schemas for the permanence of public servants in Mexico.

4.2 Case of study: Successful harmonization in Puebla

To understand how the states are operating within the new government legislation, it is important to mention a state that is operating successfully in full compliance of all the harmonization requirements: the state of Puebla.

Based on the above one can conclude that the efforts of the Government of Puebla on accounting harmonization, are enormous. Having fulfilled all the federal requirements, the state of Puebla also issued the Act establishing the Council for Harmonization Accounting for the State of Puebla (CACEP) by its Spanish acronymy having as its goal to set the roles and responsibilities of the council.

In the state of Puebla there is significant progress. So far the requirements for the accounting harmonization process have been fulfilled and all of the Government areas that generate and publish accounting information have worked according to the work plan.

As follows will be listed in detail the most important issues taken until this year, by the Board of Accounting Harmonization of the state of Puebla.

Broadcasting and information accounting harmonization process

October 20, 2011

From this date the information on the accounting harmonization process issuing the Council Accounting Administration for the State of Puebla (CACEP) as known in spanish initials is published and consultation through the website www.cacep.puebla.gob.mx is available.

From October 6 to December 15, 2011

The State of Puebla has finished the development and production of documents of technical and regulatory Areas of Accounting, Revenue and Programming of the Ministry of Finance, according to the program of work adopted at the 1st regular session, which covered the technical-regulatory CACEP used to harmonize the accounts of the legislative, judicial, municipalities and autonomous entities

29, November 30 and December 1, 2011

Course workshop for departments and agencies of the legislative and judicial branches, as well as autonomous entities with the goal of providing the legal, conceptual and methodological framework as well as the technical basis on which to develop the accounting harmonization proceses in the State.

November 2011

The technical areas of the Ministry of Finance and the Auditing Ministry, updated information for the implementation of commitments on the harmonization accounting for the report of progress under the XLVII National Meeting of the Standing Committee audit States – Federation south - southeast region.

November 17, 2011

Representatives from the State of Puebla attended the convocation of the Technical Secretary of CONAC, CP Rogelio Santillan Buelna who presented the project to harmonize accounting system of the municipalities with less than 25,000 habitants. During this meeting was showed the support of the Expenditure Budget of the Federation (PEF) and it was authorized to work with the INFOTEK a company whose system operates through internet and has a service charge of 74 pesos for each of the 171 municipalities in this condition, which together would mean an annual impact of 12.6 million pesos for the state government.

November 30, 2011

The CONAC was referred to the minutes of the Regular Session 1 CACEP in order to report on activities relating to the harmonization of accounting within the State

Performance Base Budgeting (PBR) and Performance Evaluation System (SED)

November 15, 2011

The State Executive presented the Statement on Expenses or Fiscal 2012, which contains a performance base budget. The Statement on Expenses is a document where departments and agencies of the state executive, legislative and judicial branches and autonomous agencies present their budget programs and management indicators and the impact with which performance will be evaluated.

November 2011

Formalized agreement with the Ministry of Finance for the implementation of the Performance Budgeting (PBR) and the Performance Evaluation System (SED) that includes actions to develop between fiscal years 2011 and 2012 and includes the participation of municipality.

Interinstitutional coordination.

December 2011

There were two meetings with the technical staff to evaluate the scope of the current tool and the needs of record keeping and financial reporting in harmony.

Publications

December 13, 2011

There are published by the Financial Secretary in the Official Journal of the Federation the following documents:

1) Guidelines for the preparation of the Catalogue of Goods to enable the automatic relationship with the classification by object of expenditure and the list of accounts.

2) General Guidelines of Governmental Accounting simplified system for municipalities with fewer than 25 000 population.

3) Guide lines for ensuring that the Government Accounting System to facilitate the registration and control of inventories of movable and immovable property of public entities.

4) Agreement are issued specific rules of recording and valuation of assets.

With this set of actions the State of Puebla has generated policy conditions and techniques for developing phases of accounting harmonization laid down in Article fourth of the General Law of Governmental Accounting (LGCG). The State of Puebla has also made the agreements of this Session 2 and has planned to meet the goals of harmonization for the executive, legislative and judicial branches.

In the other hand the Puebla state government is working hard in the process of accounting harmonization, and that is why up to today, the Council Accounting Administration for the State of Puebla (CACEP) has already harmonized the following documents:

1. Record of Costs considered in the budget process.

Summarizes, organizes and presents the data programmed into the budget according to the nature of the goods, services, assets and liabilities.

Allows the user to know how much is spent and it enables to quantify the demand for goods and services made by the Public Sector.

2. Expenditures by Object Classifier

Group expenditure by function and subfunction depending on the purposes for which they are intended. It is a document that is exercised through various programs, activities and projects that describe the nature of government services, the share of spending that goes with to each type of service and activity and reveals the true priorities of the government.

3. Functional Classifier Expenditure

Budget revenues allow classification of public entities, in accordance with accounting standards, clear, accurate, comprehensive and useful, that allows a proper recording and reporting of operations.

The Functional Classifier Expenditure sort, gathers and presents the revenue according to their different nature and character of the transactions that trigger.

4. Accounts Plans

Contains the information required that should be included to align the lists of accounts which shall provide public entities. The Accounts Plan which will perform all transactions of a financial – assets that occur.

5. Income Accounting Timing (Momentum)

This Timing register of the stages of the budget in relation to the Income Act of public entities, set the board, which shall reflect: Estimated, Modified, Earned and Collected.

6. Expenditure Accounting Timing (Momentum)

Register of the stages of Budget expenditure of public entities be made in the ledger accounts for the purpose by the Council, which shall reflect: Approved, Modified, Engaged, Earned, Exercised and Paid

7. Join Matrix Conversion

It is a table of relations between the Chart of Accounts and Revenue by Category Classifier, allows all transactions recorded at different times of the financial year, it becomes a double settlement in government accounting.

Relates the means of payment, with the accounts of Chart of Accounts account must be credited to the account of expenses accrued seat, having account is defined by the means of payment, either cash or bank.

8. Expense Matrix Conversion

It is a table of relations between the Chart of Accounts and Classifiers by Object of Expenditure and by Type of Expenditure, allows all transactions recorded at different times of the financial year, it becomes a double seat in government accounting.

Match the items of sorter by object of expenditure and by type of expenditure classifier, with scores of accounting, the object of expenditure and define the type of spending account debit or credit, either spending or investing.

9. Accounting Manual

A document that is intended to show in one document all the elements of the accounting system that points the LGCG, and the tools and methods needed to properly record financial transactions and to produce, automatically and in real time, information and financial statements, budgetary, and economic program required. Its content facilitates the harmonization of the accounting systems of the agencies of the State Public Administration, and also facilitates the elimination of existing conceptual and technical differences.

5.- Is Harmonization of Accounting Standards needed?

The most fundamental of obstacles to harmonization are the size of the present differences between the accounting practices of different states, lack of strong professional accountancy bodies in some states, and the differences in political and economic systems.

This can be seen in Table 1 which shows the percapita Gross Domestic Product (GDP) of the states. One can see that those with lower GDP are the ones that have less developed municipalities. In this regard, these entities with low GDP will likely to face more challenges to achieve the objectives set by the

CONAC.

Table 2

Index	POPULATION	CONSTANT GDP	GDP PER CAPITA	current GDP	Average grade of schooling of the population aged 15 years or more
Year	2008	2008	2008	2008	2008
Resource	CONAPO	INEGI	CONAPO	INEGI	SEP
Units	PERSONS	000 pesos at prices of 2003	000 pesos at prices of 2003	000 pesos at prices of 2003	Grade
Distrito Federal	8,836,045	1,525,337,720	173	2,002,152,961.00	10.4
Quintana Roo	1,267,087	131,557,585	104	168,013,399.00	8.7
Yucatán	1,898,086	120,562,252	64	158,236,081.00	8.0
Guerrero	3,145,656	130,470,734	41	168,703,065.00	6.9

Source.- Instituto Mexicano de Competitividad (IMCO)

Color	% of compliance
Red	100%
Blue	80%
Purple	40%
Green	0%

As we can see there is a high correlation between total GDP, GDP per capita and average years of schooling, with the level of compliance imposed by the CONAC.

As the autor Mg. Sabino Talla Ramos mentions in his paper published in www.perucontable.com the challenges and benefits of accounting harmonization are real, and states as follows:

- We live in a period of increasing openness of markets, increasing international trade and exchange among countries, capital mobility, which ended in the phenomenon called "globalization of the economy."
- The economic globalization has led investments to and from different countries and creation of multinational companies, among other things. This has meant new information needs to evaluate the potential of an investment - looking to the future - and the financial situation of a state or a country.
- The creation of common markets between countries: European Union, NAFTA, Mercosur has shown a stronger information needs and has highlighted the disparity in accounting policies with regard to forms of

assessments, recognition of economic facts, measurement of changes in equity, etc. That have led to financial statements prepared under different accounting rules that prevent comparison and consolidation, forcing his "restatement" to conform to other regulations.

- This disparity in accounting has shown that even when there is international accounting standards and conceptual framework, which should form the basis of this legislation, there has been concern in some countries to adapt its legislation to international standards or even more seriously, there is a lack of this legislation.
- Countries that integrate common markets have made efforts to solve these problems and have created committees or subcommittees, which are devoted to the study of current accounting standards and accounting harmonization among the countries that make up the regional market.

So according to all the information presented and in order to make sure the uniform application of accounting standards across cultural and political boundaries of the Mexican Republic, the CONAC needs to ensure that there are strong audit practices in order to bring about the integrity of the standards.

For the harmonization process to be successful requires a massive effort of education and training in better accounting practices, since in this stage of the process standardization is inevitable and indeed a necessity .

In a environment of continuous improvement is necessary to strengthen the culture of information management, where the culture of accounting practices becomes a constant.

The accounting harmonization process involves a transformation not only in the accounting practices, but it demands a review of processes, technology, training and above all a fundamental change in culture towards transparency and accountability.

Accounting harmonization arises from a need and a call for society to accountability. A more efficient social spending is the result of a clear

transparency of public finances for the benefit of citizens.

Currently governmental accounting focuses on the development of public accounts. With the new law, it is intended that the accounting system has as its primary purpose the generation of information to support decision making on public finances and use of resources.

The technological infrastructure of the government must overcome the current barriers. With regard to the accounting law is mandatory that the systems should generate real-time financial reporting, accounting and budgeting. The challenge for governments and institutions is to make efficient use of current technology resources, capitalize and share models for integrating the use of systems, developing cooperation between various entities and analyze missing resources with solutions that meet the required characteristics.

There are a number of benefits as well which will come with the harmonization of accounting standards. It will bring uniformity in the preparation of accounts and will make the accounts of the states of the Mexican Republic more transparent and comparable which in turn will help the investors to make more investments in a place where there is transparency and certainty, eventually making the country more attractive to national and international investment.

6. Conclusion: Benefits of the accounting standardization

The harmonization of accounting standards has multiple benefits for states and the federation. In this sense, it will bring uniformity in the preparation of accounts and it will make the information presented more transparent, comparable and reliable.

Standardization should not be viewed as an obligation, but as an opportunity to belong and be part of the globalization, with real accounting

professionals, interested in pursuing the common good among users of information, which interested in the transparency, consistency and accuracy of accounting information.

To implement standardization or harmonization of accounting, you must transform the economic environment into technical and professional which carries a high cost, which is only justified if the cost - benefit ratio is favorable for the state or the state that adopts or adapts according to its needs.

That is why there are at least five areas of opportunity in matters of accounting harmonization, which must be attacked in order to have everything in place by January 2013. It is understood that currently various states and municipalities must already have at least legal-regulatory framework, as well as the total standardized documentation as determined by the Government Accounting Law (LGCG).

The opportunity areas are:

- Data Analysis.- Review of current situation and the desired levels established by the (LGCG), creating and establishing a clear strategy to implement the accounting harmonization process.
- Administrative Processes. - Review of all public bodies belonging to the state and municipality which involve budgetary and accounting transactions, in order to gradually close the gaps in requirements requested by the (LGCG)
- Review of the Current Regulations. – It is desired that it's implemented a system of government accounting, which is permanent and avoids discretion in applying the fundamental criteria. This system must also specify the responsibilities for each area.
- Technology. - The functionality of the current technology must be reviewed and it should be compared with the necessary requirements to implement the harmonization process and its capacity to improve the performance of these processes.

- Human Capital. – In order to achieve the harmonization of accounting standards, the states should undertake training programs for users who process the information and implement processes of civil service, in order to ensure continuity of these users, saving resources on extra training and learning processes each time there is a change in the labor force.

The process to harmonize the information requires that data are consistent and comparable over time. In this matter, in the Mexican Republic work has begun in order to adopt a common methodology to standardize the accounting information of the states and the federation.

The right path is being followed and in Mexico and in Puebla it is strongly believed that more transparent and reliable information is better for the development of a country and of a state. Harmonization also attracts new national and international investments, since all the investors always seek for clearer set of rules.

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