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The Accounting Regime in Fiscal Result Statements in Brazil: A Critical View

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Abstract

Background: This study examines the adoption of cash accounting in Brazil's fiscal results, highlighting its role in public account imbalances. The neo-institutional theory is utilised to understand resistance to accrual accounting and changes in fiscal results without amendments to the Fiscal Responsibility Law. An accrual accounting methodology is proposed, emphasising techniques for recognising revenue and expenses at the time of occurrence and comparing it to the current cash accounting, demonstrating greater transparency and precision. This method can be integrated into the Brazilian fiscal system, respecting the Fiscal Responsibility Law guidelines, enhancing governance and fiscal management, and contributing to long-term fiscal sustainability.

Results: The study presents a critical view of adopting the cash accounting system in fiscal result statements in Brazil, demonstrating that it can contribute to explaining imbalances in public accounts. Extending the full cash regime to states and municipalities proposed by the 8th edition of the FDM applicable to 2018 is particularly concerning. This extension may encourage additional fiscal problems in these entities, which already have a less entrenched culture in monitoring fiscal targets. In public accounting, the sustainability of fiscal policy is one of the most relevant pieces of information, and the statement of primary and nominal results must allow for such accountability. As debt is essentially a balance sheet variable, the only sensible accounting basis is the accrual basis. The impact of fiscal decisions needs to be known when the decisions are made, not much later when the payment of expenses affects the calculation of the primary result.

Conclusion: The convergence to international standards revives the foundation of accounting theory in the public sector, allowing for identifying accounting practices that generate inconsistency with the objectives of the FRL. However, it is cautioned that although the accrual basis is the most suitable for determining fiscal results, it does not eliminate the risk of creative accounting and poor management, which cannot be attributed to adopting a particular accounting regime or converging with international standards.

Keywords: accrual basis, convergence, fiscal result, creative accounting, Fiscal Responsibility Law.

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I. Introduction

Accounting theory endorses the adoption of the accrual basis for recognising revenues and expenses, allowing the highlighting of costs that will be necessary in a certain period to achieve expected revenues. In the public sector, although the accounting theory is the same, some questions hark back to the need to comply with the legislation of each country and the difficulty of breaking with the tradition of presenting budgetary information or information obtained through the cash basis. International experience shows that the choice of accounting regime is not trivial and may face difficulties in its implementation (Flynn et al., 2016; Adhikari & Garseth-Nesbakk, 2016; Botelho & de Lima, 2015).

The Brazilian public accounting convergence process towards international standards, initiated by MF Order No. 184/2008 and Decree No. 6.976/2009, reclaims the basis of accounting theory. It would be expected that the adoption of the accrual basis would create the necessary conditions for full compliance with Complementary Law No. 101/2000, known as the Fiscal Responsibility Law (FRL), which was conceived more as a patrimonial than a budgetary law, more concerned with the intertemporal balance of public accounts than with the budgetary balance in a fiscal year (Tavares et al., 2000, p. 8).

However, although the accrual basis is part of the accounting rules of the FRL, until 2017, the Fiscal Demonstratives Manual (FDM) contained different standards of statements for the Union and states and municipalities. In the case of the Union, the full cash basis was adopted; in the states and municipalities, a cash basis for revenue and liquidated expenses throughout the fiscal year was closer to the accrual basis. In 2018, the FDM adopted the full cash basis for all (Brasil, 2017, p. 222), increasing the distance from the legal forecast.

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The Conceptual Framework for the Preparation and Presentation of General Purpose Financial Reports by Public Sector Entities, issued by the Federal Accounting Council (FAC) in 2016 (CFC, 2016), states that the main objective of the public sector is not to generate profit but to provide services to society. Consequently, the most relevant information for underpinning decision-making processes, accountability, and reporting is not in the Financial Statements, which focus on the disclosure of the financial position, but in a broader set of account-based reports, the General Purpose Financial Reports of Public Sector Entities (RCPGs). This set includes the statements provided in the FRL, especially the Statement of Primary and Nominal Results, which is among the most monitored by opinion makers.

To this point, the literature needs to critically analyse the statements of the FRL and their compatibility with legislation, the correlation between these statements, and the need for timely evidence of the fiscal situation of the public sector to support decisions. For these reasons, the research could effectively contribute to filling these theoretical gaps.

The work is a theoretical essay, an investigation of a theoretical-opinionated nature, whose methodology is initially exploratory, as per Selltitz, Jahoda, Deutsch, & Cook (1974, p. 59). Following this introduction, the second section of the work presents a brief history of the accounting regime in public accounting, discussing its advantages and risks. Based on an analysis of bibliographic, normative, and documentary research, the third section analyses the effect of the adoption of the cash basis on the Statement of Primary and Nominal Results, as well as the change in the concept of primary result from 2000 to 2017, highlighting the differences compared to what was initially envisaged in the FRL. In understanding this process, neo-institutionalist theory is used, notably North's (1990) concept of path dependence and Mahoney and Thelen's (2010) taxonomy for gradual institutional change, along with Sabatier and Weible's (2007) terminology for coalition formation. In the fourth section, an alternative methodology is suggested to reduce the possibilities of result management with the calculation on an accrual basis. The fifth section presents the main conclusions of the work.

II. Brief History of the Accounting Regime in the Brazilian Public Sector

Until the enactment of the Fiscal Responsibility Law (FRL), Law No. 4.320/1964 had been the sole general standard for public finances in Brazil. Article 35 of this law established a mixed system where revenues collected and expenses committed within the fiscal year were considered: *Art. 35. Belong to the fiscal year: I - revenues collected therein; II - expenses legally committed therein.*" (Brasil, 1964). The advantage of this criterion is its adherence to the principle of prudence, preventing the manager from considering revenues that were only forecasted but not collected as part of the fiscal year and limiting the possibility of committing expenses in the approved budget. Therefore, it is the most suitable criterion for the budgetary balance, considering Brazil's budget preparation specificities.

Art. 83. Accounting shall demonstrate to the Treasury the status of all those who in any way collect revenue, incur expenses, manage, or safeguard assets belonging to or entrusted to it. (...)

Art. 85. Accounting services shall be organised in a way that allows for the monitoring of budget execution, understanding of asset composition, determination of industrial service costs, preparation of general balances, analysis, and interpretation of economic and financial results.

Art. 86. The synthetic recording of financial and asset operations shall be carried out using the double-entry method. (...)

Chapter III

Art. 100. Changes in the net equity situation, which encompass the results of budget execution, variations independent of this execution and the active and passive superveniences and insubstantialities, will constitute elements of the equity account. (...)

Art. 104. The Statement of Equity Changes will show the changes in the equity resulting from or independent of budget execution and will indicate the equity result of the fiscal year.

Art. 105. (...)

§ 5. Compensatory accounts shall record assets, values, obligations, and situations not included in the previous paragraphs and which, directly or indirectly, may affect the equity. (Brazil, 1964) (emphasis added)

Art. 89. Accounting shall reveal budgetary, financial, asset, and industrial administration facts. (...)

Therefore, in the predominant interpretation at the time of the drafting of the FRL, the main function of public accounting was to register and evidence the acts and facts at each budget execution stage. Even after the convergence of Brazilian public accounting to international standards, Dutra and Jesus (2012, p 14) affirm that *the majority of authors consider the budget as the main reference for managerial and political decision-making in the public sector.*

In the interpretation of the team that had drafted the FRL Project, integral to the fiscal diagnosis were the intertemporal deficiencies of the budgetary process that allowed governments to assume debts in various, not always transparent, ways, absorbing the present bonus of the expenditure and transferring the burden to the farthest possible future: the following fiscal year, the next mandate, or, if possible, to subsequent generations. It appeared necessary to strengthen the budget as a tool for controlling expenditure, avoiding the recurrent generation of

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unbudgeted expenses that turned into unaccounted liabilities, known as "skeletons," which were periodically and belatedly acknowledged (Nunes, 1998; Tavares et al., 2000, p. 8). Over time, this reality does not seem to have changed substantially, as Cruvinel and de Lima state that:

what is observed in Brazil is that public sector accounting has been evolving only in the eminently budgetary records, it does not evidence all accounts and 'hides' liabilities and expenses due to legal formalities and budgetary interpretations. (CRUVINEL & DE LIMA (2011, P. 83)

The Fiscal Responsibility Law (FRL) addressed the structural causes of fiscal imbalances that eluded budgetary control over a sequence of fiscal years. Regardless of how well the budget was prepared, key variables always exceeded budgetary controls, either because they were predetermined at the budget's formulation (revenue waiver, mandatory ongoing expenses, and personnel expenses) or because they had multi-year effects not captured by the annual budget (debt and outstanding obligations). Besides these variables that transcended the budget in time and object, the concept of budgetary balance only ensured that each fiscal year expense had a sufficient revenue source. However, among these sources were revenues from credit operations and privatisation, which allowed the coexistence of budgetary balance with debt on an explosive trajectory and significant equity changes. The budget was not a sufficient tool to ensure fiscal balance, nor could this be confused with budgetary balance.

Thus, the objective of the Fiscal Responsibility Law (FRL) is the intertemporal balance of public accounts, not just the budgetary balance in a fiscal year. A systemic analysis reveals that key variables exceed the budget. Revenue waiver refers to an absence of revenue in the budget that is not controllable, and mandatory ongoing expenses are predetermined and not subject to cuts or discretionary allocations. Control of both, in terms of stocks and flows, occurs at the margin, at the creation of the waiver or expense, making monitoring the acts that originate them essential. Public debt is a stock, a liability, that surpasses the budget over time - it pertains to several fiscal years - and in object - the budget foresees revenue and fixes expenses but does not contain assets and liabilities.

The calculation bases and periods described reveal that the Fiscal Responsibility Law (FRL) extends beyond the annual budgetary period. Net current revenue and total personnel expenses are calculated on a rolling 12-month basis, and the limit in quarterly reports. Credit operations, budget revenue advances, and guarantees are controlled in terms of both stocks and flow at the margin, meaning it is important to know the impact for limit purposes of an additional credit operation at the time it is being authorised before its realisation, and not just if the budget authorises it.

With these motivations, the Fiscal Responsibility Law (FRL) was conceived as more patrimonial than budgetary law. Thus, although accounting was not the central object of the law, the FRL required that expenses be recognised on an accrual basis to avoid delays in public employee and supplier payments or postponements of payments in general, which could artificially adjust the limits of personnel expenses and the primary result target, for example. The accrual basis is an essential standard for compliance.

Art. 18. (...)

§ 2. The total personnel expenditure shall be determined by adding the amount incurred in the month in question to that of the previous eleven months, using the accrual basis.

Art. 50. (...)

II - Expenditure and commitment assumption shall be recorded according to the accrual basis, with the result of financial flows being determined on a supplementary basis according to the cash basis. (emphasis added)

In relation to revenue, it was considered more prudent to use the cash basis for determining fiscal limits and goals to prevent the state from "creating" revenues that had not yet been received as a means of artificial adjustment. Therefore, the choice was made for a stricter, more conservative, and more prudent criterion, as it would offer less leeway for creative accounting. Borges, Mario, Cardoso, and Aquino (2010) regard the accounting regime adopted in the FRL as mixed.

The original draft of the project, sent in December 1998, already contained a reference to the accrual basis, with wording very similar to what would later become Article 50 of the FRL, as seen in the first column of Table 1. It is also noted that, in the draft's wording, there was an explicit connection between expenses by accrual, fiscal results, and net equity. However, during the discussion of the project in the Chamber of Deputies, there was an attempt to recover some proposals from the Complementary Bill No. 135/1996 (PLP n°135/1996), which aimed to replace Law No. 4.320/64 and was under consideration. Unlike the FRL Project, the organisation of this text followed the chronological order of the management cycle, starting with planning and going up to control. Although the Executive Power acted to maintain the original content of the FRL Project, the disaggregation of provisions altered the text's final form. Thus, the wording of the sanctioned law required a more systemic understanding from the reader. For example, it is necessary to understand that Article 50, which establishes norms of public accounting, except for express reservation, applies to the law as a whole, including establishing fiscal goals.

Table 1: Comparison between the Draft of the LRF and the sanctioned text of the LRF.

The text from the preliminary draft in 1998.	FRL, in 2000
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<p>Art. 61. The ascertainment, quantification, and classification of government transactions shall observe the following general principles:</p> <p>I - Records, classifications, and statements and reports must comply with generally accepted accounting principles and practices.</p> <p>II - Expenditure, including debt service, and the assumption of any commitment by the public authority will be:</p> <p>a) Recorded according to the accrual basis in which they are incurred and assumed, with the overall result of their financial flows being determined on a supplementary basis;</p> <p style="text-align: center;">III - the fiscal results must:</p> <p>a) demonstrate, over a period, the differences between income and expenses, and the variations in debt and net equity, as well as to show the consistency and coherence among such results; ..."</p> <p>V - the status of the net equity must be highlighted at the end of each accounting period, as well as its variations and the effects resulting from transactions carried out during such period.</p>	<p>Art. 50. In addition to complying with other public accounting standards, the recording of public accounts shall observe the following:</p> <p>II - the expenditure and the commitment assumption will be recorded according to the accrual basis, with the result of the financial flows being additionally determined by the cash basis.</p> <p>Art. 4, §2, II - "a statement of annual goals, accompanied by an explanatory memorandum and calculation methodology that justify the intended results, comparing them with those established in the previous three years, and demonstrating their consistency with the assumptions and objectives of the national economic policy;</p> <p>Art. 4, §2, III - evolution of the net equity, also over the last three years, and the disposal of assets;"</p>
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Source: FRL and FRL Preliminary Draft. Own elaboration. (emphasis added)

It is noted that, both in the FRL Preliminary Draft and in the sanctioned FRL text, the use of the cash basis for expenses was only admitted as a complementary method. The idea was that knowledge of cash flows could assist in verification, allowing for the comparison of information. It could also be of interest for monetary policy because the public sector's income and payment flows affect the economy's liquidity. However, in determining official fiscal results, the accrual basis should prevail.

However, adopting the accrual basis for expenses raised many doubts among managers, accountants, and auditors, mainly due to the clash with the prevailing budgetary perspective in the public sector culture. So, how could the two laws coexist, given that the FRL had not repealed Law No. 4,320/64? How do you use accrual-based information if such records did not even exist at the time? How do we comply with the FRL in this context? Moreover, finally, why did the legislator of the FRL seek such a radical break?

The coexistence between the two laws would be sought by understanding that the coexistence of two approaches, one budgetary and the other patrimonial, would only broaden the information available to the user, allowing for progress in the transparency of fiscal management. This situation required a conceptual separation between the budget and the assets to the extent that the accounting regimes used in each case should be established.

A hurdle to this separation was the fact that there is a synonymy in public accounting, where the same terminology is attributed to conceptually distinct variables. The origin lies in the Federal Constitution itself, which, in the budget section, makes several references to revenues and expenses that do not have a patrimonial semantic content; they pertain to budgetary revenues and expenses. To resolve the deadlock, the National Treasury Secretariat – NTS, when issuing the FDM, chose to refer to revenues and expenses in the patrimonial sense as augmentative and diminutive patrimonial variations.

However, it should be emphasised that, in Brazil, adopting the accrual basis in patrimonial accounting had no effect on budgetary accounting, where the cash basis continued to be used for revenues and commitment for expenses. Adopting the accrual basis does not require eliminating information obtained through the cash basis, whether the accrual basis is used only in patrimonial accounting, as in Brazil, or the budget, as in the United Kingdom. On the contrary, as the FRL prescribes, the complementary use of the cash basis is highly recommended. In this regard, Hoek observes:

Notably, accrual accounting does not require the abolition of cash-based appropriations. Some critics point out that an accrual budgeting system cannot be the system for a government for two reasons. First, budgetary laws often require the legislature to authorise cash payments. Second, an accrual system is tailored to income formation: it matches revenues and costs. However, it is impossible to match tax revenues with production costs in the public sector. HOEK (2005, p. 37)

Over the seventeen years of the FRL's enactment, significant transformations have driven the strengthening of public accounting and the adoption of the full accrual basis. The convergence process of Brazilian public accounting to international standards, starting with MF Ordinance No. 184/2008 and Decree nº. 6,976/2009, imposed a patrimonial perspective and the adoption of the full accrual basis, as per IPSAS 1 – Presentation of Financial Statements (IFAC, 2010).

The adoption of the accrual basis in the Manual of Accounting Applied to the Public Sector (MAAPS) was the subject of analysis and intense debate at the Court of Accounts of the Union, which assessed the relevance of the convergence process to international public accounting standards as part of the TCU Decision No. 158/2012.

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The decision favoured the adoption of the accrual basis, but the process debated the risks to fiscal management. The technical analysis expressed concern that the accrual basis might open new possibilities for non-compliance with the FRL due to the overestimation of revenues: *With the change in the accounting regime, the 'financial receivables' will start to include items whose value will be recorded by estimate, allowing federal entities to control their net debt through 'overestimated' revenues.* (TCU, 2012).

It is known that earnings management and recourse to creative accounting are not exclusive to the public sector or Brasil. The practice in the private sector has been analysed by various authors and is associated with the accrual basis (see, for example, Baraldi (2012) and Martinez (2008)). Therefore, this experience demonstrates that the mere adoption of the accrual basis is certainly not enough to prevent creative accounting.

However, it cannot be said that convergence to international standards, with the consequent adoption of the accrual basis, is responsible for generating creative accounting. Accounting standards, however good they may be, do not eliminate the risk of poor management, especially if a culture of fiscal responsibility is not well established. The following section analyses the consequences of using the cash basis in the Statement of Primary and Nominal Results.

III. Effects of the cash basis on the statement of primary and nominal results

The primary result aims to measure the government's fiscal effort at the current time to assess how much the current government contributes to the sustainability of fiscal policy, that is, disregarding the burden of debt incurred in the past. The primary result is not a 'saving for interest payments'; it is not savings but allows measuring the government's ability to pay its debts. For this reason, the primary result is the non-financial component of the fiscal result, and its calculation is done by excluding financial revenues and expenses, as well as privatisation revenues. However, the primary result is not the best fiscal measure since the debt and its interest must be paid regardless of the management in which they become commitments. Therefore, the nominal result is the best measure of the current fiscal situation. To obtain it, financial revenues and expenses must be considered.

The FRL provided that the bill of budgetary guidelines preceding the budget preparation should include a Fiscal Goals Annex, with annual targets for three fiscal years related to revenues, expenses, nominal and primary results, and the amount of public debt. The compliance with fiscal targets should be monitored throughout the fiscal year, and if at the end of a bimonthly period it is found that the realisation of revenue may not accommodate the achievement of primary or nominal result targets, a limitation on commitment and financial movement should occur, thereby restricting budgetary and financial execution to ensure meeting the targets. Also, suppose the limit of consolidated debt is exceeded at the end of four months. In that case, the necessary primary result should be generated to return to the limit, including through commitment limitation. Bi-monthly, the Summary Report of Budget Execution would demonstrate, among other things, the primary and nominal results and the justifications for the limitation of commitment and revenue shortfall when they occur. Thus, there is an internal coherence that unites the establishment of fiscal targets, their monitoring, the necessary management measures for compliance, and finally, the disclosure (Brasil, 2000, arts. 4, §1, 9, caput, 31, caput and §1, II and 53, III and §2).

When the FRL came into effect, the primary and nominal results calculation had to utilise the systems and information available at that time, which were limited to budgetary revenues and expenses, as well as information generated by the cash basis and obtained from the financial system. It would be expected that the necessary conditions for full compliance with the FRL would be created by adopting the accrual basis for assets, liabilities, net equity, and augmentative and diminutive patrimonial variations. However, parallel to the development of patrimonial accounting, various interpretations proliferated that deviated from the original interpretation of the FRL, and the models of the Statements did not always keep up with the availability of information.

For some time, the argument in favour of using the cash basis was that the Country was still in the initial phase of the convergence process to international public accounting standards and the accrual basis was not yet fully implemented. However, the Federal Government's Cost Information System (CIS) already used a methodology close to the accrual basis, starting from the information at the expense settlement stage.

A possible explanation for the tradition of using the cash basis lies in the concept of path dependence by North (1990), which illustrates how the set of decisions faced in any situation is limited by the decisions made in the past, even though past circumstances may no longer be relevant.

Traditionally, the fiscal results most consulted by opinion formers, including financial market investors, are those published by the Central Bank, which uses the below-the-line concept, showing how the result was financed and based on information from creditors. This system was considered a more reliable source than accounting for a long time because it captured information from creditors, not debtors. Thus, even after the development of accounting, users might feel more comfortable using below-the-line statistics simply due to familiarity.

The Central Bank maintains the System for Registration of Credit Operations with the Public Sector, where financial institutions report the variation in debt of all public entities with banks every month and by contract. The nominal result below the line corresponds to the period's net fiscal debt variation. As the contracts

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allow identification of the associated indexers and as their variation in the period is known, a proxy of the interest on the amount of the debt is calculated. This situation leads to the primary result.

Before the FRL, the NTS published the National Treasury Result monthly, including Social Security and the Central Bank, as shown in Table 2. In this case, the primary result, item VI of Table 2, is determined by the above-the-line criterion, that is, by the method that allows explaining, through the behaviour of revenues and expenses, how the result was generated, with information from accounting.

To reconcile this value with the primary result determined by the Central Bank, item IX of Table 2, a methodological adjustment is added regarding transitory resources from the amortisation of Itaipu contracts with the National Treasury (extra-accounting information), and, by difference, a statistical discrepancy. This statistical discrepancy has the sole function of making the primary result above the line equal to the primary result below the line. It does not correspond to any specific concept, generally attributed to differences in scope or compilation period (Brasil, 2012, p. 9).

Table 2: National Treasury Result

Discriminação	em R\$ milhões, valores correntes					
	REGIME DE CAIXA (I) ACIMA DA LINHA		REGIME DE CAIXA (I) ABAIXO DA LINHA SEM DESVAL. CAMBIAL		REGIME DE COMPETÊNCIA ACIMA DA LINHA COM DESVAL. CAMBIAL	
	2015	2016	2015	2016	2015	2016
I. RECEITA TOTAL	1,247,789.3	1,314,952.9			2,274,106.7	2,649,036.2
II. TRANSF. POR REPARTIÇÃO DE RECEITA	204,684.3	226,835.3			293,042.2	349,733.6
III. RECEITA LÍQUIDA (I-II)	1,043,105.1	1,088,117.6			1,981,064.5	2,299,302.6
IV. DESPESAS	1,158,700.9	1,242,372.9			2,221,739.8	2,843,141.1
V. FUNDO SOBERANO DO BRASIL	855.0	0.0				
VI. PRIMÁRIO GOVERNO CENTRAL	-114,740.8	-154,255.4			-240,675.3	-543,838.5
VII. AJUSTE METODOLÓGICO ³⁾			3,888.4	3,721.9	3,888.4	3,721.9
VIII. DISCREPÂNCIA ESTATÍSTICA			-5,803.2	-8,939.9		
IX. RESULTADO PRIMÁRIO DO GOVERNO CENTRAL (VI + VII + VIII)⁴⁾			-116,655.6	-159,473.4	-236,786.9	-540,116.6
X. JUROS NOMINAIS ¹²⁾			-397,240.4	-318,362.1	-115,626.1	-414,106.5
XI. RESULTADO NOMINAL DO GOVERNO CENTRAL (IX + X)⁴⁾			-513,896.0	-477,835.5	-352,413.0	-954,223.1

Source: National Treasury Result, National Treasury Secretariat.

It is known, from the Fiscal Statistics Manual, that the Public Sector Financing Requirements (RFPS) in the nominal concept correspond to the nominal variation of the net debt balances, deducting patrimonial and methodological adjustments 'to remove from the flows values that do not represent fiscal effort expended during the period under analysis' (Brasil, 2012).

The methodological adjustment excludes the exchange rate devaluation of the net external debt and the domestic debt linked to the exchange rate, justifying that 'the variation of the exchange rate for the holder of the title linked to foreign currency does not mean a real increase in their income, i.e., the impact on demand tends to be neutral'. The Court of Auditors' Decisions No. 435/2009-TCU-1st Chamber and 5403/2009-TCU-1st Chamber questioned using the nominal result without exchange rate devaluation. In the case of currency depreciation, the nominal result with devaluation is greater (more negative) than the nominal result without devaluation. Thus, in compliance with the Decisions, from the 1st four-month period of 2010, the FRL statements began to use data from Integrated System of Financial Administration of the Federal Government-ISFA (SIAFI), which included exchange rate devaluation.

The privatisation adjustment ensures that revenues from the privatisation of state-owned companies are excluded, on the understanding that they do not represent a fiscal effort by the government. However, revenues from other asset disposals, which can be observed in the accounting, are maintained, which is not a very strict criterion. Adjustments for the recognition of debts are also made to exclude debts that were incurred previously and have only been accounted for in the period ('skeletons' and reclassification of accounts).

It is interesting to note that the starting point of the concept of Public Sector Financing Requirements (PSFR) in the Central Government, item XIX of Table 2, the nominal result below the line, calculated by the Central Bank, mixes cash and accrual bases, which leads to a cash and accrual adjustment 'to reconcile stocks and flows'.

The PSFR determine the result on a cash basis, except for the interest results, which are determined on an accrual basis. This means that public expenditures (except for interest) are considered as a deficit at the moment they are paid, not when they are incurred. The same applies to revenues, which are accounted for when they enter the government's cash flow, not when the generating event occurs. (Brasil, 2012, p. 10)

The Central Bank has the enforcement power to request information from financial institutions about credits and assets of the public sector. However, this information does not explain the results. It is incomplete

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because it does not include debts that have not been incurred with banks, and due to confidentiality guaranteed by fiscal secrecy, it is impossible to publicise the details of the calculations.

Currently, accounting allows for more comprehensive information than in the past, both above and below the line, both under the cash basis and the accrual basis, with the advantages of not using proxies and offering explanations on the behaviour of results. However, in establishing standards for the statements required by the FRL, there was resistance to the idea of adopting above-the-line information under the accrual basis, and an effort was made to reconcile the above-the-line results calculated by the NTS with the below-the-line results calculated by the Central Bank. As the Central Bank compares financial flows, the only accounting regime that allows this reconciliation is the cash basis. Thus, the standard for the Primary Result Statement adopted the cash basis. The somewhat questionable ad hoc assumption is that the primary result calculated by the Central Bank is the correct, official one. At the same time, that which comes from accounting must adjust.

What appears to be an extension of the reasoning that suggests the possibility of the coexistence of budgetary accounting with patrimonial accounting led to the interpretation that assumes there are three worlds – budgetary, patrimonial, and fiscal (Brasil, 2016 b, p. 23/24). This thesis adopted in the Fiscal Demonstratives Manual- FDM (MDF) assumes that different accounting criteria should be used in the three 'worlds'. The basic difficulty lies in ignoring that these 'worlds' are not watertight, they communicate, and in the case of debt, essentially a patrimonial variable, the only regime that makes sense is the accrual basis.

Another aspect is the purpose of the Statement of Primary and Nominal Results. The MAAPS seems to overlook that the objective of this statement is to provide useful information for decision-making.

(...) the financial statements and guidelines for fiscal reporting have different objectives. The public sector entities' financial statements provide useful information about the reporting entity aimed at accountability and decision-making. Fiscal reports are used primarily for (a) analysing options for fiscal policy, defining these policies, and assessing their impacts; (b) determining the impact on the economy; and (c) comparing national and international fiscal results. (Brasil, 2016 b, p. 23/24)

The information in the fiscal statements is part of the accountability process and can lead to the manager's accountability. Under the FRL, the limitation of budgetary expenses is mandatory if there is an indication that the result targets will not be met. The other possibilities for using the information mentioned by the Manual of Accounting Applied to the Public Sector- MAAPS (MCASP) are, in fact, complementary. This purported separation seems to have been a way to reconcile the legal requirement for adopting the accrual basis with the continued practice of adopting the cash basis. It was justified that the accrual basis would be used only for patrimonial accounting. In contrast, the full cash basis would continue calculating the primary and nominal results.

Beyond tradition, or the concept of path dependence, resistance to adopting the accrual basis can also be partly explained by opportunistic attitudes of a management with little commitment to fiscal responsibility. It cannot be ignored that the political alternation in the Union in 2003 strengthened the pro-spending coalition, allowing it to return more forcefully to the fray. Using the terminology of the authors of the Advocacy Coalition Framework-ACF, given the impossibility of altering the FRL through legislative means, facing the policy core beliefs, the limits, goals, and specific rules of the legislation, creative accounting may have allowed the secondary beliefs, the operational and accounting aspects, to alter the FRL in practice, without legislative changes (Sabatier, & Weible, 2007).

This explanation also aligns with the taxonomy of Mahoney and Thelen (2010) for gradual institutional change. The manuals issued by the NTS and the annual enactment of budgetary guideline laws would allow for layering, adding new interpretations to the original rules of the FRL and changing its impact. This effect was amplified when the pro-spending coalition came to power in 2003 and when the change in the external scenario in 2009 provided arguments for increasing public spending. This is the process known as drift, where the rules remain the same, but their impact changes due to changes in the context/environment. As will be seen, the thesis that the fiscal result should be calculated on a cash basis can generate problems of internal consistency in compliance with the FRL.

During the fiscal year, amounts of committed expenses that have not yet been settled should not be included. At the end of the fiscal year, committed expenses, not yet settled and recorded as unprocessed outstanding liabilities, as they constitute pre-existing obligations arising from contracts, agreements, and other instruments, should be included, due to legal commitment, in the total executed expenses. Therefore, during the fiscal year, only settled expenses are considered executed expenses. At the end of the fiscal year, both settled expenses and those recorded as unprocessed outstanding liabilities are considered executed expenses (Brasil, 2013, p. 233).

That is, until the 5th edition of the FDM, the Federal Government explicitly adopted one accounting criterion for itself and another for the other entities of the Federation. In the transition from the 5th to the 6th edition of the FDM, the text above regarding expenses was omitted, without any explanation, in the Summary of Changes published on the NTS website. However, the same model of the Statement, which identified committed, settled, and paid expenses, remained without clarifying which concept should be used to calculate the primary result.

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Only in its 8th edition did the FDM start to stipulate the cash basis for all entities, unifying the methodology for the Union, states, and municipalities in a manner contrary to what the FRL prescribes. Paradoxically, the argument used by the FDM is that the result determined by the cash basis would be the most suitable for the purposes of the legislation because it would allow the identification of the impact on the debt:

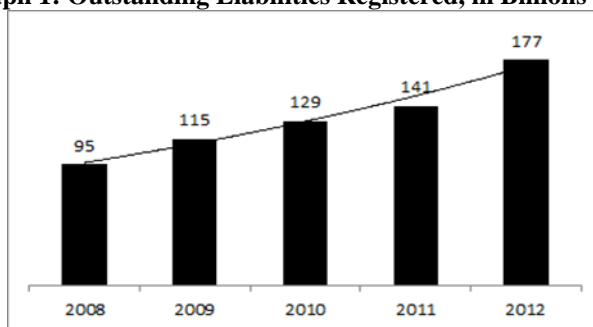
In this regard, primary revenues, for the purposes of the normative framework created by the FRL and RSF No. 40/2001, will be considered those budgetary revenues that effectively decrease the amount of the CDL (Consolidated Debt Liability), i.e., those that increase the cash availability of the entity without an equivalent increase in the amount of its consolidated debt, excluding those with financial characteristics (such as interest on loans granted or remunerations of financial availabilities) and those resulting from the disposal of investments. Primary revenues are, therefore, budgetary revenues necessarily determined by the cash basis. Similarly, primary expenses are those budgetary expenses determined by the cash basis, which decrease the stock of cash availability and financial assets without a corresponding decrease in the equivalent stock of the consolidated debt (Brasil, 2017a, p. 218).

The model of the Statement of Primary and Nominal Results of the Union above the line, defined by the 8th edition of the FDM, applicable to 2018, shows budgetary revenues and expenses by the full cash basis, according to the concept of effective payment, which corresponds to the value of the withdrawal made in the Single Account. The information is extracted from the Integrated System of Financial Administration of the Federal Government-ISFA(SIAFI), which records, among other things, budgetary and patrimonial accounting. In budgetary accounting, there is a record of collected revenue and the three phases of expense (commitment, liquidation, and payment). For the determination of the primary result, it is sufficient to consider the collected revenues and the paid expenses of the fiscal year, as well as the Processed and Unprocessed Outstanding Liabilities, which refer to the financial execution of budgets from previous years but were paid in this fiscal year. The second part of the model, for the first time, unifies the statements of the primary and nominal results of the Union and states and municipalities, adopting the full cash basis for all (Brasil, 2017, p. 222), which may extend to the Federation the problems that will be analysed next.

When comparing above-the-line and below-the-line, the statement clarifies that there are two options for the result, depending on the source of information, since, unlike the National Treasury Result, the statistical discrepancy is not contemplated. An important aspect that is not clear in the FDM is what the official source of information for comparison with the debt targets and the primary and nominal results in the Fiscal Goals Annex of the Budget Guidelines Law will be.

Furthermore, both above-the-line and below-the-line adopt the cash basis, which has generated various incentives for fiscal irresponsibility. It became common, especially from 2009 to 2012, to postpone the payment of expenses, operationalised by various mechanisms. The main one was the exponential increase in Outstanding Liabilities, as observed in graph 1.

Graph 1: Outstanding Liabilities Registered, in Billions of R\$



Source: TCU (2013, p. 118), pertaining to the 2012 Accounts.

Such actions have consequences for the calculation of fiscal results. The effect of fiscal decisions is not known at the time the decisions are made, and due to the growing rollover, it is often only revealed much later when the payment of these expenses impacts the calculation of the primary result. In practice, under the cash basis, expenses can continue to be incurred as long as they are not paid, which does not align with the purpose of the FRL in establishing the fiscal target.

Ruling No. 825/2015, also indicated that the Federal Government had been using various operations between the Treasury, the Sovereign Fund, and NBESD (BNDES) for some time, as well as between the Treasury, Caixa Econômica Federal, and Banco do Brasil, to manage results. The known subterfuges, called creative accounting or "fiscal maneuvers," involve more than ten operations of revenue anticipation and expense postponement, according to Roarelli, Ornelas Neto, & Brown Filho (2014). Safatle, Borges, & Oliveira (2016, p. 117) also describe the ritual of waiting for the officials responsible for issuing bank orders, who should wait for

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the closure of the Integrated Financial Administration System of the Federal Government - ISFA (SIAFI), at 5:10 PM, to make payments that would only be recorded the next day.

Another distortion is the generation of earmarked financial balances (expenses for health and education, for example) that generate primary results on a cash basis but cannot be used to pay off the debt. The correct approach would be to only consider in the primary calculation the differences between revenues and expenses that can be used to reduce the debt, which would also be resolved by adopting the accrual basis.

In addition to perpetuating the cash basis, the annual edition of Budgetary Guidelines Law allowed for layering in the concept of primary results. According to the Fiscal Responsibility Law (FRL), the calculation scope should cover the Federation's entity (excluding non-dependent state-owned companies) at all stages, from the target to determine the primary result and debt. This is because the objective of non-dependent state-owned companies should be profit, Nunes (1997). When the management of these companies functions properly, they do not rely on resources from the Treasury but only pay dividends to their controller. The logic, therefore, is distinct from other government entities, and there is less control and a lesser ability to induce the generation of fiscal results over them.

Another layering of the Budgetary Guidelines Law (BGL) relates to the concept of primary results. Except for the years from 2003 to 2008 and 2012, in all other years, the fiscal target was explicitly altered through changes to the BGL. However, other implicit changes occurred frequently, such as introducing reducers in 2005 when the unusual concept of "primary expenses that do not impact the primary result" was created. Since 2005, budgetary expenses related to investments, the investment budget of state-owned companies (in 2008 and 2010), the Growth Acceleration Program – GAP (from 2009 to 2015), their respective outstanding commitments, the excess compared to the previous year's primary surplus target (in 2007, 2010, and 2011), and tax exemptions (in 2013 and 2014) have been excluded from the calculation of primary results.

In 2015, also excluded from primary expenses were: potential frustration of the estimated revenue from concessions and permissions related to the auctions of non-renewed Hydroelectric Plants - UHEs (estimated at R\$ 11.05 billion), the payment of liabilities and amounts owed to the Guarantee Fund for Time of Service - GFTS (FGTS), to the National Bank for Economic and Social Development - NBESD as an equalisation of interest rates calculated up to the end of the first quarter of 2014, corresponding to periods prior to the second quarter of 2014, to Banco do Brasil related to the equalisation of rates - Agricultural Harvest and Title and Credits to Receive - National Treasury, excluding the amounts owed for the second half of 2014 and the first half of 2015, to Caixa Econômica Federal as banking remuneration for services provided (in total, R\$ 57.013 billion).

The starting point for establishing fiscal targets in the BGL (Annual Budget Guidelines Law) is the difference between the predicted variation of the debt and the desired variation, which are equivalent to the required primary result, i.e., the target for the required primary result. Traditionally, the source of information has been the debt ascertained by the Central Bank using the cash accounting method. As is known, this value is not the same as the debt recorded in the accounting, which has a broader scope because it is not limited to banking debt, includes foreign exchange devaluation, and is calculated using the accrual accounting method.

The ideal would be to ascertain the primary and nominal results on an accrual basis, based on accounting information, clearly identifying the variations in revenues and expenses that explain the result. Authors such as Pigatto (2004, pp. 156-157) argue that the emphasis on the primary result under the cash accounting system *is restricted to the short term*, which justifies that "the IMF's GFS suggests a long-term fiscal analysis based on the use of an accrual accounting system, which serves as the basis for the development of fiscal indicators." This would not prevent the results from continuing to be ascertained below the line by the cash accounting system, as provided by the Fiscal Responsibility Law (FRL), allowing for the circulation of information provided by debtors.

IV. Effect of the Accrual Accounting System on the Statement of Primary and Nominal Results

The establishment of standards for the FRL (Fiscal Responsibility Law) statements requires an analysis of the intrinsic functionality of each statement provided for by the FRL, adhering to the systemic analysis of the law's provisions and adopting the most appropriate accounting regime and measurement criteria for its purposes, so as not to compromise the objectives of control and transparency.

This resistance to adopting the accrual accounting system may have consequences for the disclosure of the fiscal situation of the public sector. Chan (2010, pp. 8-9) states, *The inability to match financial assets and liabilities, in terms of quantity and time, is one of the fundamental causes of liquidity and solvency problems, which could turn into a major fiscal crisis*. This is because the sustainability of fiscal policy is associated with a measure of intertemporal fiscal balance, given by the compatibility of revenues and expenses over time, considering debt payments. Thus, the behaviour of revenues and expenses should be reflected in the deterioration of fiscal results.

Not coincidentally, especially after 2009, fiscal imbalances have become increasingly less transparent. Part of the responsibility can be attributed to the concepts of results adopted in the public sector, which present various deficiencies and hinder accurate measurement. Adopting inappropriate criteria for preparing these

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statements can compromise the essence of the information disclosed to users. This might help to understand why an increase in expenditure capable of causing imbalances in public accounts of the magnitude observed was possible despite the fiscal rules established by the Fiscal Responsibility Law (FRL).

Table 3 compares the primary and nominal results calculated using the cash accounting system and the proposal of this study that both be calculated using the accrual accounting system based on information from accounting.

To calculate the primary result under the accrual accounting system, it was considered that the financial revenues that should be subtracted from the total revenues are the financial augmentative equity changes, and the financial expenses that should be subtracted from the total expenses are the financial diminutive equity changes. In this case, there is no statistical discrepancy. Based on the data, it would be possible to subtract gains from asset disposals from the augmentative equity changes and losses from asset disposals from the diminutive equity changes. However, it was decided not to do so because it does not seem to make much sense in the current methodology to exclude revenues from privatisation and not to exclude other disposals. A limitation in the calculation is that there is no data from the Sovereign Fund in the General Balance of the Union for comparison. However, as the value is not significant, it was decided to exclude it.

Table 3: Primary and Nominal Results under Cash and Accrual Accounting Systems

R\$ millions, current values

Discrimination	Cash System ⁽¹⁾ Above the Line.		Cash System ⁽²⁾ below the line		Accrual basis Above the Line	
			without currency devaluation		with currency devaluation	
	2015	2016	2015	2016	2015	2016
I. Total Revenue	1,247,789.3	1,314,952.9			2,274,106.7	2,649,036.2
II. Revenue Sharing Transfer	204,684.3	226,835.3			293,042.2	349,733.6
III. Net Revenue (I-II)	1,043,105.1	1,088,117.6			1,981,064.5	2,299,302.6
IV. Expenses	1,158,700.9	1,242,372.9			2,221,739.8	2,843,141.1
V. Sovereign Wealth Fund of Brazil	885.0	0.0				
VI. Central Government Primary Balance	-114,710.8	-154,255.4			-240,675.3	-543,838.5
VII. Methodological Adjustment ⁽³⁾			3,888.4	3,721.9	3,888.4	3,721.9
VIII. Statistical Discrepancy			-5,803.2	-8,939.9		
IX. Central Government Primary Result (VI+VII+VIII)⁽⁴⁾			-116,655.6	-159,473.4	-236,786.9	-540,116.6
X. Nominal Interest					-397,240.4	-318,621.0
XI. Central Government Nominal Result (IX-X)⁽⁴⁾			-513,896.0	-477,835.5	-352,413.0	-954,223.1

Source: Result of the National Treasury, National Treasury Secretariat.

Financing Needs of the Public Sector excluding foreign exchange devaluation, Central Bank of Brazil; General Balance of the Union, National Treasury Secretariat.

Notes: 1- Calculated by the concept of effective payment, which corresponds to the amount withdrawn from the Single Account; 2- Excludes duplications without effects on the consolidated primary result; 3- Transitory resources related to the amortisation of Itaipu contracts with the National Treasury; 4- In the case of the cash accounting system, calculated by the below-the-line criterion, without foreign exchange devaluation.

The calculation thus performed reveals that the primary deficit would have been R\$ 125 billion higher in 2015 and R\$ 389 billion higher in 2016 if it had been calculated using the accrual accounting system. However, caution is advised in analysing these values, considering that errors in accounting records cannot be ruled out due to the relatively recent adoption of this system, which still requires staff training. In addition, no equity adjustments were made, a hypothesis that deserves to be studied, considering that when adopting the accrual accounting system, liabilities that were not previously considered may be recorded.

Moreover, it is true that even if the same scope and the accrual accounting system, both above and below the line with information extracted from accounting, are used, not all inconsistencies in fiscal result control would be eliminated because the budget in Brazil is not prepared on an accrual basis. Therefore, even though the primary and nominal results are evidenced on an accrual basis, the fiscal target set in the Annual Budget Guidelines Law –BGL (LDO) will be observed in the budget, which, as demonstrated, is an imperfect tool for controlling fiscal results. Monitoring in budgetary and financial execution, as well as the limitation of commitment and payment, in terms of Article 9 of the Fiscal Responsibility Law (FRL), will use budgetary and financial controls, which are also imperfect.

The space for inconsistencies in the budgetary-patrimonial-fiscal worlds was analysed by Ellwood and Newberry (2007, p. 556):

The principles of fiscal responsibility stipulate the application of any operating surplus to repay debt until the debt is reduced to an unspecified "prudent" level; and the requirement for balanced budgets thereafter. (...) In an accrual accounting environment, a reported operating surplus is not necessarily cash and therefore cannot be expected to reduce debt automatically.

It should be noted that although some countries prepare the budget under the accrual accounting system, this option is not the most common, nor is it immune to criticism. The main risks are the overestimation of revenues, both in the Executive and Legislative branches and the difficulty of making adjustments in budgetary

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and financial execution by cash, limiting commitment and financial movement. This is one of the main mechanisms inducing fiscal balance and could thus be impaired by the successive postponement of spending cuts. Monteiro and Gomes (2013) summarise in Table 4 what, in the authors' view, would be the advantages and disadvantages of budgeting by accrual.

Table 4: Advantages and Disadvantages of Accrual-Based Budgeting

Advantages	Disadvantages
<ul style="list-style-type: none"> Increased transparency of the cost of public services Improved accountability for results 	<ul style="list-style-type: none"> Increase in accounting estimates in the budget, potentially generating uncertainty about the budgeted numbers..
<ul style="list-style-type: none"> Generation of information in the same regime as accounting information 	<ul style="list-style-type: none"> Increased complexity of the budget.
<ul style="list-style-type: none"> Improved allocation of expenses for the maintenance of public assets 	<ul style="list-style-type: none"> Parliamentary control over the budget is diminished.
<ul style="list-style-type: none"> Better identification of contingencies that will be paid in the future 	

Source: Monteiro & Gomes (2013, p. 110).

V. Conclusion

The study presented a critical view of adopting the cash accounting system in fiscal result statements in Brazil, demonstrating that it can contribute to explaining the imbalances in public accounts. Particularly worrying is the extension of the full cash regime to states and municipalities proposed by the 8th edition of the FDM, applicable to 2018. The risk may encourage additional fiscal problems in these entities, which already have a less entrenched culture in monitoring fiscal targets.

In the case of public accounting, the sustainability of fiscal policy is one of the most relevant pieces of information, and the statement of primary and nominal results must allow for such accountability. As debt is essentially a balance sheet variable, the only sensible accounting basis is the accrual basis. The impact of fiscal decisions needs to be known when the decisions are made, not much later when the payment of expenses affects the calculation of the primary result. The establishment of fiscal targets and their monitoring throughout the fiscal year requires timeliness in calculations.

In the analysis, the following were assessed: a) adherence to the provisions of the Fiscal Responsibility Law (FRL), including in terms of conceptual scope, methodological consistency, and the sources of information used; b) the most appropriate accounting regime for the purposes of the statement; c) the influences exerted by the variable in question in the budgetary, financial, and asset worlds, demonstrating to what extent they are not watertight. It was shown that the cash basis has consequences for methodological consistency in controlling the FRL, and, together with the conceptual scope of fiscal results, which varies over time, and the sources of information used, has contributed to reducing control of public spending.

Neo-institutionalist theory aids in understanding this process. Tradition, or the concept of path dependence, appears to be an important element in explaining the resistance to adopting the accrual accounting system. However, it's worth noting that, in the public sector, information asymmetry can serve the opportunistic interests of the agent (government) to use the cash basis for advancing receipts and delaying payments in a manner that is not transparent to the principal (citizen), especially if the management is not closely aligned with fiscal responsibility. The taxonomy of Mahoney and Thelen (2010) for gradual institutional change also helps to understand how the concept of fiscal result has been altered over time.

The primary objective of accounting in the public sector is to disclose useful information to the user. Depending on the needs of each statement required by the Fiscal Responsibility Law (FRL), whether in the Summary Report of Budget Execution – SRBE, or in the Fiscal Management Report – FMR, it is necessary to have clarity about the object to be disclosed in order to understand whether the best concept is budgetary, asset-related, or a combination of both and whether additional modifications are needed. The accounting regime and the measurement criteria should be chosen in a way that does not compromise the objectives of control and transparency.

In this regard, an attempt was also made to present a proposal for calculation under the accrual basis, based on accounting information, identifying the variations in revenues and expenses that explain the result. Caution is recommended in using these values, as the adoption of the accrual basis is recent, and, in our calculations, no asset adjustments were made.

As a suggestion for continuation, it is understood that the proposal should be refined by identifying whether there is a need for asset adjustments and what source of information could be used for this purpose. Also deserving of further study are the impacts of adopting the accrual basis on budget and financial execution, considering that the budget is not prepared on an accrual basis. Additionally, it would be desirable for a similar analysis to this article to be carried out for the Statement of Personnel Expenditure.

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The convergence to international standards revives the foundation of accounting theory in the public sector, allowing for identifying accounting practices that generate inconsistency with the Fiscal Responsibility Law's (FRL's) objectives. However, it is cautioned that although the accrual basis is the most suitable for determining fiscal results, it does not eliminate the risk of creative accounting and poor management, which cannot be attributed to adopting a particular accounting regime or converging with international standards.

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