Accounting and Accountability: The Political Effects of Technical Reforms in Brazil

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Abstract

This paper analyses reforms in the Brazilian national accounting system, applying an analytic approach derived from institutional theory of organizations. It considers how reforms were instigated and led, and whether the formal rule changes proposed by the reforms were supported by the norms and cognitive understandings of the principal actors: politicians and techno-managerial staff of federal, state and municipal governments and courts of account. Two interconnected reform waves are analysed: first, the introduction of a ‘fiscal responsibility’ law, which required sub-national governments to operate within fiscal limits and strengthened the role of courts of account at state and federal levels; second, the adoption and application across all levels of government of a system of accounting based on international standards, which also strengthened the federal Treasury’s role as accounting authority. While the second reform was more technically motivated than the first, political leaders and their personal teams initiated both. The World Bank and IMF supported the reforms in alignment with the aspiration of internal actors. Both reforms have the effect of making the political executive and public managers more responsible for their decisions, and put information in the public realm that could strengthen accountability. However, especially in the second case (where reform is a protracted and wide-ranging process) reform is more potential than realised. It has encountered active and passive, political and bureaucratic resistance; and the normative and cognitive requirements for accrual accounting to work are only patchily in place.

Keywords: Public sector accounting, accounting reform, IPSAS, institutions.

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1. Introduction

This paper considers the process and effect of reforms on public financial management (PFM) in Brazil, specifically fiscal and accounting regulation. It pursues two main arguments about (i) the possibility that complex technical reforms may transform political relationships between levels of government, politicians and administrators, government and citizens; (ii) the effectiveness of a reform process pursued below the radar of politics until it eventually surfaces as a body of rules that have international, professional and public legitimacy.

Brazil is an interesting and emblematic case because it is not a country that is subject to reforms by the pressure of external agencies, as is widely the case in developing countries where externally induced reforms often fail (Andrews, 2013). On the other hand it is strongly influenced by what is perceived as good practice in OECD countries. The federal system, redesigned by the 1988 Constitution, lacks central coordination mechanisms that are able to ensure implementation of reforms at sub-national level. Reform therefore has to be a negotiated process, which could conceivably be an advantage if the negotiation led to widespread appreciation of the substance as well as the symbols of reform (ibid).

Since 1994 Brazilian governments have been reforming public financial management institutions. They first implemented a fiscal discipline regime, and then in 2008 initiated a process of convergence of governmental accounting with International Public Sector Accounting Standards (IPSAS). In many countries, these may be considered reforms of minor political consequence. In Brazil, on the other hand, with a high level of decentralization and local autonomy together with persistent political patrimonialism, they could transform relations of accountability and the balance of power between levels of government and between politicians, unelected officials and the public. As anywhere else, such reforms may be too technical for most people, including politicians, to notice or understand. Lack of political engagement may free technically-minded reformers to execute their plans; on the other hand, it may mean that reforms remain superficial precisely because they have not gained the support of political leaders. In the current Brazilian context, these reforms in public financial management may have a more than usual political significance and popular relevance. They take place in a potentially supportive environment of rising citizen expectations in the face of deep dissatisfaction with the cost of political corruption and the ineffectiveness of public services. Public protests centring on complaints about the misuse of public finance in the period running up to the Football World Cup in 2014, the Petrobras corruption scandal of 2015, and the Olympic Games of 2016 all illustrate this.

While the focus of this paper is on reforms in the Brazilian PFM system, we analyse accounting and accountability as interacting institutions that are both in a state of change. The capacity of citizens, political leaders, senior managers and auditors to hold agents to account depends on information about the use of public funds; equally, changes in accounting techniques, rules and procedures affect the possibility of exercising accountability. The paper presents a political analysis of fiscal and accounting reforms. While this requires knowledge of the technical nature of accounting and of its reform, we avoid detailed technical explanations. This paper is entirely qualitative and interpretive in its approach but it builds on prior quantitative analysis of the adoption of the reforms, across most of Brazil’s 5570 municipalities and 26 states (Aquino and Cardoso, 2013). The quantitative analysis suggested some of the questions which we pursue here. One of the authors conducted a series of interviews with senior staff from the Treasury and with politicians who have participated in the design of the relevant fiscal legislation (including the delivery of previous versions of it), in the IPSAS convergence process and in
the preparation of current versions of Brazil’s ‘Whole of Public Sector Accounting’. Finally, we interviewed auditors of the sate-level courts of account and the heads of finance departments in local governments.

We first set out our framework for analysis and then consider the formative history of Brazilian accounting and finance institutions, followed by the sources of the drive for reform, the nature of the reforms proposed and to some extent undertaken between 1994 and 2014. We go on to select two reforms for comparison, examining the political context in which they were initiated, the nature and role of reforming groups and coalitions, whether and how professional and cross-governmental networks were used to diffuse and implement the reforms, and the sources of resistance in terms of both (i) types of actor and (ii) their embedded values, practices and capacity.

2. Accounting reforms as institutional change

Since the 1980s the agenda for change in developing countries has embraced a well-known set of proposals for public sector institutional reform in developing countries. These have been summarized as including market-friendly engagement by governments with the private sector, the ‘modernization and formalization’ of cross-governmental processes like public financial management and decentralization, and the promotion of disciplined behaviour by governments in the management of their own human and budgetary resources (Andrews, 2013: 9-10). Public sector institutional reforms accounted for 65% of all World Bank operations between 2000 and 2010 and a quarter of all its spending between 2006 and 2011 (Andrews 2013:6; World Bank financial report, 2012). Issues of public financial management have been at the core of these reforms.

In many developing countries those reforms are designed by ministers of central government advised by external agencies, not involving departments and others levels of government, and limiting the mechanisms to formal change, such as new laws, procedures and systems (Andrews, 2013: 8). In such countries, reforms have been frustrated, because they have not recognized the institutional underpinnings of existing practices. It is not enough to enact a law; to be effective new forms of behaviour have to be embedded within organizations. Institutional theory suggests that a reform will only be effective when formal rules and procedures are socially acceptable, understood and supported by those participating in them.

In analysing accounting as an institution, we adopt an approach derived from institutional theory of organizations. Institutions are societal rules, norms and understandings that “provide stability and meaning to social life” (Scott 2014: 56). They are not just external contextual factors but operate through actors and organizations; in the words of Berger and Luckmann (1967:78), institutions are dead “unless they are ongoingly ‘brought to life’ in actual human conduct”.

Both Public Sector Accounting and public accountability can be understood as institutions, in the sense that they are a set of steering mechanisms that define, regulate and legitimate practices regarding the expectation of collection and usage of public money to deliver services, infrastructure and public goods. As Broadbent & Laughlin (2013:10) state: Accounting, in its various forms, provides, in complex ways, this forward-looking (ex ante) information, which clarifies expectations accompanying money transfers and backward-looking (ex post)
information that provides an account, using this broadly, as to whether the ex ante expectations have been achieved.

As Broadbent & Laughlin (ibid:15) point out, it is *ex post* information that relates to the accountability function; this is the basis on which public managers can be held responsible for their choices. ‘Public managers’ we understand to include particularly the bureaucracy and the political executive, but also the political representatives and courts of account charged with exercising the accountability function. To reform public sector accounting is therefore to reform rules of accountability, and ultimately to transform understandings of the use of public money and of the fundamental values on which usage should be assessed (e.g. efficiency, economy and equity). According to the literature (idem), the replacement of cash-based accounting by accrual-accounting would drive politicians to give more attention to efficiency than to the availability of resources in making budgetary decisions.

(b) The elements of institutions

Scott (2014: 56-57), describes institutions as comprising three pillars: “regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to life”. He brings these elements together from different disciplines: the regulative aspects have been emphasized by economists; the normative and cognitive by sociologists and anthropologists. Bearing in mind our intention to understand accounting reforms and their effect on accountability, we illustrate these elements by drawing examples not only from Scott but also from Andrews (2013) who uses Scott’s framework to develop a framework for improved reform processes in developing countries. Andrews exemplifies this partly by analysing the institutional requirements of reforms in national accounting and auditing systems to make them compliant with international standards.

**Regulative:** “Regulatory processes involve the capacity to establish rules, inspect others’ conformity to them, and, as necessary manipulate sanctions – rewards and punishments”. These may also be backed by emotional sanctions such as fear, dread and guilt (Scott pp. 59-63). Andrews (p. 74) analyses formal mechanisms: laws requiring accounting and auditing, and laws regulating the associated professions; the regulation by specific entities of compliance with these laws.

**Normative:** “Normative systems include both values and norms” that both constrain and enable action, and are internalized as well as imposed. Values are conceptions of what is preferred or desirable, leading to the construction of standards. Norms specify the legitimate means to pursue valued ends (Scott pp. 64-65). Andrews’ analysis (p.74) picks out: (i) formal accounting and professional standards, and the existence of bodies that set and comply with standards, the behaviour of practitioners, their entry and accreditation, and (ii) norms of qualification and accreditation to professional bodies, and of adherence to professional ethics and standards – both in public agencies and the business community. Norms of the wider polity and society may support or undermine compliance.

**Cultural-cognitive:** These are the common, taken for granted understandings about who does what roles and about “the way we do things here”. They give actors “certitude and confidence” about their “compliance with prevailing cultural beliefs” (Scott pp. 66-70). Andrews identifies formal information, education and training, giving guidelines for compliance; and the cognitive capacities (awareness and skills) of accounting and auditing practitioners and of the business.
community to understand, interpret and apply accepted practices. Norms of the wider polity and society may introduce conflicting understandings and interpretations.

For Scott and many other organizational theorists (see Greenwood et al 2008”), most institutions are composed of combinations of these elements. The fact that our summary of Andrew’s analysis is able to trace the ideal requirements of international accounting standards across the three elements illustrates how they may combine in a well aligned system. However, Andrews’ point is that they are unlikely to be aligned where reforms are externally imposed on countries which do not have the necessary conditions: intended reforms are likely to fail, or new (formally unrecognized) hybrid arrangements may emerge which embrace compromises with locally observed ‘practical norms’. These hybrid forms may be dysfunctional or effective (Bierschenk and Olivier de Sardan 2014). Andrews (2013: 172-191) recommends that positive outcomes can be achieved by a deliberate process of ‘problem-driven iterative adaptation’.

(c) Processes of institutional change

Once established, institutions that come to be “taken for granted, normatively endorsed and backed by authorized powers” are likely to persist (Scott 2014: 71). However, organizational institutionalism recognizes three broad causes of change: (i) the purposive action of agents who intend to create or change institutions; (ii) iterative problem-solving behaviour of many actors that may collectively lead to change; and (iii) incremental diffusion and adoption of organizational forms and practices as institutions come to be seen as legitimate and taken for granted (ibid: 114).

Agents with purposive intent are described as ‘institutional entrepreneurs’ who seek to create new institutions or transform existing ones. They are actors with access to power and an interest (a stake)vi. Scott identifies likely candidates for this role as individuals or organizations of the nation-state, business organizations, the professions, national and international associations, social movements, and people who make links between otherwise separate social networks (ibid: 115-126, following DiMaggio 1988). Andrews (2013:93-109) challenges any assumption that purposive reform can be brought about by entrepreneurial heroes or champions alone; it needs to involve multiple agents distributed throughout the system to accept that there are problems with existing institutions, test solutions, craft, implement and accept the legitimacy of reforms.

The second type of change process is non-purposive, and instead results from a more spontaneous (‘naturalistic’ to use Scott’s word) and incremental adaptation to the environment and to other actors in the field. Widely referred to in the institutional literature is the idea that exogenous shocks or jolts (e.g. financial crises) may undermine the validity of the existing rules of the game and shake up relations between actors; those who had a weak fit with prior conditions and were marginal actors may abruptly find that new conditions give them opportunities to become core actors in a new institutional arrangement. Alternatively, the conditions for change may emerge where actors have to navigate between incompatible ‘institutional logics’ (Greenwood et al 2008: 19-21). As suggested above, a national accounting system may contain normative and cognitive elements that are not aligned: accountants may be required to act professionally but also to respect the authority of political patrons. Such tensions may lead actors to appeal to alternative logics (ibid: 21) and “are highly likely to give rise to institutional change” (Scott 2014: 71). Processes of spontaneous change may be more continuous than the idea of change precipitated by jolts or crises would imply. Rodrigues and
Child (2008), in a study of the development of a Brazilian company, analyse a process of co-evolution: continuous interaction and iterative adjustment between the institutional environment and organizational actors.

Thirdly, whether initiated by planned or spontaneous processes, there is change in the sense that institutions take time to be diffused and adopted as legitimate by organizations. An often referred to instrument of diffusion is the idea of ‘isomorphism’. This is widely understood to mean that organizations within a field of activity converge on the same form through coercion or mimicry of what is commonly regarded as best practice; the result is the appearance if not the reality of conformity within an organizational field (Andrews 2013: 69). Institutional isomorphism posits other possibilities: here organizations conform to (become isomorphic with) their institutional context rather than necessarily to other organizations (Greenwood et al 2008, chapter 1). Whether and how they conform depends on a variety of factors: their place (central or peripheral) in organizational networks, which professional interests are influential in any organization, and how they interpret and shape institutional requirements to suit them. Moreover, the particular ‘requirements’ are not a given: organizations operate in complex institutional contexts, “often consisting of competing institutional demands” (ibid: 15) which offer rival sources of legitimacy. Diffusion is therefore an uncertain process in which organizations are agents with different positions in the system.

Andrews (2013) adopts a model of institutional change developed by Greenwood et al (2002). This suggested five stages, following an initial precipitating jolt:

- De-institutionalization: shaking up of existing players and emergence of institutional entrepreneurs
- Pre-institutionalization: organizations experiment individually seeking viable solutions
- Theorization: explanations are offered for the general failing, and innovations are justified as possible solutions
- Diffusion occurs if new ideas are compellingly presented, gain social consensus and are ‘objectified’ as legitimate
- Re-institutionalization occurs as the density of adoption increases and new ideas acquire cognitive legitimacy as the ‘natural and appropriate arrangement’ (Greenwood et al 2002: 61)

Greenwood et al (2002) gave particular prominence to the stage of ‘theorization’ partly because little attention had been given to conceptualization as part of the process of institutional change, but also because it was particularly pertinent to their study of the response of Canadian accountancy associations to a fundamental shift in the range of services offered by chartered accountants. “Diffusion requires a normative justification” particularly in the case of professional settings. Whereas, mimetic mechanisms are a powerful force of diffusion among firms competing by being seen to adopt the most economically successful business model, professional bodies have to legitimate change by reference to established values of professional appropriateness (ibid: 75).

This is relevant to our study. National accounting systems contain a strong professional element for which justification might be made not only in terms of national but also international professional values. They are also regulatory instruments of government, a factor which introduces another dimension of justification. For Greenwood et al, state regulation implies a coercive setting, where the legitimation of change would depend on claims to the diligence that could be achieved, the reasonableness of the proposed rules (ibid: 75), and perhaps also their
conformity with the constitutional distribution of powers. Moreover, justification of the reform of national accounting systems might also have to demonstrate its contribution to political accountability. Attempts to justify change, however, always present the risk that they are not persuasive but provoke resistance. There may be a case for not being explicit.

3. Historical overview of the political causes and effects of Brazilian accounting and finance institutions

(a) The historical background

Brazil has experienced two democratic periods since the proclamation of the Republic in 1889, one before and one after the military dictatorship of 1964-1985. The federation is organized into three levels of government: the federal government, 26 states (autonomous from 1889) plus a federal district (the national capital), and municipalities with greatly enhanced fiscal and administrative autonomy from 1988. The 3,991 municipalities at that time now number 5,565.

The current PFM framework in Brazil originated in 1964, when the central government issued a single finance law (4,320) embracing all parts of the Brazilian federation (i.e., central, state and municipal governments) and increasing the level of standardization of public finances. That law is still in force. It provides the main financial regulatory framework guiding all financial procedures in all level of governments. It assumes budget and financial accounting integrated into a single system and recorded on the basis of double-entry bookkeeping. Revenues were recognized on a cash basis and expenditures became liabilities whenever a legal commitment was incurred by the government.

Finance law 4,320 required a ‘consolidated financial report’ (CFR) from the federal government and every municipal and state government, and the preparation of budgetary ‘whole of public sector accounting’ (WPSA) comprising all entities of all tiers and branches of government. As the capacity for enforcement of the law was very limited, up to 2000’s the CFR and WPSA were scarcely implemented. During the period of the military dictatorship, the Brazilian economy became hyperinflationary. In such a scenario, the reporting of accounting information – especially budgetary and financial reports – became irrelevant. Under the military regime, external reporting and accountability were not important; the regime obtained its information through its hierarchy.

For both democratic periods there were relatively similar levels of political and fiscal autonomy for all the states, including direct elections for legislative and executive branches. On the other hand, the municipalities obtained constitutional and administrative autonomy only in 1988 from when they could enact their own local rules and raise taxes. Their autonomy also enhanced the capacity of local government to resist the implementation of national reforms. At the end of the military regime, in 1985 the Congress elected a civil president, José Sarney.

What followed was a high level of political disturbance from 1986 to 1994. When the re-democratization process started, the economy was deep in hyperinflation (about 240% p.a.). Six monetary plans were launched over those eight years. The Congress was the main focus of political attention leading to the enactment of a new constitution 1988. The first directly elected president Fernando Collor de Mello resigned in 1992 just before his impeachment on criminal charges. Itamar Franco assumed the presidency, and one year later appointed Fernando
Henrique Cardoso as Minister of Finance. Cardoso’s team proposed and implemented the Real Plan\cite{viii}, reducing inflation to 15% p.a. in 1995. Cardoso, with unprecedented support from across the nation, was elected in 1994, supported by a high proportion of state governors who backed his coalition. This was decisive in winning the Congress’s support for the Real Plan’s fiscal measures (Flynn, 1996).

After two mandates of Cardoso’s administration (1994-2001), Brazil continued to follow a social-liberal model under the administration of President Lula da Silva (2002-2009). Since then, however, President Dilma Rousseff (from 2010) has adopted what might be best seen as a state-capitalist model (characterized by fiscal laxity, opaque public accounts, competitiveness-sapping industrial policy, and oil and electricity price interventions) leading to a decline on all economic indices\cite{ix}, and to some extent undermining the institutional framework of the fiscal discipline measures and reducing the support of the national Treasury for the public financial management reforms. Notwithstanding the lack of the presidency’s attention to the issue, both reforms still being implemented by the Treasury, court of accounts and professional bodies. In 2015 the Treasury was consulted by a Congress commission to comment on an amendment to LRF to improve the formulas for valuing the limits of personnel expenditures on health, at same time the Treasury initiated a wide discussion on the new deadlines to implement the remaining accounting policies by municipalities and states in regard to IPSAS convergence reform.

(b) An overview of PFM reforms from 1994 until 2014

The framework of public financial management in Brazil is based on the 1988 Constitution, Law 4320 of 1964, and Fiscal Responsibility Law 101 of 2000. Since Law 4320 was passed it has set the general rules for the preparation, execution, accounting, and reporting of the budget, under a modified cash-accounting regime. Executives at all levels of government have to follow this law in proposing draft budgets to the legislative for approval or amendment. The legislative then sets the budget (as a ‘budget law’) and defines the percentage alterations that the executive is permitted to make in the execution of the budget. In 2001, the new Fiscal Responsibility Law (hereafter LRF) required all tiers of government to follow their budget law which has to include an annex stating fiscal targets and risks for budget surpluses and deficit limits to be enforced by state courts of account. This requirement empowered the courts of accounts. From 2000 to 2005, as municipalities attempted to implement program-based budgets - as defined by the constitution, and by a decree from Ministry of Planning and Budgeting (supported also by World Bank) - they became increasingly conscious of these fiscal targets and limits. However, owing to municipalities’ difficulty in operationalizing the requirements of many simultaneous reforms, in 2005 the São Paulo State Court of Account put together a series of manuals of good practices as a source of advice on municipalities’ budgetary guidelines, annual budgets and the multi-year plans that cross from one mayoral term to the first year of the next mayor. These manuals and templates became a point of reference for other state-level courts of account, IT firms and consultants in the field of public sector management.

As state courts of account developed computerized systems from 2005, municipalities and states began to submit increasingly more detailed data electronically. The IT system used by the courts (to capture, transfer, archive and automatically check accounting data) captured the attention of state and municipal governments and strengthened the courts of account\cite{x}, though
with some variation between states (Aquino, Lino & Azevedo, 2015; Aquino & Lino, 2015). Companies offering information and technology systems were also affected by the need to make their software meet the models and requirements of the courts of account. The federal government also updated and improved its information systems, including through a project with the World Bank from 2001\textsuperscript{4}. In 2008 with the decision to adopt the International Public Sector Accounting Standards (IPSAS), discussion about accounting for assets and liabilities was renewed, and a new wave of reform was initiated.

Thus, since 1988, Brazil’s sub-national governments faced a series of reforms in the system of public financial management, first initiating a shift from input-based budgets to program-based budgets, then adopting LRF’s fiscal targets, and recently moving to the adoption of accrual accounting. All of them have influenced on and were influenced by three contextual issues: adequacy of IT platforms, awareness and competence levels of the bureaucracy, political resistance. These waves of reform were super-imposed and are still incomplete.

4. The course of reforms, their regulative dimensions, and paths of diffusion

The reforms we examine can be seen as responses conceived and led at a federal level to a long-developing internal crisis: deep-seated problems of controlling both the volume of public expenditure and its use for intended purposes, which both had profound effects on the management of the economy and on political accountability. The fiscal and accrual-accounting reforms have boosted the production and sharing of budgetary information. these effects were then further propelled by the Open-access Information Law (2005, 2011) and by the computerization of the courts of account.

While the reforms were designed in the federal government with some participation of other stakeholders, their diffusion to other spheres of government benefited from two factors: (i) the active involvement of the courts of accounts in the checking of compliance with fiscal limits and (ii) the Treasury’s objective of using reform so as to enable the consolidation of national accounts, which in turn contributed to the legitimization of the Treasury’s role as the body primarily responsible for the national accounting regulation. In both cases the development of IT platforms and the response of software suppliers to states and municipalities intensified these diffusion effects.

(a) Fiscal Discipline Reform

During the 1980s and 90s, the federal government, re-imbursed the debts contracted by states and municipalities to cover excessive salary costs and loose fiscal management. For example, in 1995 the State of Espírito Santo used 91% of its net current revenue to pay personnel costs, and the State of São Paulo about 80%. The plan of President Cardoso’s government to reform the federal administration could have reduced personnel costs but had little impact until 1998 (Abrucio & Loureiro, 2012), above all because of the resistance of a Congress influenced powerfully by the corporate interests of public servants (Flynn, 1996). Two laws in 1995 and 1999 provided a basis for fiscal reform by limiting personnel costs to net current revenue. Congress’s approval of the 1995 law was obtained by the federal government as a condition for the refinancing of state governments’ debt. The 1999 law was passed on condition that
states and municipalities did not exceed their permitted levels of credit. By 2001, the states of Espírito Santo and São Paulo used just 49% and 51% of their net current revenue on active and retired personnel.

A change in the federal government’s stance occurred between 1995 and 1998, when it stopped covering state and municipal debts and instead restricted their autonomy to take on debt and their staff costs. Increasing fiscal discipline culminated in the passing of the Fiscal Responsibility Law (LRF) in 2001 and a few months later by the Law of Fiscal Crimes which defined terms of imprisonment for mayors and state governors who did not comply with the LRF. The new regime of fiscal discipline can be summarized as follows: (i) governments at all levels fix their fiscal targets, (ii) personnel costs are restricted to defined limits, (iii) borrowing operations are not counted as revenue for the targeted surplus, (iv) receipts from the sale of assets cannot be used to cover current expenditure, and (v) the requirements of transparency and bimonthly adjustment of budget execution to achieve the targeted surplus.

After 15 years of operation of the LRF and the accompanying Law of Fiscal Crimes, only one state did not comply (Rio Grande do Sul) with the indebtedness thresholds (< 200% of net current revenue), and about 9% of Brazilian municipalities (< 100% of net current revenue). Nowadays the courts of accounts use to reject the accounts of municipalities that exceed their fiscal limits. The LRF gave fiscal and accounting authority to a proposed Council for Fiscal Management but, until this was created, delegated this authority to the national Treasury which undertook this role from 2000 to 2015. This effectively gave the Treasury the power of consolidating the balance of the national public sector (Balanço do Setor Público Nacional). The consolidation began to be undertaken in 2001 even though few municipalities complied, there was no standardized chart of accounts, and the information provided was of low quality (Cardoso et al, 2014). However, the Treasury’s authority to regulate accrual accounting in subnational governments was effectively enhanced.

(b) Accrual Accounting Reform

The Fiscal Responsibility Law gave significant support to the IPSAS convergence movement. The demand to consolidate information in terms of revenues, expenditures and deficit/surplus (the balance) of subnational levels of government pushed the Treasury to use its authority to prepare a framework for whole-of-government-accounting. This would legitimate its adoption of IPSAS-inspired accounting innovations (i.e., an accrual accounting handbook, chart of accounts, templates for financial statements, and an IT hub) (Cardoso et al, 2014)xiii. As the consolidation of CFR from subnational governments starts with a standardized chart of accounts, the IPSAS offered an opportunity to impose a single chart of accounting across the whole federation. For this analysis, we divide these accounting reforms into two main aspects: (i) imposition of a standardized chart of accounts, (ii) implementation of accrual-accounting policies.

The accounting reforms originate in 1998 when the Ministry of Finance and Central Bank of Brazil signed a commitment to compile and disseminate national statistics under the Special Data Dissemination Standard (SDDS) of IMF. This implied that they would supply information about general government revenues, expenditures and deficit/surplus (the balance), consolidating the accounts of subnational levels of government, on an annual basis within a six to nine month window. At the same time that the Fiscal Responsibility Law emerged (1999-
2001), Brazil signed with IMF a commitment to fiscal adjustment, in which government would be required to generate an annual budget surplus. The Memorandum of Economic Policies proposed to IMF by the Minister of Finance and the Central Bank identified some gaps in Brazil's statistical base - including statistics on the public debt – but communicated the government’s commitment to subscribe to the SDDS. The next annual follow up from IMF posed a new target based on “total net debt outstanding of the consolidated public sector” measured on an accrual basis (public sector's gross debt net of its financial assets) “of the central government, state and municipal governments, and public enterprises (including federal, state and municipal enterprises)”. Thereupon, the IMF target measurement itself imposed the necessity to consolidate the Brazilian national debt, adding to the SDDS requirement to inform general government data.

The Treasury’s use of the reform for the consolidation of accounts was an unplanned effect of the Fiscal Responsibility Law (LRF). President Cardoso’s personal team, which was at the centre of negotiations with state governors, sent the draft regulations designed by the Treasury to the national Chamber of Deputies. According to the Treasury staff member who participated in the negotiations over the LRF, the deputy who was responsible for the draft bill copied into the bill an article which required the consolidation of state and municipal accounts that was originally present in Law 4320 but had never been enforced. The Treasury team complied with the deputy’s proposal; while it feared taking on a challenging and previously not implemented function - the consolidation of national accounts -, there was interest in the possibility this presented for unifying accounting information across the federation. The inserted article was finally accepted by the Treasury, on condition of a guarantee that it would receive an additional budget.

Although the Treasury (jointly with the Ministry of Planning and Budget) tried to exert its authority over the standardization of procedures to consolidate the national accounts, the authority it gained under LRF was not enough. In the years before the official launch of the program of convergence with IPSAS in 2008, the Treasury’s accounting department was concerned about how to consolidate the financial reports of all levels of government in order to comply with SDDS. Legitimized by LRF, the Treasury was able to require all tiers of government to supply fiscal and accounting information, but the absence of a standardized chart of accounts imposed difficulties for the consolidation project.

Consequently the Treasury needed to legitimate the adoption of a new chart of accounts across the federation, and the IPSAS project gave considerable support to this. In 2007, the Treasury and the Federal Accounting Council (hereafter CFC - Conselho Federal de Contabilidade) created working groups of stakeholders to promote open discussion and to set in train the initial steps in the process. While the working group of the CFC developed the conceptual basis for Brazilian public sector accounting norms, the Treasury’s working group analysed the feasibility of retaining existing budgetary practices, together with the future requirements for the adoption of basic standards of accounting concepts and practices, charts of accounts, and budgetary classifications of revenue and expenditure. After its working group had undertaken public consultations and regional seminars, the first ten accounting norms were disseminated by the CFC in a Forum on Public Accounting in 2008. The same year, it was decided that the Treasury and the CFC would work together to ensure the convergence of the whole national accounting system on the ten agreed norms and on all the remaining IPSAS standards.

In 2009, a federal decree finally determined that the Treasury would have primary authority for establishing the norms and procedures of accounting. The Treasury’s regulations were set
out from 2010 to 2012 in successive versions of a ‘manual of accounting applied to the public sector’ (MCASP). This included a chart of accounts, financial reporting, use of accrual accounting and measurement policies. The Treasury chose to start with accounting policies that would most enhance the quality of financial reporting without requiring undue expenditure and effort by practitioners in the short run (Cardoso et al, 2015).

Apart from accounting policies, the Treasury set about defining deadlines for the adoption and dissemination of the manual of accounting. The initial strategy was to apply the manual in full to all levels of government. However, it was soon found that in many municipalities, states and even in some federal agencies there was great difficulty in implementing the required accounting procedures. It was not just a question of adapting existing procedures; often no prior equivalent accounting procedure existed\(^{31}\). The implementation plan did not take any account of the different levels of resistance likely to be incurred by the (unobjectionable) chart of accounts and the (hardly implemented) reforms in accounting policy. The deadlines for both requirements were the same; the only exception was that an additional year was allowed for municipalities’ compliance with both sets of requirements compared to state and central government’s entities.

The consequence was that the first deadline for full implementation of the chart of accounts, reports and all accounting policies by 2013 was postponed several times. It was eventually recognized that the speed of adoption of the accounting procedures had been under-estimated; even the federal government had difficulty in implementing some of them. A second plan was adopted prioritizing the deadline for the adoption of the chart of accounting by 2014. As the majority of state courts of account integrated the same chart into their own systems (which were used by states and municipalities to submit their accounts bimonthly), and IT companies provided the commercial software, the transition succeeded. Seven states even made the adoption of the new common chart of accounts obligatory as a reporting framework in 2013, a year before the national plan required.

By 2014, 35% of all municipalities reported using the new chart of accounts, and a significant increase is expected in 2015. This relatively low rate of adoption is probably associated with the level of staff training and problems in the flexibility of IT platforms to operate according the new chart of accounts. Regarding the financial reporting, accrual accounting recognition and measurement policies, the Treasury ran workshops and training programs. After disseminating a Portuguese language version of the IPSAS and involving stakeholders in technical discussions, the Treasury invited accountants from any background to join ‘training for trainers’ programs. between 2010 and 2014 about 850 civil servants and consultants were trained as trainers\(^{31}\), though a new program launched in 2014 gained no recruits from sub-national governments.

In order to advance the remaining agenda for implementation, in 2015 the Treasury changed its top-down strategy and initiated a wide discussion on the new deadlines consulting municipalities and states about the deadlines for specific accounting policies.
Table 1 compares the principal characteristics of the two reforms analysed in this paper.

### Table 1: Comparing the two institutional reforms

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<thead>
<tr>
<th>Period and phases</th>
<th>Fiscal Discipline Reform (Fiscal Responsibility Law)</th>
<th>Accrual Accounting Reform (IPSAS convergence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>* We recognize there is not a concrete, undeniable frontier between the phases, the dates are only references. Some fiscal issues were regulated after 2000, and there are initial understandings that influenced important stakeholders before 2000.</td>
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<tr>
<td>Five stages of the institutional change</td>
<td>Debt shock created the need to improve fiscal discipline (De-institutionalization), from 1995 to 1999, Camata Laws (I and II) were the first attempt to impose constrains on personal expenditures (Pre-institutionalization), justified by state and local governments indebtedness and their own fiscal difficulties to manage it (Theorization), courts of accounts started enforcing the law and enacted manuals and understandings (Diffusion), changing their budgetary practices and fiscal choices by incumbent governors and technicians and their strategies to avoid penalties (Re-institutionalization).</td>
<td>Intention to converge to IMF’s national accounts standards (De-institutionalization), there was not first attempt, just a decision to comply with IMF SDDS model, pushing IPSAS convergence following. The justification to IPSAS was based on the usefulness of accrual-accounting information, mainly to prepare cost information (Theorization), courts of accounts have refused to offer a wide support at the beginning, they supported partially the process, Treasury worked alone offering workshops and preparing manuals (Diffusion), the changed practices are those associated with chart of accounts which were enforced by the courts up to now (Re-institutionalization).</td>
</tr>
<tr>
<td>Local adaptation</td>
<td>LRF content was internally designed, more than imported (if compared to IPSAS), therefore it considered a priori Brazilian legal environment and resistance from governors and mayors. The normative challenges were related to diffuse the same concepts operationalization. The diversity of local entities hasn’t a big issue.</td>
<td>Considered Brazilian legal environment and the diversity of municipalities and states choosing and ordering the accounting policies, but did not differentiate them (at a first moment) for deadlines. Following the (already chosen) accounting policies deadline was kept apart of the deadline for chart of accounts (easily implemented).</td>
</tr>
<tr>
<td>Main actors</td>
<td>Presidency and Senate (regulative pillar), Treasury (fiscal mechanism design) and Courts of Accounts (diffusion and enforcement).</td>
<td>Treasury and Central Bank (discussions on national accounting systems), Ministry of Finance (SDSS adoption), Treasury and Accounting Council (launching the convergence idea), Treasury (accounting framework design and implementation deadline enacting and enforcement), Courts of Accounts (diffusion of the new chart of accounts), IT providers.</td>
</tr>
<tr>
<td>Origins and design</td>
<td>Political debate on public debt, some technical support on the design of fiscal discipline measures.</td>
<td>Technical debate on financial information to be used by central government and international agencies; political support from Minister of Finance in federal government.</td>
</tr>
<tr>
<td>Justification (official discourse)</td>
<td>Improve financial performance at federal and sub-national levels.</td>
<td>Improve accounting information to promote better decision making based on efficiency rather than on legal compliance.</td>
</tr>
</tbody>
</table>
Table 1: Comparing the two institutional reforms (continued)

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Discipline Reform (Fiscal Responsibility Law)</th>
<th>Accrual Accounting Reform (IPSAS convergence)</th>
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</thead>
<tbody>
<tr>
<td>Central government incentives</td>
<td>Reduce the risk of financial distress in municipal governments; limiting autonomy to borrow money or to use state controlled banks to artificially create money.</td>
<td>Enhance PFM’s legitimacy through compliance with international standards.</td>
</tr>
<tr>
<td>Complexity (difficulty of understanding by bureaucracy)</td>
<td>Low: based on budgetary (modified cash accounting) information.</td>
<td>High: needing human resources and IT capabilities for accrual accounting at central and local levels</td>
</tr>
<tr>
<td>Political implications</td>
<td>High for politicians, as it limits expenditures and imposes fiscal targets.</td>
<td>High for politicians, as it enhances transparency in the liabilities and indebtedness they incur.</td>
</tr>
<tr>
<td>Media groups’ support and popular appeal</td>
<td>High: fiscal indiscipline was at the centre of the 1998 indebtedness crises in states and municipalities.</td>
<td>Low: most citizens don’t care about or understand accrual accounting, and it is difficult to explain it attractively.</td>
</tr>
<tr>
<td>Courts of account</td>
<td>Power of the courts is increased, though some still operate as before. Courts actively contributed to the diffusion process, promoting fiscal discipline and the central concepts of this reform.</td>
<td>The courts’ power is not increased, but new capabilities and efforts are required. The diffusion process promotes adoption of internal controls. Without agreement with the Treasury on some issues, courts have assumed a passive role during the diffusion process.</td>
</tr>
<tr>
<td>Institutional entrepreneurs acting in networks, (1)</td>
<td>1st level – Governors and Congress, 2nd level – TCE, 3rd level - Academia, Secretaries of Finance at state and municipal levels.</td>
<td>1st level - CFC, TCU, CGU, 2nd level - TCEs, some Secretaries of Finance at state level, Representative from municipalities (ABM), representative from IT firms, 3rd level – Academia, Secretaries of Finance at state level, and a few pilot cases at municipal level.</td>
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Note 1: Network involvement levels: 1st level: designers and coordinators of the reform. 2nd level: those involved in discussing technical details. 3rd level: those informed about reform implementation.

5. Analysis of the reforms as institutional change

From 1999 to 2014 the access by the Treasury to information from sub-national governments was limited due to structural, normative and cultural-cognitive resistances. As already commented two main structural resistance sources are: (i) the accounting policies (chart of accounts and general policies) were not standardized, and there were no manuals or technical forums that would have led to a standardization process; (ii) data were not systematically collected, and many municipalities still sent their accounts to courts of account and the Treasury on paper. Both sources of resistance took several years to decline. The normative and cultural-cognitive resistances are detailed in the following sub-sections.

(a) The initiators, supporters and coordination

No reform of public financial management operates without affecting other mechanisms of financial management. Adoption of program-based budgeting, fiscal discipline mechanisms, accrual-accounting policies, performance auditing affect each other and the equilibrium between the remaining mechanisms. Until the Fiscal Responsibility Law (LRF) was enacted by the Treasury in 2001, the main focus of reform since 1988 had been the attempt of the Ministry of Planning and Budget to lead the adoption of program-based budgeting. Even now budgets remain mainly input-based, in 2002 for the first time municipalities and states will use their own programs classification (anymore a standardized list from the central government) to structure their “governmental programs”xvii. Cost-accounting began to receive attention at the federal level from 2004, as a response to a recommendation from the Supreme Audit Institution that the central government should evaluate the efficiency (i.e. the costs incurred by each government program happen to achieve the intended targets) of budget execution. The Treasury and Ministry of Planning and Budget worked together to design, diffuse, and legitimize the system with ministers and agencies at the federal level. They started to roll-out the cost accounting system to the entire federal level in 2010. The system operates using a very simple technical approach, with a new IT platform which collects budgetary information (based on expenditures using a cash commitment regime), allocated to cost units and proceed accounting adjustments. This information was not affected by IPSAS project, despite its potential influence in the near future when accruals would be available for some items as contingent liabilities and assetsxviii.

These public financial management reforms came from the top. In both reforms, we can perceive the entrepreneurial role of the political leadership and their personal teams at the core of the federal government (the presidency, the Ministry of Finance and its Treasury Department, the Ministry of Planning and the Central Bank of Brazil). The coordination by the federal government is not a rule. The Courts of State-level courts of account across the country, supported by the regulative framework established under the Fiscal Responsibility Law (LRF), themselves take on the responsibility for implementing internal control by states and municipalities. The implementation of the LRF reform and the program for convergence with IPSAS (and the adoption of accrual accounting) differed considerably depending on which agents were involved in the design and diffusion phases. In Andrews’ terms, the LRF reform, although initiated by the political leadership at the centre, involved and gained the support of a wide-range of distributed agents. Though initiated by a presidential team, it gained support
in the national Congress, among state governors and mayors of the big cities and state capitals, and benefited from enforcement by courts of account in each state. At the federal level, the Supreme Audit Institution has played an important role in highlighting situations when the central government itself does not comply. All of them understood the need and the reasons to implement fiscal discipline; even politicians started to respond by adopting strategies to use the new thresholds, as part of the game. The thresholds (limits on expenses) set by LRF to control allocative decisions were used to legitimize cutbacks or freezing salaries on personnel issues across the entire bureaucracy. From the beginning, the World Bank and IMF helped to legitimate the LRF project. At federal level, and sub-nationally too, the political executive and heads of agencies assumed a passive role, just accepting the law and adapting themselves. Just recently, municipalities association acts discussing specific improvements on one of the thresholds calculus.

Conversely, leadership of the IPSAS reform remained concentrated in central government, and gained very few early adopters. As an accounting subject this reform was the main concern for the Federal Accounting Council (CFC). However, until its first Forum dedicated to public accounting in 2006, the CFC had done nothing about the regulation of public accounting. Indeed, there was a general perception among public and academic researchers in accounting that the current standards enacted by CFC were not applicable to the public sector of Brazil. Public Sector Accounting was not a fashionable subject at that time, and did not attract the attention of auditing or consultancy firms, researchers and undergraduate courses. The network associated with the issue was very restricted and concentrated at the federal level. There was (and still is) a great cultural-cognitive gap between, on the one hand, the federal level - technicians from Ministry of Finance and Ministry of Planning, accountants from others Ministries, auditors from Supreme Audit Institutions and Internal Control Secretariat (Controladoria Geral da União), and on the other hand technical staff of local governments. Accountants and auditors in Brasília are involved in a professional and specialized environment. They lead on complex accounting issues and become involved in new developments such as approaches to public-private partnership contracts, and the development of new wide IT-platforms. Federal technical staff, particularly of the Treasury and the Ministry of Planning, live and breathe budgetary and accounting problem-solving processes and are up-to-date with international standards. By comparison, accountants at the local level just apply embedded routines, operating in an organizational environment which generally does not see any value added from the application of accounting routines. They are isolated in municipal departments of Finance with little synergy with others, and finding themselves associated with negative attributes: budgetary constraints and cutbacks policies. The gap is lower for big cities, capitals and state governments, where higher professionalization, bigger teams and a better position in the hierarchy; directly under the mayor, rather than in an isolated Department of Finance, and often in charge of the internal control function. Even though we have no empirical evidence, we suggest that this cognitive-cultural gap has seriously diminished the effectiveness of workshops and conferences as the main message is hardly understood by unaware and unprepared accountants.

Accountants from each municipality, civil servants or outsourced accounting service providers, are supposedly certified by the Federal Accounting Council. However, in practice, the professional body operates passively and only reacts to complaints about accountant’ professional conduct. In general local accountants receive low salaries and have no access to professional development or support from their employers to attend private courses. Even if the mayors and state governors wished to upgrade the accounting capabilities of their staff and decided to hire professionals, they would face scarcity of supply. public sector accounting is
not covered by undergraduate courses which focus exclusively on training accountants for the jobs-market of large, for-profit firms. Given the lack of capabilities and the failure to diffuse new approaches, the gaps are filled by consultants and IT providers, in response the requirements of the courts of account to enforce the LRF and of the Treasury to enforce its requirements for financial data for consolidation.

Despite the central role of the Treasury it lacks on coordination. The LRF quickly involved courts of account in the process, and norms and values were agreed jointly by the courts and Treasury; the new processes of local governments were packaged in IT systems. The same occurred for the new chart of accounts. Differently, for the second stage of accrual accounting reform, after the Treasury had enacted ‘the manual of accounting applied to the public sector’ (MCASP) it was left with no mechanisms to advance the IPSAS diffusion process, and discussions within the technical groups diminished between 2011 and 2014. Therefore the impetus passed to the interaction between courts of accounts and municipal and state governments. After that the Treasury just focused its attention on developing the integrated financial management system (SIAFI) and in authorizing commercial software compatible with SIAFI’s platform. The courts of account, consulting firms and IT providers became the main interlocutors with sub-national governments. As mentioned, the courts of account became source of diffusion of the chart of accounts proposed by the Treasury for auditing proposes, but apart from that they took no additional role in the diffusion process. Therefore, as the IPSAS reform migrated from the central government’s agenda, there appeared a vacuum in the coordination of the diffusion and implementation processes. The Treasury remained distant. Additionally, the recurrent changes in the deadlines set by the Treasury created uncertainty and undermined the initiatives of early adopters among sub-national governments.

(b) Normative resistances

Normative support and resistance as Scott (2014) and Andrews (2013) suggest, changes in laws and formal rules are only likely to be effective in altering practice if they are matched by changes in values and norms and in cognitive understandings. The first normative value that underlay resistance was the perception of the autonomy of the different levels of government. Municipal governments saw the giving of accounts to the Treasury as a violation of the municipal autonomy guaranteed in the 1988 Constitution; on that basis, many mayors and state governors openly resisted transparency initiatives. The idea that transparency may not undermine autonomy only began to gain ground with the passing of the Law on Access to Information from 2005 and 2011 which made compulsory the presentation of information on demand and the full transparency of budgetary information. Until now, even under this law, governors deny disclosure of data justifying this on the basis that some information has a strategic nature.

The second value to be de-constructed and re-constructed is the concept of balanced budget. This was the focus of attention of World Bank and Inter-American Development Bank projects, undertaken with the Treasury and the Associate Courts of Account (ATRICON, composed by members of state courts). For the LRF’s implementation, the main challenge was to transform fiscal management from the concept of the balanced budget as this had been understood in the law (4320) of 1964 which required that a “correct budget must have total income equal to total expenses”. The transformation would be done through training programs and embodying the new concepts in IT solutions.
Balanced public accounts, as proposed in the LRF, had to be achieved without any borrowing or increase in the public debt, based on the primary budget surplus (i.e. before interest payments). Changes on the widely accepted fiscal concepts could only be made with the full agreement of the executive, legislative, courts of account and the judiciary about the main concepts, words, formulas. These actors were expected to work together to reduce vagueness, indeterminacy of meaning, lack of specification and fuzzy boundaries regarding the LRF regulation. The target for the primary budget surplus (the aim was a budget surplus) replaced the former metric (total revenues minus total expenses), and governments became responsible for their fiscal performance and not just for their execution of the budget. A year after the LRF was passed in 2001, the first World Bank project\textsuperscript{xiii} with the Ministries of Finance and of Planning set out to ‘implement the LRF’ by disseminating information to officials responsible for financial reporting and training the courts of account. The project recognized the problem of training officials of 5500 municipalities, and adopted a ‘training-of-trainers’ approach, supported by federal government institutions such as the School of Financial Administration (ESAF). Five years later with the support of the Inter-American Development Bank, the Associate Courts of Account with the Ministry of Planning and Budget started a program (called PROMOEX) through which the courts of account created a collaborative network of the 33 courts to develop common understandings of the LRF’s provisions. These shared understandings were to be diffused and enforced throughout the country, supported by training and by publishing a technical magazine to their auditors. Doing that, the 33 courts would support the Treasury in consolidating national accounts.

The old normative values mentioned were to some extent toppled with the support of the courts of account’s IT platforms and reconfiguration/customization of IT solutions. Firstly, state courts of account enforced the requirement of an increasing amount of data, boosting the tendency towards transparency; secondly IT solutions and templates embedded the courts’ understandings. The projects mentioned in the previous paragraph included IT developments. A World Bank project in 2001 together with investment from the Ministries of Finance and of Planning & Budget developed a new version of the federal government’s integrated financial management system (SIAFI). A 2006 Inter-American Development Bank (IADB) project charged the courts of accounts to develop their platforms to collect agencies fiscal data and to improve the auditing process. This automation of the accounts submission process by internet (to capture, transfer, archive and automatically check accounting data) initiated in 2006 by the courts of account made external auditing much more effective in certain states: São Paulo, Paraná, Minas Gerais, and Bahia. As the IADB project exhorted sub-national government and agencies to collaborate and share experiences, isomorphic effects can be observed in the development of common IT platforms. Notwithstanding the potential mimetic tendency, state courts adopted different levels of processes automation (Aquino et al, 2015).

The court of accounts’ IT platforms propelled the use of electronic systems and rules for monitoring fiscal thresholds or limits and the emergence of templates for uploading fiscal data by municipalities (through their IT providers). As the IT systems implemented by the government bodies (municipalities and states) became increasingly integrated with the IT platforms of the courts of account, these then influenced IT providers at local level. Although the courts achieved a high level of (but not full) agreement in their understanding of the LRF provisions, the courts remained divided mainly according to whether their IT solutions demanded segregated accounting data from government bodies within their jurisdiction. The technology path (template and data segregation level) adopted by each court stimulated IT providers to choose certain states to access economies of scale for software development. What
followed were some isomorphic effects and a rapid diffusion of common standards throughout municipalities.

Unlike the LRF reform which was nationally designed, in the case of the IPSAS reform the choice for Brazil was between a process of convergence or immediate full adoption. The Treasury anticipated the potential resistance to implementation, concerning the **legal environment** (the need for revision of statutory norms to fit a fully adopted IPSAS), and also the technical capabilities across the country (Cardoso et al, 2015). The first edition of the manual of accounting applied to the public sector (MCASP) covered only the **widely accepted issues** between the Treasury, the Ministry of Planning and the Courts. The following editions increasingly added accounting policies which fitted with the existing legal framework and would offer none or low resistance to implementation, but still the set of adopted accounting policies does not cover all the accounting issues covered by IPSAS, (Cardoso et al, 2015). For instance it gives more emphasis to the recognition and measurement of assets than of liabilities, and until the sixth edition in 2013 did not mention liabilities related to employees’ benefits. This seems to be an attempt to avoid political resistance. It was quite unlike the approach proposed by the 1964 Law which required a comprehensive presentation of the public debt.

(c) Cultural-Cognitive resistances

Two cultural-cognitive shifts were implied by the reforms. Firstly, the current generation of politicians and public officials in all spheres of government was formed in a period of public financial management when the budget was the principal mechanism for negotiation, the boundary between public and private spheres was a grey area, and **patronage and corporatism** were seen as normal aspects of the game. Regardless of whether the population accepts these values, it assumes that they are the rules of the political game. Before the Fiscal Responsibility Law, the concept of the fiscal balance was that the available income and assets had to be used within the budget period; this required no planning or analysis of the performance of government policies. The political incentive can be summed up as maintaining power and maximizing opportunities for rent seeking. Changing the concept of the fiscal balance and making public managers responsible for it reduce the incentive to leave the onus for bad management to the next government. Naturally, some parts of the political and bureaucratic apparatus are resistant to such changes.

Despite the prevalent political patronage, LRF started to change the **accepted values of civil society**. Values such as the following are now used widely in the Press and in the social media, for example ‘fiscal limits’ as something that might be respected, or ‘public debt’ as a signal of irresponsible political decisions and consequent future fiscal adjustments. Political leaders have become more concerned with losing their mandate and being disqualified. In December 2014, the federal government was exposed as buying the support of deputies in return for their adjustment of the fiscal targets. With heavy exposure by the media, the manoeuvre brought popular indignation, which mixed with corruption scandals left an abrupt fall in the president’s popularity ratings. In the same way, mayors and governors now consider the risk of contravening the LRF. Together with civil society’s increasingly shared understanding in the undesirability of impunity and of extremely relaxed processes for judging political crimes, exposure and its consequences is becoming a serious possibility now that most courts of account, states and municipalities operate under an automated process of accounts submission, and teams of technicians look out for offences against the fiscal limits.
Cognitive support for accounting reform remains weak. The original agenda of the accounting reforms was based on a limited approach: improving national statistics rather than directly transforming decision making and legislative control. However, broader effects in the gradual increase in accountability can be expected as a consequence. Politicians, technical-bureaucratic staff and academics know that accounting is changing; but the politicians do not understand yet what is changing, and probably none of the three groups know why there is change and with what benefits. Some accountants and auditors do understand the level of effort required to implement IPSAS, as shown by Aquino & Cardoso, 2013 in their national Awareness Survey of 2012. Otherwise, for the bureaucracy it was not clear whether the change was for better or worse and there is uncertainty about the legal basis of what is required. Even the Treasury and the courts of account still lack a consensus view on how to put the accounting policies implied by the IPSAS into practice. In spite of this, as mentioned before, the Treasury’s choice to focus on the recognition of assets rather than liabilities could be an attempt to avoid political resistances.

The Treasury’s strategy of choosing an incremental approach to editing the ‘manual of accounting applied to the public sector’ (MCASP) indicates that the technicians in the central government were aware of potential cultural-cognitive challenges. They opted for a careful choice of alternative name contrasting accrual-accounting realm from budgetary accounting, and the format and style adopted in the handbook. Since 1964 accountants and civil servants working on finance matters have understood revenues and expenses as being anchored in the budgetary cycle. In order to break the potential association and avoid ambiguity, the first edition opted to use the terms ‘revenues’ and ‘expenses’ only to refer to the budget; and ‘positive (negative) variation on net assets’ to refer to the financial reporting. The accounting policies of the IPSAS handbook were rewritten in a textbook style considering the established language of its readers, and using examples familiar to local government practitioners to explain the interrelationship between budget, financial reports and correspondent accounts in the new standardized chart of accounts (Cardoso et al, 2015).

As of now, political leaders have started to recognize the potential challenge of increased accountability. If the whys and wherefores are not clear, the effect of accounting reforms seems no longer ‘below the radar’. As an example, in a newspaper interview with the Minister of the Supreme Audit Institution, he affirmed that the accounts of President Rousseff would not be approved because the actuarial liabilities of pensions were omitted. The effects of the Treasury’s consolidation of national accounts and of the federal and state courts’ assessments of compliance with the Fiscal Responsibility Law will be to increase the availability of accounting information and make analysis of financial performance possible. If fully implemented, this will capture much broader information on the impact of political choices. Politicians who anticipate that this will lead to greater accountability are likely to resist.

A passive and unintentional resistance comes from the content complexity and difficulty of putting accrual accounting into operation. This requires a trained bureaucracy capable, for example, of judging efficiency; and courts of account and judiciaries capable of appropriate auditing. Municipal governments, especially the small and medium-sized ones, present a very different situation from that of the state and federal governments. Their budgets often lack credibility, with over- and under-estimations of income and expenditure (Aquino & Azevedo, 2015) and many lack reliable accounting systems and practices (Aquino & Cardoso, 2012). The adoption of the chart of accounts does not require an abrupt change in established cultures and practices and it can be supported by consultancy firms and new software. Similarly, compliance with formal requirements of financial reporting depends mainly on the complexity
of the implemented systems. On the other hand, the use of accrual accounting recognition and measurement policies depend on new policies that have not yet been implemented. Also the absence of an adequate training program limits the capacity of small municipalities throughout the country to complete the reform. As mentioned before, to deal with the lack of local government capacity the Treasury changed its implementation strategy for accrual accounting by adopting an incremental agenda, choosing less critical and resource-demanding issues, and looking for less political challenging steps first.

Finally, an active resistance can comes from political counter incentives related to the effect of accrual accounting on the management of liabilities as it can worsen financial results and may criminally implicate politicians under the Fiscal Crime Law. This will depend on the strengthening of accounting (and not just fiscal) audit usage at local level. Currently there is no audit of the accounting information provided by states and municipalities, which puts in doubt the quality of the consolidated information produced by the Treasury.

6. Conclusions

The nature of reforms matters. The two reforms are about public financial management. However, the fiscal discipline reform emerged from a political debate about public debt, supported by the technical design of discipline mechanisms. By contrast, the accrual-accounting reform resulted from a technical debate about the financial information needed by central government and international agencies. Although the design phase of the second reform received initial political support from the federal Minister of Finance, it is not yet clear whether there will be political support in sub-national levels of government for the reforms not only to be formally adopted but also applied over a period long enough for new values and norms to become embedded.

Reforms with clear and anticipated political consequences require open political support, as fiscal reform in Brazil suggests. Technically complex accounting reforms, on the other hand, can be introduced, embedded and consolidated in technical circles of government, and then ‘lie low’ awaiting the propitious moment for their accountability implications to be realized. Such a moment may occur in response to a crisis or to a rising tide of demands by citizens and others for greater accountability in the use of public resources. This moment does not appear yet to have arrived: the street protests that have been seen in Brazil over recent years are not sufficient. However, the greater financial transparency generated by the reforms does produce information which is used by the media, independent analysts and organized civil society groups.

Finally, Scott’s (2014) framework for analysis of institutional change and Andrews’ (2013) findings in applying this approach to reforms (including of public financial management) in developing countries conform with our finding that regulatory reforms can relatively easily be undertaken, especially where they are instigated by political leaders and their teams at central level, but they have only a superficial effect if they are not supported by dominant values and norms and by the cultural-cognitive understanding of actors at all levels. This was particularly apparent in the case of the second reform – the adoption of the IPSAS and accrual accounting.
The fiscal and accounting reforms, associated with the requirement to produce national consolidated accounts, have boosted the production and sharing of budgetary information (in the form of modified accrual-based accounting), and in the future may focus the political debate not only on annual budgetary fiscal performance, but also on the more transparent management of public assets and liabilities.

It will soon be seen whether these reforms have their own impetus and can survive. The Rousseff administration in 2015 has been challenging the fundamentals of fiscal discipline as enshrined in the fiscal responsibility law: approving amendments to fiscal targets, legitimating the annual deficit in the National Congress, and undermining the bureaucracy of Ministry of Finance. Many question whether state governors and mayors will maintain the movement towards transparency, and whether the courts of account will continue to follow international trends. There are also challenges to do with the balance of power between state and federal governments, and between the executive and legislature. The centre is no longer a driver or coordinator of reform.

References


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1 Ezzamel et al (2007) found that lack of affinity by politicians with professional accountancy led to a lack of interest in or ability to comprehend accountancy reform – cited in Andrews (2013: 117)
2 Ezzamel et al (2007) found that lack of affinity by politicians with professional accountancy led to a lack of interest in or ability to comprehend accountancy reform – cited in Andrews (2013: 117)
3 Scott’s full definition is: “Institutions comprise regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life”. For Greenwood et al (2008: 4) an institution is: “more or less taken-for-granted repetitive social behaviour underpinned by normative systems and cognitive understandings that give meaning to social exchange and thus enable reproducing social order.”
4 Greenwood, Oliver, Sahlin and Suddaby are the editors of the 2008 Sage Handbook of Organizational Institutionalism. References are to their introductory chapter surveying institutional theory.
5 Greenwood et al (2008: 27) refer to Hargrave and Van de Ven (2006) to propose four models of institutional change. Their first three correspond with ours: (i) institutional design, (ii) institutional adaptation, and (iii) institutional diffusion. They add a fourth – collective action which “examines the construction of new institutions through the political behaviour of many actors…”
6 However, organizational institutionalism sees actors as being motivated not solely by self-interest but also by frameworks of meaning given by institutions (Greenwood et al 2008: 19).
7 Between 1898-1964 municipalities represented divisions of a very centralized states, at local level authorities even elected by citizens, did not have autonomy, their acts should be approved by state legislative. It was worst during the military regime, even states lost their autonomy.
9 The Economist “Brazilian waxing and waning”, Mar 4th 2015; In a quagmire: Latin America’s erstwhile star is in its worst mess since the early 1990s, Feb 28th 2015.
10 A collateral effect of IT usage is the decreasing of the auditor effort, he/she changes auditing procedures leaving a routine based on deep checking’s to focus only on inconsistencies pointed out by the pre-defined rules from automated systems from...
Notice that the International Public Sector Accounting Standards (IPSAS) have started to be developed from 1996, initially based on private sector standards (IFRS). In 2001 some countries opted simply to have a modified version of IFRS. That time Brazilian central government was already involved with IPSAS and SNA discussions. In 2003, Brazilian technicians from Central Bank were involved in an IMF group known as the Task Force on Harmonization of Public Sector Accounting, created to promote harmonization between international and national accounting systems (SNA). The goal was to identify and to document differences and classify them according to the processes envisaged for harmonization, specifically regarding reporting units, recognition and measurement of economic events, and the reporting system (IMF, 2004). In 2005 the group published a research report, comparing accounting approaches in IPSAS, GFSM 2001 and ESA 95, but it was only in 2011 that a project was approved to align Brazil’s Public Sector Statistical Reporting Guidance with IPSAS. From 2005 to 2011, both IPSAS and SNA initiatives were being harmonized. It was not clear whether and in what extend the international accounting standard and the framework of national accounting system would be changed. The IPSAS framework was accepted as a harmonized system by UN/IMF just from 2011. From 2005 to 2011, both IPSAS and SNA initiatives were being harmonized. It was not clear whether and in what extend the international accounting standard and the framework of national accounting system would be changed. The IPSAS framework was accepted as a harmonized system by UN/IMF just from 2011.

As mentioned before, in Brazil the accrual-accounting for financial report was mandatory since 1964, but there was not regulation on the content of accounting information. The accounting professional body (CFC) did not offer any understanding regarding Public Sector Accounting. The governments experimenting initiatives to implement accrual-accounting policies in 2009 were scarce anomalies.

The training programs were based on standard manuals and handbooks prepared by the Treasury, packaged in live events of 40 hours duration offered at big cities (mainly in state capitals). The courses covered issues on fiscal management, accounting, budget and technicalities of central government IT platforms. Senior technicians from central government and the leaders of the IPSAS convergence process publicized the issue through oral presentations in workshops organized by courts of accounts, universities and local governments.

The last 3 multi-year budget (3x4 years) governments are developing the program-based budgeting. Notwithstanding, they are not evaluating efficiency, just comparing budget execution.

From 2010 to 2014 the Treasury has organized a series of workshops and conferences to diffuse the cost accounting usage. In 2014 the SAI required the Presidency financial reports includes cost accounting information about each federal program. Therefore the Treasury instructed each secretary and agency to annex cost accounting analysis to their reports. At the federal level the cost accounting is being embedded, on contrary at the state and local levels it remains just a law to be enforced. The cost system implementation still depending on individual entrepreneurs, which even supported by SAI requirements and by formal institutions, lacks of an internal support within the ministries, secretaries and agencies. Small and not empowered teams suffer with senior civil service turnovers. There are known anecdotes of leaders leaving the secretary and the cost information project going to freeze (e.g. Ministry of Education). It can be the reality of many central government agencies.

World Bank (2001) Project appraisal document on a proposed loan in the amount of US $8.88 million to the Federative Republic of Brazil for the fiscal and financial management technical assistance loan.