



## Use of maneuvers to achieve fiscal objectives in Brazil: Science or Discretion?

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### Abstract

Can the “illusionary” fiscal results of the public accounts of the Brazilian federal government, impacted by the employment of fiscal maneuvers and creative accounting, be attributed to accountancy applied to the public sector? Based on bibliographical and documental research and employing exploratory techniques and content analysis regarding the accountability of the Brazilian federal government from 2000 to 2014, this study aims to demonstrate the limits of public accountability regarding the manipulation of fiscal results. The results show that the distortions in the primary result are not dependent on existing accountancy tools, as they stem from the discretionary initiative of Brazilian public managers, stimulated by internal and external incentives regarding the practice of these manipulations of results. This is done by using a form of unorthodoxy that is not included in the instrumentality of accounting as a science. It is the responsibility of the managerial agent.

**Keywords:** Fiscal Maneuvers. Creative Accounting. Fiscal Management. Fiscal Targets.

### Introduction

In keeping with the principle of the continuity of the State, which materializes through government actions in Public Administration, the balance of public accounts depends on responsible fiscal management that ensures that targets are met. This is especially true when it comes to obtaining revenue to guarantee public expenditure to comply with the rights of Brazilian citizens as established in the Federal Constitution of 1988. This means, in the words of Oliveira and Pisa (2015), monitoring public administration, demanding ethics, compliance, disclosure and accountability.

According to Lienert (2010), the objective of being “fiscally responsible” is admirable, as it invokes the concepts of accountability and disclosure to meet the requirements of fiscal stability. Here, the government and legislature need to be responsible and adopt solid budgetary policies and manage the annual budget to aid economic development and debt sustainability.

In this sense, seeking harmony between the forces that affect the result of fiscal targets in Brazil, the Fiscal Responsibility Law (Complementary Law 101/2000) explains the duty of public managers in Brazil. They must work transparently and with plans to prevent risks and correct deviations that might affect the control of public accounts.

The list of Brazilian fiscal disclosure instruments includes: i) accountability and its respective preliminary report, prepared by a monitoring agency; and ii) fiscal management reports, with information about the achievement of fiscal targets, and other targets, and the nominal and primary results and the amount of public debt.

Regarding public bookkeeping, Article 50 of the Fiscal Responsibility Law states that it is obligatory to register expenditure and commitments, in addition to records of credit operations and balance of payments. It is also compulsory to keep records of any form of financing or obligations with third parties.

Thus, the Fiscal Responsibility Law gave Brazilian public accounting a key role in the disclosure of fiscal management, as the information can be obtained through the accountancy cycle applied to the public sector, ranging from recognition of transactions to the records kept of them in reports and financial statements.

Although the method of calculating fiscal results is not based on information produced through public accounting, when it comes to divulging fiscal results, common sense would have it that the credibility of the fiscal result has been jeopardized by the use of “fiscal maneuvers” and “creative accounting”, the expedients of which are used by public managers to achieve the planned results for their fiscal target. But what exactly are these vaunted expedients?

Fiscal maneuvers are delays in passing on resources to cover expenses and the concomitant use of the resources of third parties to cope with this expenditure, but without registering them as liabilities in the accounting of the public agency that is paying. Creative accounting can be defined as the subjective use of rules and norms of accountancy to manipulate financial results. In this case, unlike fiscal maneuvers, creative accounting cannot be considered an illegal practice.

A recurring question is the direct relationship through communication channels between distortions in Brazilian fiscal results and public accounting. The latter is undeservedly viewed as the tool responsible for any eventual fiscal mismanagement by governors. In this light, respecting criticisms of the scientism (or lack thereof) of the press, recognizing it as an important instrument for monitoring society regarding the effects of governments and public administrators, some examples can be cited on this topic. These include: “The Economist criticizes creative accounting in Brazil”, *Estadão* (2013); “Creative accounting helps the government to meet fiscal targets, *Veja* (2013)”; “New wave of creative accounting, *o Globo* (2014)”; and “How we miss creative accounting, *Valor Econômico* (2015).

In this sense, considering society's ignorance of the aforementioned "expedients" accountancy and accountants have been unfairly judged by society as participants in any eventual fiscal mismanagement by the respective administrators.

However, the valuation of accountancy and accountants through the unorthodox behavior of certain public agents is harmful to Brazilian society, considering that accountancy is a science that actually affects all domains of social wealth and has a moral and ethical dimension. This dimension is increasingly recognized as an important element of the material and intellectual culture of society (BRACCI, 2015).

Accountancy is viewed by scholars as a mirror of society and the organizations in which it is involved (BURCHELL; CLUBB; HOPWOOD; HYGES, 1980). In the words of Liguori and Steccolini (2014), as a social science, it should not be seen as an objective and static device, but as a social practice. In this respect, the systems of accountancy should reflect the influence of identities, behaviors, perceptions, principles, beliefs, values and interests of society. Moreover, as a science, accountancy is guided by a body of systematized knowledge, principles and norms that cannot be soiled during its application without harming its essence.

Therefore, this study aims to show the limits of the responsibility of public accounting when it comes to the manipulation of fiscal results as presented in fiscal reports in Brazil. For this purpose, the research question that guides the study is: Can the "illusionary" fiscal results of the public accounts of the Brazilian federal government, impacted by the employment of fiscal maneuvers and creative accounting, be attributed to the accountancy applied to the public sector?

The study is structured into six sections, followed by a list of references that provide theoretical support to the study. The first part of the study is this introduction, which presents the theoretical and methodological outline. The second part discusses Accountancy and public Budgeting in Brazil, followed by the third part, which discusses public accounts and the fiscal result. The fourth part addresses the appreciation of the primary result of the Central Government by the Federal Court of Accounts (Fiscal result 2000-2014). The article is brought to a close by the discussions and conclusions in the fifth and sixth sections, respectively.

### **Accountancy and Public Budget in Brazil**

Public accountancy applies to public entities, associated agencies that receive financing from the public budget (foundations and public companies) and individuals that receive benefits, subsidies, tax incentives or public credits (ACCOUNTING MANUAL APPLIED TO THE PUBLIC SECTOR, 2015).

According to Slomski (2013, p. 4), accountancy as applied to the public sector "shows facts and acts linked to budgetary management, and facts related to events involved in the management of the finances and assets of the entity".

In this sense, Law 4320/1964, the legal framework for Brazilian public accounting, determines the existence of two information systems: budget and accounting. The latter is structured into another four subsystems: budget, assets, costs and compensation.

Regarding the Brazilian public accountancy system, Rosa (2010) claims that under the accrual regime, revenue and budgetary expenditure system can correspond to actual expenditure and revenue (with a focus on equity), but can be recog-

nized at different times. Therefore, it should be highlighted that records of budgetary transactions are complemented by records that recognize the transactions in terms of equity.

When it comes to the singularity of public accounting, Slomski (2013) states that one of its peculiarities is the inclusion of the budgetary subsystem in accounting records. This leads to the accounting figure of the amount payable, which means “the financial obligations that result from budgetary expenditure that has been made but not been paid for before 31 December of each financial year” (LAW 4.320, 1964; ACCOUNTING MANUAL APPLIED TO THE PUBLIC SECTOR, 2015).”

In this light, accounts payable mean expenditures that have been duly budgeted and registered by public agencies as a part of the public debt. The creditors, in general, are suppliers of goods and services to public agencies, mostly individuals and companies in the commercial sector.

The expenses left unpaid at the end of the financial year are registered irrespective of whether they are taxable. These expenses become part of the balance sheet and are considered a liability and thus part of the public debt and considered a floating debt. In other words, one that does not require budgetary authorization for payment.

According to Machado and Holanda (2010, p. 804) the purpose of registering this balance is “to take this legally committed expenditure and make it part of the expenditure for the year” so that the budgetary result presented for a certain period will show a comparison between revenue and expenditure subject to the principle of budgetary legality.

For the purpose of fiscal management, revenue and expenditure are classified as primary and financial, the latter being related to the appropriation of interest, creating an obligation or rescinding a right in the financial sector, thus not altering the net debt of the government (ROSA, 2010 and MINISTRY OF PLANNING AND BUDGET MANAGEMENT, 2015).

Primary revenues are not related to the appropriation of interest and effectively represent society’s tax burden. This is because these revenues are mainly composed of taxes and social and economic contributions that are largely earmarked to cover primary expenditures. A comparison of primary revenues and expenditure will show the fiscal result, where positive values mean a surplus and negative values represent a deficit (REZENDE; CUNHA, 2005; ACCOUNTING MANUAL APPLIED TO THE PUBLIC SECTOR, 2015).

Regarding equity, this system is indeed today one of responsibility for expenditure and revenues. Responsibility is used in the strictest sense as the guiding principle that governs accountancy in general. Thus, public liabilities have also come to include expenditure that is not supported by the budget, i.e., from the time they are recognized as a debt even though no commitment has been issued.

Therefore, in this *lato sensu* light, public accounting should allow the implementation of the budget to be monitored. It should also allow the monitoring of assets, determining the costs of industrial services, inspection of balance sheets and an analysis and interpretation of economic and financial results (LAW 4.320, 1964). Furthermore, the Fiscal Responsibility Law ensures disclosure of the management of

public resources through accountability and fiscal reports. Thus, in all cases, the basis for disclosure of public accounting should always be bookkeeping records.

### **Public Accounts and Fiscal Result**

The enactment of public policy, at the state or government level, is financed by resources from society that are passed on to the State through the payment of taxes for the public good, through planned actions that are outlined in the public budget.

The result of an implemented budget can be made known through public accounting. According to Moreno (2010, p. 31), in a technical sense this accounting is “the result of implementing the budget (...) the way in which the plan or budget forecasts were achieved”. The author also explains that in central administration, the State budget is followed at the end of the year by the general accounts of the State, prepared by the Government.

Thus, public accounts show the results of the actions of managers in implementing the budget, computing all the resources collected, including those required by the government to finance the deficit, i.e., the public debt.

In most Latin American countries, as in Brazil, one of the main purposes of compiling information on public finances is to determine the economic results (deficit or surplus) of the public sector at the global level. This result is equal to the difference between the flow of revenue and expenditure during a given period, and determines the needs for the current funding of the public sector (JIMENEZ, 2005).

Regarding the monitoring of the public debt and fiscal adjustments, since the year 2000, the limits have been set by the principles of the Fiscal Responsibility Law. According to Sodré (2002, p. 3) its “explicit goals establish a coordination of tax policies for the entire federation and makes a fiscal balance an obligation of public administration in the country.” The author states that “the first principle of the Fiscal Responsibility Law to be highlighted is the establishment of budgetary commitments and a commitment to equity”.

To Rosa (2010), the purpose of setting targets for the fiscal result is to ensure the gradual reduction of the public deficit in relation to Gross Domestic Product (GDP). Nassif (2015) claims that one of the ways of combatting a growing deficit and keep it relatively low, stable and sustainable, is the generation of primary surpluses.

The National Treasury (STN, 2015) presents the concept of primary result as “an indicator of the balance of operations that result in new, or primary, debts by excluding from their scope the payments (receipts) of interest from the public debt (financial assets)”.

According to Cunha and Silva (2002), this means that if government revenues are sufficient for covering its expenses, there will be a budget surplus. On the other hand, if the revenues are insufficient, there will be a deficit. If there is a surplus, the resources are used to pay interest (primary surplus) and their amortization (nominal surplus) if the balance is higher than the interest payments.

Along these lines, the Brazilian Central Bank (Bacen) (2015, p. 2) states that “the primary result corresponds to the nominal result without the instalment of nominal interest (real interest adjusted for inflation) payable on the net debt”. This gives meaning to the primary surplus as the positive result of balancing tax collection and

government expenditure without considering the interest on the already existing debt.

The calculation of the primary results enables an evaluation of the sustainability of the fiscal policy of the government. In this sense, Cunha and Silva (2002) claim that if the primary result is sufficient at least to combat the growth of the debt as a percentage of GDP, the fiscal/financial situation of the government can be said to be improving. This improvement maintains the trust of creditors of the country regarding capacity of payment and thus access to private credit. It also makes private investors feel more secure about investing in the country. Conversely, investors withdraw their resources due to insecurity regarding fiscal sustainability or non-sustainability, with an immediate reflection on the political and economic arenas of the country.

In Brazil, the National Treasury and Central Bank publish fiscal information. However, it is the results calculated by the Central Bank that serve as a parameter for analyzing compliance with fiscal goals, which are compared with the result obtained by the “below the line” method, corresponding to the sum between the primary result of the non-financial public sector and the appropriation of nominal interest (BACEN, 2015).

In the “below the line” methodology, the fiscal result, in the nominal concept, is known as the Need for Public Sector Financing, which translates into the “total debt of the non-financial public sector deducted from its financial assets together with private non-financial agents and financial agents both public and private” (SILVA; MEDEIROS, 2015).

According to the Central Bank (2015), the Net Public Sector Debt (NPSD) is the balance between the debits and credits of the non-financial public sector and the Central Bank. The debits are assessed by the criterion of government level and the credits are the financial assets of the public sector along with the financial private sector, the financial public sector, the private sector and the rest of the world.

In turn, the Federal Court of Accounts (TCU, 2015) explains that the primary result is calculated from the variation of net debt for the period in question. This means adding all the primary variations that occurred in each of the holdings and each of the debts that make up the Net Public Sector Debt. If at the end of the period the balance of the NPSD is reduced in relation to final balance at the end of the previous period, the result is considered a surplus. Otherwise, it is considered a deficit.

Regarding the appreciation of annual accounts of the president of the republic, it is part of the constitutional duties of the Federal Court of Accounts to aid the National Congress and inspect compliance with the targets established by the Budget Directive Law.

### **Appreciation of the primary result of the Central Government by the Federal Court of Accounts – Fiscal Result (2000-2014)**

It should first be highlighted that the data presented and discussed in this section are based on surveys of the reports of the Federal Court of Accounts and the Fiscal Execution Reports of the National Treasury.

The dynamic of debts of unstable governments can generally be corrected by appropriating budget adjustments. To achieve the necessary corrections, governments can normally use a wide range of fiscal instruments, such as contingency of

government expenditure, public transfers or a variety of taxes (MICHEL; THADDEN; VIDAL, 2006). Contingency consists of “delaying and, not unusually, not executing part of the programmed expenditure foreseen in the budgetary law” (MINISTRY OF PLANNING AND BUDGET MANAGEMENT, 2016). However, the Brazilian government, in addition to not using the fiscal control instruments provided by legislation, uses other expedients to meet fiscal goals.

Table 1 shows the forecast and actual fiscal results of the Brazilian Central government for the years 2000 to 2007. Table 2 shows the results for 2008 to 2014, and the differences between the two periods. Appendix 1 of this study also summarizes the factors that affected the achievement of these fiscal goals. This was done by analyzing the content of Reports and Preliminary Reports from the Federal Court of Accounts, published by the General Federal Controllershship for the accountability of the Central Government accounts.

**Table 1** – Primary results of Federal Government accounts for 2000-2007.

Status		Years							
		2000	01	02	03	04	05	06	2007
Forecast	R\$ Billions	33.50	29.40	36.70	39.80	55.70	52.30	68.20	72.30
	% GDP	2.70	2.50	2.81	2.81	3.15	3.15	3.15	3.15
Actual	R\$ Billions	35.99	29.60	36.70	49.00	61.30	68.90	64.80	71.30
	% GDP	2.99	1.91	3.17	3.15	3.47	3.56	2.79	2.80
Difference	R\$ Billions	2.49	0.20	0.00	9.20	5.60	16.60	-3.40	-1.00
	% GDP	0.29	-0.59	0.36	0.34	0.32	0.41	-0.36	-0.35

Source: prepared by the authors from reports and preliminary reports of the Federal Court of Accounts and Fiscal Goals Annexes.

**Table 2** – Primary results of the Federal Government accounts for 2008-2014.

Status		Years						
		2008	09	10	11	12	13	2014
Forecast	R\$ Billions	78.80	88.70	79.30	89.30	96.90	108.00	116.00
	% GDP	2.85	2.85	2.35	2.35	2.15	2.15	2.15
Actual	R\$ Billions	85.30	40.60	74.70	93.60	85.00	75.30	-22.40
	% GDP	2.95	1.29	2.15	2.13	1.76	1.40	0.41
Difference	R\$ Billions	6.50	-48.10	-4.60	4.30	-11.90	-32.70	-138.40
	% GDP	0.10	-1.56	-0.20	-0.22	-0.39	-0.75	-1.74

Source: prepared by the authors from reports and preliminary reports of the Federal Court of Accounts and Fiscal Goal Annexes.

Since 1998, structural changes have been begun that came to influence the product and analysis of the fiscal results. They are: i) the regulation of administrative reform; ii) approval and regulation of social security reform; iii) institution of the General Public Social Security Law; iv) enforcement of the Tax and Labor Reforms; and (v) the institution of the Fiscal Responsibility Law, determining that the Bill of Law for the Budget Directive Law should contain the annex of Fiscal Goals regarding revenues, expenditure, primary result and public debt for the current year and the following two years.

In effect, since 2003, the analysis of the Federal Court of Accounts has included the topics regulated by the Fiscal Responsibility Law concerning compliance with fiscal goals and the preliminary report. There is also an analytical item on compliance with the fiscal targets of the current year.

In an analysis of the accounts for 2008, the Federal Court of Accounts warned that the expedient used to achieve the fiscal goal by increasing primary revenues in detriment of reduced primary expenditure, tends to be unsustainable, considering that revenues can be reduced because of unfavorable economic performance. For this reason, despite the forecasts, expenditures tend (at the very least) to be maintained (in detriment of forecasts). This exacerbates fiscal performance because of the high levels of commitment of the public budget with compulsory expenditure.

In the report analyzing the accounts for 2009, the Federal Court of Accounts began to monitor and control the accounts payable. This was “because of the expressive volume of resources earmarked under this heading in previous years, considering that the account payable is of fundamental importance to the analysis of the implementation of the budget and the finances of each year” (TCU, 2010).

For the accounts of 2010, the monitoring agency warned that the goals of the primary results in the central government “followed the trend of compliance not because of containing expenditure but because of increased primary revenues” (TCU, 2011).

For the accounts of 2013, the Federal Court of Accounts listed the elements related to the possible inconsistencies in the calculation of the primary result of the federal government. These inconsistencies especially included: i) not discounting atypical revenues; ii) considering an “above the line” cash regime; and iii) not recognizing the difference to be paid as a debt in “below the line” calculations. In that year, the auxiliary agency drafted considerations regarding the lack of official methodology in calculating the primary result of the federal government.

Finally, in the appreciation of Central Government accounts for 2014, the Federal Court of Accounts report recommended that the National Congress reject the accounts of the Presidency of the Republic for not considering, among other things, the principle of legality and the assumptions of planning, disclosure and responsible fiscal management as required by the Fiscal Responsibility Law.

The recommendation to reject the federal government accounts for 2014 was mainly based on inconsistencies in calculating the fiscal result. These inconsistencies were derived from the omission of primary loss-making transactions and liabilities in the statistics of the official results of 2014. These were calculated by the Central Bank, the National Economic and Social Development Bank (BNDES) and the Social Security Fund (FGTS).



It should be highlighted that these inconsistencies and others revealed by the inspection agency and other social inspection agencies, such as the media and representatives of civilian society, are attributed to the use of unorthodox expedients known as fiscal maneuvers. They are also attributed to the use of accounting criteria that allow accounting that strays from the facts, i.e., the use of creative accounting.

Nevertheless, Gobetti (2010), when analyzing the inclusion of states in the Fiscal Aid Program and the Fiscal Responsibility law, suggests that the budgetary data found show evidence of creative accounting. According to Ochoa (2007), this can be defined as “the art of manipulating information within legal norms”. To this author (OCHOA, 2007), the reasons for the existence of creative accounting are the asymmetry of information and the legal framework of accountancy that recognizes the principles and legal loopholes that leave its application open to interpretation.

In this light, one of the ways of using creative accounting is operations with the intention of increasing or reducing revenues and expenditures, like operations with agencies outside the purview of consolidation, based on increasing primary revenue with credit from “own resources” (MAYORAL, 1997).

Amat and Gowthorpe (2004, p.13), when examining the nature and occurrence of accounting practices in the context of ethical considerations, forcefully observed that “it seems clear that, in general, creative accounting is viewed as an undesired and deceitful practice”.

The term “fiscal maneuvers” has no formal meaning. It can be defined simply as the delayed payment of expenses. The use of third-party resources for primary expenses without due registration in the accounts, as defined in the media, may be viewed as a redefinition of “creative accounting” (although it is not). This is because of the escalation of the expedients used by the federal government to meet its fiscal targets.

## Methodology

The methodology used in the present study, to explain the problem from a published framework on the subject, uses bibliographic research and documents regarding the accountability of the federal government when it comes to reports and statements of the Federal Court of Accounts over a period of 15 years (2000-2014). It also draws on Fiscal Management Reports issued by the National Treasury.

## Analysis and Discussion of the Results

To identify when the federal government uses creative accounting to cast its fiscal result in a positive light and overestimate it, it is important to analyze the points highlighted by the research conducted in the reports and preliminary reports of the Federal Court of Accounts (1997-2014). Monitoring the attainment of fiscal goals is an unalienable duty of the Federal Court of Accounts, considering the public welfare that stems from economic stability and conditions for economic growth and the well-being of the population (TCU, 2014, p.3)

Table 3 and Appendix 1 show that, starting from the report of 2003, the Federal Court of Accounts recommended reducing the unprocessed accounts payable, clearly warning of the excessive accounts payable from 2004 onwards.

Regarding this expedient, it should be highlighted that the method of calculating the fiscal result used by the Central Bank considers all available finances. However, when it comes to the public debt, it considers only loans and funding obtained through the banking system. Therefore, the fiscal result does not compute short-term assets in which accounts payable are registered. Thus, these resources only affect the fiscal statistics after the money has left the single account of the federal government.

On the other hand, the liability found on the balance sheet of the public sector reflects not only the financial liability obtained through the financial systems, but also the entire short-term and long-term liability. These are represented, respectively, in the floating debt (contracted for a short and determined period) and the funded debt (enforceable commitments of over 12 months). This exposes all the loans and funding obtained through or outside of the financial system.

The public accounting recognizes all the liabilities of the government from the event that generates them, what happens in this case is the so-called accounts payable float. In other words, a record is kept by the accounting system, but not by the Central Bank, as it only includes accounts obtained from the financial system.

The accounts payable float is obtained by the difference between the value of primary expenditures included in the balance at the end of the year, and the sum of the accounts paid during the financial year, with the cancelled amount to be paid in reference to the total included (SILVA; CANDIDO JUNIOR; GERALDO, 2007).

Table 3 shows the primary result adjusted by the accounts payable float using the methodology proposed by Silva, Candido Junior and Geraldo (2007), as used by the Federal Court of Accounts to present the primary result of the Central Government for 2013. The values of the accounts payable are the ones found in the summarized fiscal execution reports. Therefore, they include all the values, including those that refer to financial expenditures.

**Table 3** – Primary result adjusted by comparison with the accounts payable float  
R\$ millions

Year	Primary Result (A)	Accounts payable from previous year (B)	Accounts payable cancelled during the year (C)	Accounts paid during the year (D)	Payable E=(B-A-C-D)	Primary Result adjusted F=(A-E)	F/A (%)
2003	49,043	18,090	7,625	8,992	1,473	47,570	0.96
2004	61,322	31,679	17,955	11,897	1,827	59,495	0.97
2005	68,919	21,641	4,726	12,735	4,180	64,739	0.93
2006	64,896	38,979	13,029	21,110	4,848	60,048	0.92
2007	71,347	43,930	8,697	25,386	9,847	61,500	0.86
2008	85,344	62,460	7,378	34,762	20,321	65,023	0.76
2009	40,582	94,576	16,276	48,328	29,972	10,610	0.26
2010	74,747	114,994	14,835	61,942	38,217	36,530	0.49
2011	93,615	128,892	16,567	74,056	38,269	55,346	0.59
2012	85,030	141,200	12,707	79,515	48,978	36,052	0.42

2013	75,290	177,001	17,238	88,709	71,054	-4,236	0.05
2014	-22,479	219,136	21,237	111,796	86,103	-108,582	-5.00

Source: Summary Fiscal Execution Reports and Central Bank.

Table 3 shows that the primary result of the federal government adjusted by the accounts payable float would see its consistency strongly affected from 2007 onwards, reaching its highest variation in 2014, with the adjustment diminishing the primary deficit presented by up to five times.

There was a continuous increase in the inclusion of accounts payable from 2005, with a 50% increase in the accounts payable float in relation to the previous year in 2008, and 57% from 2012 to 2013.

The growing use of this expedient on both these occasions coincided with an election year for two presidential terms. In this sense, the data is in keeping with those found in the study of Avarte, Avelino and Lucinda (2008). When these authors investigated the relationship between party ideology and the fiscal result, they found that public finances follow an electoral cycle. There is increased expenditure and a worse primary result in election years.

Budgetary expenditure without the intermediation of the banking system is not computed in the official fiscal result, while all the liabilities are registered by the public accounting in the accrual regime. Therefore, it is understood that there is no direct relationship between accounting and operation (executive management) of including an expressive volume of expenditure in accounts payable with a view to inflating the primary result.

This statement is supported by the fact that there are no accountancy rules or norms being used subjectively or being manipulated by the decisions at the discretion of managers. There is indeed a lack of regulations regarding the method for calculating official fiscal results, which do not consider the accounts payable as a debt.

Regarding non-recurrent atypical revenues that had a positive impact on the fiscal result, these were included in the calculation of the fiscal results in 1999, 2001, 2002 and from 2010 to 2014.

Specifically concerning extraordinary revenues that originated from the anticipation of dividends received by the federal government as a shareholder in Petrobras, Caixa Econômica Federal and the BNDES, these transactions made use of the flexibilities and omissions in accountancy norms to inflate the fiscal result.

The investments made by the federal government in Petrobras (increased capital), and the BNDES (concession of credit), in terms of accountancy, lead to permutation. There is an exchange of identical values between the assets of the federal government and the disbursement of financial resources by the National Treasury (in the form of bonds) and the entry of resources in cash in the investment account. However, at the other end of this accountancy transaction, part of the sums invested returned to the government coffers in the form of revenues through the anticipation of dividends, as the continuous exit of this investment results in the registration of a lower value in the assets of the government.

Thus, in terms of accountancy, the exit of a resource in the form of investments rather than expenditure, when it returns as a revenue, generates an increase, raising the value of the asset in the short term and modifying the basic accountancy equation

[asset = liability + net worth], adding, at the end of the operation, the fiscal result under the cash regime.

Regarding the omission of primary expenses resulting from delays in payments to financial institutions, in the accounts of 2014, these inconsistencies are transactions that do not depend on the recognition and registration of values by public accountancy. The sources of information used by the Central Bank are the accountancy data of public sector creditors and originate from the financial system.

It should be highlighted that the calculation of the Central Bank using the “below the line” method is done under the cash regime. However, for the purposes of identifying the NPSD, the loans and financing made within the banking system are considered. The Central Bank (2015) points out that “the general rule is that credits, to be considered in the calculation of the net debt, must be registered in the liability of the debtor institutions of the government”, whereas debts are considered by the accrual regime.

Objectively, it is a matter of considering the values registered by the accounting of the financial institutions. In other words, the credits that the government has to receive are computed in the calculation of the primary surplus if they are registered in the liabilities of these institutions and the debits to pay are taken into account in the NPSD if they are registered in the assets of the banks.

Therefore, as the assets of the creditor were registered in the holdings of the creditor institutions (Caixa, BNDES, Banco do Brasil), and these sums were anticipated by the institutions for the payments of expenditure by the federal government, these can be characterized as budgetary credit operations. In other words, they seek to solve a cash flow problem.

Article 29, Clause III of the Fiscal Responsibility Law defines a credit operation as “a financial commitment assumed mutually”. There are two types: one budgetary and the other non-budgetary. The former is intended to create resources to cover budgetary expenditure. The latter seeks to resolve a cash flow problem. In other words, they are not meant to cover new budgetary expenditures.

It should be highlighted that if the credit operations, as the late payments to the financial institutions are characterized, had followed a legal path from the outset (in compliance with the Budgetary Directive Law) as authorized by the legislative power (in its role as external controller of the Executive branch) to the end of the process, i.e., regular liquidation with interest and surcharges, the deferral of the payments to 10 December of each year (Article 38, Clause II of the Fiscal Responsibility Law) would not have positively affected the fiscal result at the end of the year, as was the case.

Therefore, it is important to remember that the registration of these operations in the liabilities of the federal government would not alter the primary official result in any way as calculated by the Central Bank since once again public accountancy information was not used to calculate this result.

On the other hand, the non-computation of these values in 2014 was due to the Central Bank system not detecting the accounts registered accounts in the assets of the creditor financial institutions. In contrast, it should be said that knowledge of these values was only possible, in this case, through the correct use of the norms and principles of accountancy by the creditors, who registered their assets with the fed-

eral government. Table 4 summarizes the inconsistencies registered in the fiscal calculation presented by the Central Bank and its relationship with creative accounting.

Concerning fiscal maneuvers, it is also important to point out that characterizing these transactions as credit operations led the auxiliary body of the National Congress, when conducting external monitoring, to recommend rejecting the accounts of the presidency of the republic for 2014. This was because the transaction took place between the federal government and financial institutions that it controls. This procedure is prohibited by Article 36 of the Brazilian Fiscal Responsibility Law. This act was one of the main aspects behind the events that led to the proceedings to impeach President Dilma Roussef.

The amount of money involved in this practice of delaying payments to public and private banks that financed federal government expenditure was 55.8 billion reais. Therefore, if this amount is computed, the primary result for 2014 would actually be a deficit of 78.2 billion reais. This corresponds to 1.43% of Brazilian GDP in that year.

**Table 4** – Inconsistencies in the calculation of the primary result and its links to creative accounting.

Inconsistencies	Accounting record	Is it creative accounting?
Atypical transactions, such as operations anticipating dividends.	In the disbursement of the resources, there is permutation in the accounting: exit of assets in the form of National Treasury bonds and the concomitant entry of an asset as an investment. Continuous act, part of an investment in the BNDES, returns as an advance on dividends in the form of revenue.	Yes. The disbursement of resources in the form of an investment is not considered an expense, i.e., there is no reflection on the primary result. However, part of the resources invested enters as dividends, i.e., as primary revenues, thus positively affecting the primary result with revenues from "own funds".
Non-recognition of the accounts payable as a debt in fiscal results.	Public accounting registers its expenditure through the accrual regime. Thus, all committed expenditure left unpaid generates a record, the synthetic accounts payable, which forms the so-called floating debt at the end of the year, which composes the current liabilities in the balance sheet.	No. The excess accounts payable in the last years with a view to positively affecting the primary result is related to the method of calculation used in "above the line calculations", which considers the expenses through the cash regime rather than the accrual regime. Therefore, they are independent of the accounting records of the budget.
Primary expenditures not computed in the fiscal statistics (delayed payments of federal resources).	The accounting record of financial liabilities follows the accrual regime, i.e., for all the expenditures generated in the year that meet the requirements of a liability, there is a record for public accounting, even without budgetary support.	No. The absence of these expenditures in the computation of the fiscal result is linked to: i) the calculation method (cash regime); ii) the source of data of the Central Bank (financial system); and iii) the lack of scope in the accounting cluster of the fiscal calculation of the accounts of the records of the rights of the financial institutions with the federal government.

Source: prepared by the authors.

As shown, the calculation method for the fiscal result published by the Central Bank does not take into consideration the information generated by public accounting applied to the public sector, but rather the information produced by the financial system. However, the public accounting records made by the cash regime are included in the system of the Central Bank. Therefore, adjustments using creative accounting can also help to distort the fiscal result.

Therefore, based on the data collected and an analysis of their variables, it can be said that the illusory fiscal result of the public accounts of the Brazilian federal government can only be partly attributed to the accounting and creative use of norms and regulations. It should be noted, for instance, that for 2013, the value of the accounts payable float (71 billion) corresponds to 99.95% of the value achieved for the primary result (75 billion). The transactions between related parties (creative accounting), approximately seven billion received from dividends of the BNDES, represent 10% of the result of the basic operations of the federal government.

Therefore, it should be highlighted that the data suggest that the perception of the fiscal result is more strongly affected by the variables of: i) the calculation method, which does not consider the accounts payable as a debt, nor does it consider an account that is processed or in liquidation; and ii) the discretion of public managers, with budgeting operations outside of the accounting registers, recognized as fiscal maneuvers.

## Conclusions

When it comes to divulging the appreciation of fiscal results, creative accounting has been used increasingly in recent years by public managers to meet the fiscal target. These statements suggest that many of the factors that affect the consistency of the fiscal result originate from accountancy as applied to the public sector.

To reveal the limits of the responsibility of public accounting when it comes to manipulating the fiscal results presented in fiscal reports, a research question was posed. Can the “illusionary” fiscal results of the public accounts of the Brazilian federal government, impacted by the employment of fiscal maneuvers and creative accounting, be attributed to the accountancy applied to the public sector?

The analysis of preliminary reports by the Federal Court of Accounts regarding the accountability of the federal government from 2000 to 2014 concerning fiscal results showed that creative accounting was used to compute the fiscal results of the federal government, especially in 2010, 2012 and 2014. Accounting norms and regulations were used to “make what is into what it should be”. The methods employed included the disbursement of resources in the form of investments and the entry of part of these resources as revenues in artificial transactions between related parties.

However, other unorthodox procedures were used with significant immoderation to inflate the fiscal result: i) not characterizing accounts payable as debts; ii) the deduction of primary expenses of programs from the fiscal target to be achieved; iii) non-recurring primary revenues; and iv) the omission of loss-making primary transactions.

Some authors claim that changing the calculation method could mitigate the distortions. However, the National Treasury prepared a tax statement handbook, showing how municipalities and states should publish their fiscal result through the

cash regime, using information from budget accounting records. Nevertheless, the irony in this case is that, paradoxically, the federal government is not obliged to adhere to the guidelines of the handbook that it created.

Furthermore, the Fiscal Responsibility law uses the budgetary and financial contingency as an instrument for controlling compliance with fiscal targets. This contingency was prepared by the powers and justice department through a decree for financial and budgetary planning. This expedient is often used by the federal executive power. This means that the real execution of allocated resources is under the will of the federal government, by default of the legislature, and, consequently, the public policies required by the Budgetary Law.

It is also important to highlight the use that the executive branch made of the lack of constitutional impediments to propose changes to the legislature for the targets set by the Budget Directive Law from 2005 to 2007 and 2009 to 2014. This caused social insecurity due to the fiscal inconsistency and apparent weakness witnessed in the preparation of the public budget. Given that only the budgetary contingency is insufficient for monitoring compliance with fiscal targets, the targets have to be changed. As a law can only be changed through the enactment of another law, the executive branch uses its governability (supporters in parliament) to legalize the illegality of non-compliance with the Budget Directive Law, altering targets to suit the reality of its expenditure. It should be emphasized again that this leads to considerable mistrust and political and fiscal insecurity in the country. There are a number of obvious negative consequences, especially in the withdrawal or reduction of investments.

Therefore, in answer to the research question, the distortions in the primary result are independent of the existing accounting tools. They are at the discretion of Brazilian public managers, stimulated by internal and external incentives to adopt practices that manipulate the result. To do so, they use unorthodox methods that do not fall within the scope of the instrumentality of accountancy as a science.

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