

# Changes in a Brazilian State Public Audit Office

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## Abstract

This paper reports the results of a case study in a Brazilian state public audit office. We investigate the process changes due to new accounting regulation law. Nine in-depth interviews with public audit analysts show that there were several internal changes on information system and on relationship with audited cities.

**Keywords:** changes, institutional theory, new institutional sociology, audit office.

## INTRODUCTION

Facing the numerous discussions held by the Brazilian Federal Accounting Council (CFC), with the participation of organized society and of many other actors, the Brazilian public accounting has been undergoing significant changes, leaving the budgetary approach and turning to the accounting theory (Macedo et al., 2010), using full accrual basis instead of mixed of accrual and cash basis.

This process of change in accounting applied to the public sector is being driven by various public entities, whether executing agencies of accounting practices or supervisory offices of these rules. Thus, in addition to the aforementioned entities, STN (Brazilian National Treasury Office) and CFCs, which are contributing in the convergence process in the theoretical aspect, other Brazilian entities are working on rules adopted in a large number of laws, rules and manuals, are effectively applied in practice by public authorities. Among such entities are the external control institutions, such as audits office. An example of this is the fact that the State of

Paraná Audit Office (TCE-PR), from the year 2013, is asking their jurisdictional initiate to adopt new accounting practices.

Thus, this article aims to study the actions taken in the accounting process of change applied to the public sector, which took place at the municipal level of Paraná State, from the perspective of Parana State Audit Office.

## **NEW INSTITUTIONAL SOCIOLOGY - NIS**

The theoretical approach that researches the relationship among the entities and the environment in which they operate, with a social and cultural interdependence, is present in the Institutional Theory, based on studies of sociological approach (Reis, 2008).

Thus, in the context of the New Institutional Sociology (NIS), changes in formal institutionalized practices of entities are analyzed from the perspective of seeking external legitimacy. The analysis from that part of the Institutional Theory contributed to the understanding of the relationship between the organizational structure of the entity and the environment in which it is embedded (Hussain &Hoque, 2002).

Institutional theory in his sociological approach, based on the premise that organizations respond to the pressures of their institutional environments and seek structures and / or procedures that are socially accepted as an appropriate choice for the organization (Carpenter &Feroz, 2001 ). Thus organizations tend to resemble each other, a phenomenon defined as isomorphism (DiMaggio and Powell, 1983)

Extending the ideas covered in previous studies, DiMaggio and Powell design the institutional idea of organizational isomorphism. According to them, the concept of isomorphism is a powerful and useful tool to understand the political and organizational outline, widespread in modern organizational life. DiMaggio and Powell (1983) distinguish three types of institutional isomorphism of which isomorphic institutional changes happen. They are called coercive, mimetic and normative.

Several studies, in Brazil and abroad, have used or supported the use of New Institutional Sociology and institutional isomorphism as a theoretical framework to the study of organizational change process. These studies confirmed the adoption of certain accounting techniqueor applying other management tools make themselves due to external pressures, such as Bealing Junior, Dirsmith and Fogarty (1996), Hussain and Hoque (2002) Rossetto (2003), Passolongo, Ichikawa and Reis (2004), Siti-Nabiha and Scapens, (2005), Ribeiro and Scapens (2006), Tsamenyi, Cullen and González (2006), Gimenez, Hayashi and Junior Record (2007) , Oyadomari, MendonçaNeto, Cardoso and Frezatti (2008).

Concerning the study carried out here, we can say that the beginning of the adoption process of the new accounting practices in the public sector was mainly, due to the issue of Brazilians Accounting Standards for Public Sector (NBCASP) by the CFC and also because of

the STN establish, by decrees and orders, time limits for the levels of public administration(country, states and cities) initiate the adoption of new standards. Thus, in view of the pressure exerted by the CFC and the STN, the analysis of the accounting change process applied to the public sector occurred in Paraná municipal level, can be performed from the perspective of New Institutional Sociology.

## **METHODOLOGY.**

The population concerning the study, is composed by External Control Analysts working in the Directorate of Municipal Accounts - (DCM) of Paraná State Audit Office - (TCE-PR), totaling 55 employees acting on specific managerial within the DCM.

The sample of this study is composed of external control analysts, who held positions of management or direction, and who work or worked in the Directorate of Municipal Accounts - DCM, since 2008, the year used in this paper as of beginning of main actions and studies of the new accounting practices for the public sector. Thus, the sample was composed of nine (9) employees, all external control analysts of TCE-PR.

The choice for interviewing managers and directors who work or worked in the office since 2008, is because they actually were involved from the begining in the implementation process of the new accounting standards and techniques in municipal state level (cities).

As for the procedures adopted to carry out the research, we used the documental research and the application of interviews as techniques of data collection. The documental research was conducted in the Audit Office. The researches were previously authorized by the Office. The use of this technique allows access to data produced by the entity during the course of planning and implementation of changes in accounting standards and techniques applied to local state entities, as well as the changes made to the information system (ERP) who pickup accounting information, named the Municipal Information System - Monthly Monitoring (SIM - AM).

After this initial data collection, which allowed us to obtain prior knowledge about some actions taken by the Audit Office, we held interviews with external control analysts of Directorate of Municipal Accounts - DCM in order to increase knowledge about the actions taken by the TCE in the changing process.

To analyze the data collected from the agents responsible for monitoring, we used the content analysis technique, which were identified in the documents and texts from the interview transcript, what messages would be the object of analysis.

Initially, after complete transcripts of the interviews, we proceeded to a vertical reading of each interview, followed by rereading, that is, the interviews were analyzed individually from a full reading of the transcript text, from the initial responses to the finals. After this, we held the insertion of transcripts in the software called Atlas-TI to make a horizontal reading of each

question in every interview, organizing and sorting the fragments of answers for nearby direction and based on the interpretation of these passages codes were created.

Finally, after the creation of codes, families (categories) were also built subject to the composition of the relevant codes to each family. We can say that this process involves grouping the codes according to the similarities and analogies previously established through certain criteria, based on the problem and the objectives of the study.

## **ANALYSIS OF PROCESS OF CHANGE**

Initially was highlighted by respondents that the TCE since 2002, uses information system to capture the financial information of the state's municipal entities. This system, called Municipal Information System - Monthly Monitoring (SIM - AM), aims to capture the financial statements and management of municipalities, and is currently capturing 11 sectors information within the municipal administration of the state, called: Registration Data, Planning and Budget, Accounting, Treasury, Procurement, Contracts, Heritage, Internal Control, Tax, Payroll and Public Works.

One of the actions taken by the Court was the reformulation of pickup data system, SIM-AM, which until 2012 was in line with old accounting model, using an old accounting plan list and from 2013 it is aligned with the new accounting model, using the national plan list of accounts applied to the Public Sector called PCASP.

Thus, in view of the decision of implementation of the new accounting model, it was noted that the Office perceived the need and the opportunity to perform a huge change of pickup system data. Thus, in addition to accounting changes, the municipal authorities also had to adapt their accounting information system in order to send correct information to TCE.

The Audit Office has a pickup data system that has evolved since its inception in 2002. For the implementation of the new accounting model in 2013, this system had to be changed, and that somehow contributed to the municipal entities also change their accounting information systems, thus beginning the migration to the new accounting model proposed.

However, before changing the SIM-AM, one of the first initiatives taken by TCE-PR analysts was to seek knowledge about the changes that were being made all over the country by federal government. Thus, some analysts attended the Technical Group of Accounting Procedures Standardization - GTCON, created by the Brazilian National Treasury Office- STN in order to study and discuss the implementation of the new accounting strategy all over the country.

It could be observed that there was a large investment in training analysts who worked in management, especially for those who were working directly with some changes that would be needed, such as the adaptation of the national plan list of accounts (PCASP) to local needs,

production aligned accounting entries to this new plan and the readjustment of the pickup data system (SIM-AM).

In addition to the training provided to analysts, the Audit Office held several events with their jurisdictional, mainly targeting disclose the changes that municipalities should undertake and which process must to be changed, so that in 2013 it was started the implementation of the new system.

Some analysts have issued the opinion that despite the number of trainings conducted in most of them the focus was on the change that would occur in the pickup system data, noted that specific training related to accounting matters were performed, but in smaller volume.

At first the way adopted by the TCE to try to alleviate the problems found was conducting training and classroom visits or via telephone by the Directorate of Municipal Accounts - DCM.

Through the information obtained from the respondents we identified that the Audit Office reformulated the entire pickup system data, for two different reasons. The first concerns the very application of the national plan list of accounts applied to the Public Sector - PCASP and second reason is aligned with the evolution of external controls by the Audit Office as well, given that due to the plan list of accounts would change necessary to change the system, was taken the opportunity to improve existing controls and thus implement improvements in the data pickup system.

Note that the SIM-AM system was one of the ways used by the TCE to promote the necessary changes in the accounting of the state's authorities. As with the use of the system, the data must be sent to the Audit Office in a standardized format, changing the SIM-AM caused the municipalities also change their systems and this provided the beginning of the change process.

## **ANALYSIS OF CONTEXTUAL ISOMORPHIC PRESSURES ON MECHANISMS IN THE PROCESS ACCOUNTING CHANGE APPLIED TO THE PUBLIC SECTOR IN BRAZIL**

Institutional theory in its sociological approach, is based on the premise that organizations respond the pressures of their institutional environments and seek structures and / or procedures that are socially accepted as an appropriate choice for the organization (Carpenter & Feroz, 2001). Thus organizations tend to resemble each other, a phenomenon defined as isomorphism (DiMaggio and Powell, 1983).

In this section we present an analytical framework to assist in understanding the contextual pressures present in the accounting change process applied to Paraná municipal public sector, organized by a structure based primarily on DiMaggio and Powell (1983) and Scott (2008).

Thus, we seek to identify the influence mechanisms of isomorphic pressures existing in the convergence process of Paraná municipal public accounting.

## **Coercive pressure**

The issue by the Federal Government Decree No. 184/2008 and MF Decree No. 6,976 / 2009 can be considered as the first laws that address the accounting convergence process in the Brazilian public area and that, in turn, influenced the beginning of actions in Paraná municipal level. In addition to these first laws we have the Federal Law (Portaria MF) No. 184/2008 and Decree No. 6,976 / 2009.

The claim that these laws influenced the convergence process in the state of Paraná, is given in perspective of TCE-PR analysts are attending the Technical Group of Accounting Procedures Standardization - GTCON, created by STN, and thus involved in the studies on the deployment strategy of the new accounting model.

Through the analysis of the interviews, we found that one of the changes adopted by the Audit Office was the reformulation of pickup data system, SIM-AM system, which system by the year 2012 was in line with the old accounting plan list and from 2013 has become aligned with the PCASP.

We note, by the speeches of the interviewers, the SIM-AM system was one of the ways used by TCE-PR to promote the beginning of the accounting change process.

The coercive pressure can be identified in this regard, mainly due to the obligation of municipalities use the SIM-AM for sending data and consequently, therefore, accountable to the Audit Office, and the failure to send this information could leave the entity subject to fines or other forms of sanctions.

Therefore, once the Audit Office has aligned the system with the new accounting methodology and municipal entities having accountability, they also now have to adopt the new accounts plan list, develop new financial statements, as well as begin the application of other procedures arising from the convergence process.

On the same time of recasting the pickup data system, it was noted that were produced by the Audit Office some documents containing a set of rules called import rules and closure rules (business rules) and it has mandatory nature of adoption because it is inserted on software of the pickup data system.

According to the interviews, this mechanism is to ensure that before the city sends a report to the TCE-PR, this information has been analyzed and it makes the entity to improve its internal controls and still suit the new accounting model.

Then, according to the institutional theory joining the system by the municipalities, and with it the beginning of the accession process the new accounting systematic, can be characterized as a search for legitimacy as the rating of DiMaggio and Powell (1983).

## **Regulatory pressure**

We can say that in the social context in which it is embedded the convergence of Brazilian governmental accounting, some relevant points to rules pressure can be identified.

In addition to the standards produced at the national level by regulators of accounting, through the interview process, it was possible to identify the production of documents by the Audit Office, which can also be considered present in the change process and included within the concept of isomorphism normative.

These documents include the PCASP, a document that has been adapted to the Audit Office's control needs and then made available to the adoption of the municipalities, and the files containing the import rules and business rules of the pickup data system. In addition, other documents were produced that also aimed to help the migration process to the new accounting model. One of these files produced was a document containing guidelines migration balances of the financial accounts exist in the current plan list of accounts by 2012 and the PCASP, and this file called "from-to".

Still, we identified that was developed by TEC-PR, a document containing a full list of journal entries. It was also produced in order to assist the implementation process of the new accounting.

Another action taken by the court of accounts, considered in this context as professional as established by DiMaggio and Powell (1983), was the training sessions with municipal executive powers, these trainings primarily aimed at promotion of the changes that should be made in the accounting systems.

## **Mimetic pressure**

Mimetic isomorphism was one of the most subtle contextual pressures found in this study, because it is not clear as the others pressures.

One of the situations that can be characterized the presence of mimetic isomorphism is the historical process of data capture used by the Audit Office. In this aspect it was highlighted by respondents that the Audit Office, since 2002, uses software to capture the financial information of the state's municipal entities. It forces all municipal entities to have the same accounting process to be in accordance to Audit Office's standards and procedures.

Another aspect that can also detect the presence of mimetic isomorphism is a fact presented by the respondent 1. According to him, on occasion, when the TCE-PR performed the training with the counters of municipalities, these counters, usually those who were identified as practitioners of the best and also the practitioners of the worst practices, were invited to submit comments during the event in order to explain why they are more or less suited to a particular practice. Thus, at the event could identify and analyze these actions taken.

Thus we note that some actions identified here, even if subtly, could be classified as mimetic isomorphism.

## CONCLUSION

This study analyzes the actions taken by the Paraná State Audit Office in the accounting process of change applied to the public sector, based on the actions taken between the years 2008-2014.

We also seek to identify and analyze the influence of existing mechanisms of isomorphic pressures in the convergence process. Therefore we made the study based on the analysis of institutional theory in its sociological aspect, given that, as expressed by Moll, Burns and Major (2006) as many researchers have used this aspect of the theory to explain the adoption new tools of accounting as a way to respond accordingly to external pressures.

Among the key findings, can be included among the practical contributions of this research, we highlight the following:

A first action identified in this process of change was the reformulation of pickup system data (SIM-AM) by the Audit Office. We note that for the early implementation of the new accounting systematic in 2013, this system had to be changed, and that somehow contributed to the municipal authorities also alter their computer systems, thus beginning the process of migrating to the new accounting model.

Another identified action was conducting internal training, also by TCE-PR, directed to the employees involved in the conduct and supervision of the change process and also the extension of this training to accountant's municipalities. We note that the training carried out by the Audit Office with municipal accountants, had finally present the changes that would be made in the feedback data system and discuss issues related to accounting applied to the public sector.

Another practice identified was the fact that the Court of Auditors has produced a series of documents which somehow also contributed to the process of change. Among the documents produced are: file containing a list of standard accounting entries, layouts with a list of business rules and import data, and the PCASP and another file called from-to.

Analyzing the three forms of isomorphism, the coercive and normative mechanisms have a huge presence in the change process studied here. This is primarily due to the legal environment around public entities as well as because of different standards and manuals developed by the actors in the field.

As proposals for future studies, a recommendation is to analyze the current stage of institutionalization of accounting applied to the public sector. Another study could also involve research and the influence of other actors in the convergence process, such as computer systems of companies and municipal entities consultants.



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