

Legitimizing the standard-setter of public sector accounting reforms

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ABSTRACT

This paper shows how the Brazilian Treasury has developed strategies to build legitimacy in a civil law context where the legislature left a vacuum regarding the accrual accounting standard-setting mandate. While the accounting 'rule enforcers' neglect to require compliance with the rules, the 'rule makers' cooperate with each other to build normativity for accounting rules and eventually attempt to develop new forms of enforcement, which the 'rule applying' lobby against.

IMPACT

Brazil is not the only civil law country committed with international organizations to implement accrual accounting IPSAS and prepare the whole of public sector accounts. The findings of this paper will be of value to policy-makers from other civil law countries in dealing with the assimilation of new accounting rules in a context of conflict between standard-setters and auditors.

Keywords: Accrual accounting; Brazil; Dual-system; Governmental accounting; IPSAS; Legitimacy; Normativity

Introduction

Administrative reforms (such as convergence towards international government accounting and auditing standards) can be viewed as threatening by the 'establishment', **as they change the political balance among organizations such as** federal agencies or departments, auditing bodies and professional associations (Greenwood & Hinnings, 1996). Since 'regulation does not just happen; it is produced by organizations, and is often directed towards other organizations' (Jacobsson & Sahlin-Andersson, 2006, p. 248), some organizations may use reforms to **sustain their legitimacy or to delegitimize** competing organizations (Suddaby, 2016). 'Legitimacy' in this case, as defined by neo-institutionalists, is the perception that an organization's actions are desirable and appropriate, protecting it from external pressures (Suchmann, 1995; Meyer & Rowan, 1977).

The academic accounting literature suggests that standard-setters propose accounting standards as a way of legitimating their **preferences** (for example IPSAS versus IFRS) (Brusca et al., 2013; Hyndman et al., 2017) and that central governments searching for legitimacy have used accounting reforms to do so (Carpenter & Feroz, 2001; Brusca et al., 2016). Other studies focus on the legitimacy of the norms themselves and their potential to change behavior through 'normativity' (Bebbington et al., 2012). Despite this, relatively little work has been published on the strategies that standard-setters and enforcers use to build or enhance their legitimacy and how those processes may affect normativity.

This paper examines two important macro-social roles in the accounting regulatory field: standard-setting (the rule-maker) and auditing authority (the rule-enforcer). **Different stakeholders might be interested in playing one of these roles. If there is a lack of legitimacy to play a role, contestation might emerge (Wooten & Hoffman, 2008). The standard-setter's legitimacy to act is not taken for granted, but is to some extent constructed and endorsed by a broad audience (Suddaby, 2016).**

There is evidence that having a legal mandate to issue standards is not enough to do so nor is it necessary. For example, there are cases of **top-down** reforms in civil law countries that have not achieved normativity (Brusca et al., 2018; Bebbington et al., 2012). On the other hand, in the UK, a standard-setter without a legal mandate has successfully implemented environmental reporting regulation using a participatory reform process (Bebbington et al., 2012:90; Kidwell, & Lowensohn, 2018). **It appears to be relevant for the standard-setter to construct its legitimacy, rather than only requiring a legal mandate. Thus, we argue that, for civil law countries, the legal mandate is necessary but not sufficient.**

This paper looks at the important questions about what legitimates standard-setters and auditing authorities in their macro-social roles and how they interact in the regulatory process to enhance their normativity. We highlight the power disputes among organizations in the regulatory field that have emerged from a lack of legal mandate to take the leading role on accrual accounting standard-setting, and the consequent effects on normativity.

Our data collection consisted of document analysis and semi-structured interviews with a number of key actors involved in the processes of standard-setting, preparing and auditing governmental fiscal, budgetary and financial reports. We investigated the last six years of the Brazilian governmental accounting reforms because legitimacy changes over time: 'organizations, sources, and criteria change over time, and organizations must retain legitimacy throughout these changes in order to benefit from it' (Deephouse et al., 2017, p. 3).

The public sector accounting literature is currently dominated by European and British Commonwealth and OECD countries (Brusca et al., 2016; Bergmann et al., 2016). **Our study makes a major contribution to the field by offering evidence from Latin America. Moreover, we cover a context in which accounting reforms have triggered contestation for the legal mandate to issue accounting standards, thus inhibiting accrual accounting normativity.**

Legitimacy, normativity, and power struggles

International accounting standards (for example IPSAS) are a case of transnational governance (Botzem & Quack, 2006), as they are not enacted by legislative power, but by another normative source. In such a context, who plays the two main social roles within a country's regulatory field – standard-setter and auditing authority – matters. The legal mandate to enforce laws concerning fiscal, budgetary and accounting issues is often detached from the standard-setter's role. The academic literature on legitimacy presents arguments based on the norm itself and/or on the organization that sets norms. Some empirical analyses explain how organizations play the two macro-social roles and consequently legitimate the rules in the adoption lifecycle (i.e. building 'normativity') (Bebbington et al., 2012; Brusca et al., 2013; Hyndman et al., 2017). Other authors explain how governments adopt accrual accounting and IPSAS because they are looking for international legitimation (Carpenter & Feroz, 2001; Brusca et al., 2016; Argento et al., 2018; Baskerville & Grossi, 2019; Poljašević et al., 2019).

There is also a dichotomous perspective 'law versus non-law' context in discussing a regulatory process outcome, or normativity (Bebbington et al., 2012), despite evidence about the ineffectiveness of the coercive state, especially in civil law countries. Coercion can empower some but it can also create resistance. Consequently, the law context can induce powerful organizations to resist to non-law regulatory advancements.

International experiences suggest that the legal mandate to propose, design and enforce accounting reforms is often attributed to the fiscal authority, to the audit organizations, or to multi-stakeholders' committees (see Brusca et al., 2015). In a law context, the norm is codified by the state legislation and enforced by a coercive Westphalian state, but in a non-law context normativity can come from a plurality of agencies and stakeholders (Djelic & Sahlin-Andersson, 2006), not necessarily with state coercion. For example, in Spain, top-down designed rules were perceived as 'impractical and illegitimate' as the norm was not coherent with the established normative framework, challenging its

interpretation and applicability. Additionally, 'the auditors were ineffective' in enforcing the norm (Bebbington et al., 2012:90). Interestingly, the legal mandate (and its associated enforcement) is not a necessary condition for an organization to play the role of a standard-setter (Bebbington et al., 2012). If the norms proposed in a reform are coherent with pre-existent practices and values, supported by secondary rules, and have a clear objective, they can achieve normativity without state coercion (Bebbington et al., 2012).

In some jurisdictions, the auditing authority and the standard-setter macro-social roles are exercised by different organizations. Hence, compliance depends on the rules' normativity, on the standard-setter's legitimacy and on the auditing authority performing its duties. Whether the enforcement is weak and the regulation is non-law, compliance is much dependent on the standards' normativity and on the standard-setter's legitimacy (Brusca et al., 2016; Franck, 1990; Bebbington et al., 2012). In the absence of a shock, organizations reach an equilibrium, which can be unbalanced by a reform (Wooten & Hoffman, 2008; Botzem & Quack, 2006; Greenwood & Hinnings, 1996), in which case powerful agencies can react and fight with each other.

The organizations performing the macro-social role of standard-setter can try to mitigate resistance, balance power relations and increase its legitimacy with different stakeholders. To do so, the standard-setter will design a strategy to engage in a legitimation process, where 'legitimacy is seen to be the product of a series of interactions in which the actors demonstrate a high degree of agency' (Suddaby, 2016, p. 25). Such strategies include the use of power to change the rules of the game, including the mandates and accepted actions from the social roles (Lawrence, 2008). However, the auditing authority may then act to try to defeat the standard-setter.

Research method

We adopted a qualitative longitudinal approach, based on inductive and abductive reasoning (Reichert, 2013; Willig, 2014). We followed accounting reforms in Brazil after 2012, collecting documents and interviewing key players from the two macro-social roles: standard-setter and auditing authority. Hence,

we interviewed Treasury staff members, some **regional Courts of Accounts (overseeing states and municipalities)**, and Brazil's Institute of Chartered Accountants (hereafter, the 'Institute'). Politicians and professional accountants that prepare fiscal, budgetary and financial reports from the regional and local governments were also interviewed. We conducted elite interviews with a former Treasury general secretary; two leaders for the IPSAS convergence project; the chairman and three **members** from the Institute; a public servant from the Ministry of Finance who led debates in the National Congress about the bill that became the Fiscal Responsibility Law; two city mayors; and the chairman of the **Association of Courts of Accounts**. We also interviewed 15 governmental accountants from different municipalities, 32 auditors and IT analysts from 24 **Courts of Accounts**, and some consultants from accounting software and accounting service providers. Interviews lasted about 45 minutes on average. Additionally, the authors are participant observers of the regulatory field.

Our central theme was: 'the challenges and barriers to IPSAS project, and the expectations and motivations to comply with the new rules'. The interviews collected facts, perceptions and expectations, which were triangulated with secondary sources, for example Treasury publications, decrees, laws, advertisements for training programmes and the minutes of Institute meetings.

The interviews were run in the following periods. From 2014 to 2015, we captured the initial stages of the **reform**. **Initially, we observed the** Courts of Accounts' engagement with the IPSAS project, and the development of electronic platforms to collect accrual, budgetary and fiscal data from municipalities. For the Treasury and Institute, we focused on the design, i.e. how they searched for coherence with previous legislation and their strategies to engage stakeholders. We were **also** interested in how **local governments' accountants and consulting firms** were evaluating the legitimacy of those organizations. From 2016 to 2018, we returned to the field to collect data about **the latest** stages (2015–2018). We interviewed the leader in charge of the IPSAS, who was an **International Public Sector Accounting Standard Board** (IPSASB) board member. We ran **five confirmatory** interviews in 2019: one with a senior member of the Treasury, one with a member of the Treasury's technical group and three with auditors from different Courts of Accounts.

Our collected material was interpreted to amplify the meaning of facts, opinions and justifications from our interviews; thus we adopted an 'empathic' interpretation (Willig, 2014). Categories and codes were developed, consolidated, challenged by the authors, and tracked in many versions of the case narrative. The interpretation and associated categories were initially around the power struggles between the Treasury and Courts of Accounts. After that, we looked at the evidence of the lack of legitimacy and normativity.

The Brazilian context before the IPSAS project

Before the IPSAS project and the enactment of the Fiscal Responsibility Law 2000, Brazil had a legalistic context in which a (somewhat vague) finance law, **which was** passed in 1964 (Law 4.320), established the key rules for budgetary management and financial reporting. There was an equilibrium among the organizations playing the macro-social roles in the budgetary and fiscal regulatory **field. The Budgetary & Planning Secretariat, from the Ministry of Finance at the federal level, exerted** a strong influence because it had a legal mandate to issue budgetary standards. The 1964 law is still effective and applies to all tiers of government. According to a former Treasury team **leader (1):** 'The area [of public sector accounting] has always been weakly regulated due to the lack of an external body responsible for standard-setting'.

Before the IPSAS project, the Treasury's legal mandate to consolidate the whole of public sector accounts (WPSA) was weakly enforced; states and municipalities adopted different accounting policies and charts of accounts **that varied according to the courts to which they were subordinated. These courts,** after years of military rule, superficially exerted their legal authority to audit local governments' accounts and internal control systems. However, the focus was just on budgetary reports. Additionally, the Institute, despite its legal mandate, did not supervise governmental accountants – only private sector accountants. Since the budgetary logic dominated (Aquino & Batley, 2020), the Budgetary & Planning Secretariat was the leading actor in Brazilian public financial management (PFM), followed by the Courts of Accounts.

New laws, decrees and other central government decisions can disrupt the fragile balance found in the regulation and distribution of legal mandates in countries (Wooten & Hoffman, 2008; Botzem & Quack, 2006; Greenwood & Hinnings, 1996). This happened in Brazil after the enactment of the Fiscal Responsibility Law. Starting in 2000, three organizations increased their preponderance and willingness to regulate accounting issues in the public sector: the Institute, the Treasury and, to some extent, the regional Courts of Accounts.

The Fiscal Responsibility Law empowered the Courts of Accounts, as governors and mayors became subject to criminal, civil, administrative and electoral penalties if they did not comply with fiscal thresholds. Consequently, the courts started to penetrate the 'rule-maker' space, as they interpreted how to measure fiscal thresholds at the regional level. There are 33 autonomous Courts of Accounts in Brazil, which began to interpret fiscal rules and establish audit procedures with substantial discretion (Nunes et al., 2019; Lino & Aquino, 2018). Even though these courts do not have a clear legal authority to issue accounting standards, their audit reports are comprised of recommendations with which states and municipalities have to comply with in order to avoid such penalties.

The Fiscal Responsibility Law also reinforced the Treasury's responsibility for preparing the WPSA, and introduced incentives to uniform accounting policies and charts of accounts. Finally, that Law established that a national 'Fiscal Council' would be created to issue accounting standards, which all tiers of government would comply with. The aim of this Fiscal Council would be to balance multiple stakeholders' interests. This has not yet been done; therefore, the Treasury has taken on the responsibility for issuing general accounting standards – as the Fiscal Responsibility Law specifies that responsibility lies with the 'central accounting unit of the Federal government' in the absence of the 'Fiscal Council'. However, the Treasury's authority to regulate local and state governments is being contested by other stakeholders. For instance, some of the sanctions imposed by the Treasury on municipalities have been challenged by judicial injunctions, as mayors and governors argue they comply with their local court of accounts' standards.

The contested field of public sector accounting in Brazil

The focus on accrual accounting normativity gained impetus with Brazil's IPSAS project (despite its origins in the country in 1964). We analysed the power balance and normativity at three different stages, in terms of which organization acted as 'rule-maker' for the accrual accounting implementation process, and how the 'rule-enforcer' behaved during that period. As there is no specific organization holding the legal mandate for standard-setting in Brazil, different stakeholders may not support the accrual accounting regime implementation, reducing its normativity (see Bebbington et al., 2012). We analysed a series of interactions between the Institute, the Treasury and Courts of Accounts that showed power struggles about standard-setting.

The passing of the Fiscal Responsibility Law in 2000 triggered disputes about which body would play the role of standard-setter in accrual accounting (as described by Wooten & Hoffman, 2008). Moreover, public sector accounting was extended from just budgetary accounting to fiscal and accrual – creating potentially three areas for accounting regulation. Initially, the Institute aimed to occupy the role of accrual accounting standard-setter, while the Budgetary & Planning Secretariat acted as the budgetary-accounting standard-setter, and the Treasury acted as the fiscal-accounting standard-setter – with the aim of consolidating the three regimes.

The changing contested field has three stages, as described below. While the Institute sought legitimacy only for the accrual-based financial statements (the initial stage, 'early movements'), the Treasury was engaged in the harmonization of all accounting and financial issues for the three levels of government (the latest stages, 'pragmatic co-operation' and 'neglecting').

Early movements: conceptual debate (2000–2008)

At the beginning, two organizations simultaneously acted as standard-setters for accrual accounting. In the early and mid-2000s, the Institute was of the view that 'there are, of course, many divergences about the mandate of standardization of public sector accounting' and that the Institute itself should take the lead in this process. In fact, the Institute began to organize actions in the public sector

accrual accounting domain in 1998. At that time, the Treasury supported the Institute as leading standard-setter and wanted a collaboration. Since then, Institute's and Treasury's teams have worked together to move the accrual accounting towards international standards for preparing financial reports (not budgetary reports).

Both the Treasury and the Institute were supported by different international stakeholders. The Treasury, in co-operation with the Central Bank and National Statistics Bureau, signed an agreement with the International Monetary Fund focusing on public debt figures. The Institute had a close relationship with the Inter-American Accounting Association and the Inter-American Development Bank – both supporters of accrual accounting in Latin America. Although there was an initial uncertainty about which international standards to follow (GASB, IFRS or IPSAS), in 2007 the Treasury and the Institute formally agreed to follow IPSAS, and the Institute joined IFAC.

After 2007, the Institute pushed to be the main standard-setter for public sector accounting because it risked being dismissed from the standard-setting arena, **as had already occurred to the Institute in the adoption of IFRS in Brazil (Homero Júnior, 2018)**. Taking a participative approach, it issued a set of principles-based accounting standards ('BRGAAP'). The Treasury was supportive and was active in the participative process because the initiative was in line with the 1964 law:

...the idea was to segregate fiscal reports from accounting reports, as accounting should not be concerned to fiscal thresholds as the Fiscal Responsibility Law stated them, as fiscal issue is deeply influenced by budgetary cycle and values (1st IPSAS project chairman).

In addition, in terms of its responsibility for the WPSA, the Treasury supported the Institute as standard-setter:

The WPSA demands standardized accounting rules to the entire Federation...such process might be led by the Institute (Treasury advisor).

The Institute issued the BRGAAP in December 2008. At this stage, there were no arguments about the roles of the Institute or the Treasury. This was probably due to reduced resistance, as the conceptual debate did not involve Courts of Accounts (as the rule enforcers) or local and state governments (as rule appliers).

The next step in the IPSAS project was to operationalize the BRGAAP. Around 2008, the Treasury started campaigning to lead standard-setting at the operational level. While the Institute's members were finalizing their work on BRGAAP, the Treasury had created parallel working groups with several stakeholders. The Treasury, with the aim of avoiding conflict with the Institute, claimed that these groups were set up to focus on the application of BRGAPP. The Treasury started work on developing its own 'operative handbook' (the *Manual de Contabilidade Aplicada ao Setor Público*), supporting the BRGAAP legitimating the Institute as conceptual standard-setter. The handbook would contain specific operating rules including the chart of accounts, a template for financial reports, and accrual accounting policies – all of them grounded on the forthcoming BRGAAP. By doing this, the Treasury moved the debate to its own domain, but following the agreed convergence model (not full adoption, but adaptation) and it began to 'cherry pick' a set of IPSAS that would fit BRGAAP and the previous regulation. This model prevailed until 2015.

At the end of this stage, the Treasury declared itself as the standard-setter. As previously discussed, the Fiscal Responsibility Law gave the role of standard-setter to a 'central accounting unit', as the Fiscal Council envisaged by the law was not yet implemented. As the Treasury is considered the 'central accounting unit', it sought a presidential decree to confirm its position as standard-setter:

I identified that the 1964 law mandates a 'Technical Committee of Economics and Finance' to issue standards to change the structure of financial statements. But [that] committee was extinguished in 1971. When

I wrote the decree [in 2008], I [gave] that legal mandate [to issue accounting standards] to the Treasury...Our Ministry got President Lula's signature on the decree, during the ceremony at the national accountants conference... the decree just launched the Brazilian IPSAS project (1st leader of IPSAS project).

The 2008 decree, issued by the Ministry of Finance and signed by the president, announced that Brazil had decided to go forward with IPSAS convergence, and that the Treasury would be responsible for the development of handbooks on government accounting system. In this way, the Treasury's mandate was extended to the states and municipalities.

The publication of the BRGAAP, the Institute's strategic guidelines, and the Treasury's decree together marked the beginning of the IPSAS project in Brazil. **However, other stakeholders still did not recognize the full legitimacy of the Treasury as the standard-setter and insisted on the Fiscal Council enactment.**

Pragmatic co-operation (2008–2015)

In the second phase, the focus was on IPSAS implementation and improvements in the WPSA to enhance the quality of information about public debt. One aim was to meet international stakeholders' expectations. The charts of accounts needed to be standardized; the Treasury and Institute were interested in the comparability of information provided by different municipalities, and software providers identified a new opportunity to sell services.

After the Treasury assumed the role of guardian of the Fiscal Responsibility Law 2000, it expanded its legal mandate towards the contested budgetary domain. It began to standardize fiscal management, issued handbooks to operationalize the budgetary and Fiscal Responsibility Law (first and second order), and proposed methods of calculating thresholds imposed by the Fiscal Responsibility Law (not fully followed by the Courts of Accounts).

Over time, the Treasury developed strategies to build its legitimacy and reduce the challenges in the field. It amended its handbooks to enhance the

adherence with other standards and laws, especially with those issued by the Budgetary & Planning Secretariat. For instance, it conferred validation to the Treasury initiative due to its long tradition of budgetary regulation (a symbolic validation referred to as a 'pedigree' by Franck (1990, p.93)).

In 2009, the Treasury issued another version of its handbook, taking on the role of the standard-setter of the IPSAS project, although it acknowledged the BRGAAP. Both the Budgetary & Planning Secretariat and the Institute acted as standard-setters for budgetary and financial reporting, respectively; and the Treasury adopted these regulations. The Treasury preserved and incorporated the budgetary cash-based rules within its handbook alongside the accrual accounting rules for financial reporting, creating a dual-system for the Brazilian public sector accounting.

We agreed that the Treasury would not issue any standard on budgetary matters because it is under the Budgetary & Planning Secretariat's legal mandate (Treasury team leader 2).

The general [principles-oriented] rules issued by the Institute are mandatory whenever reinforced by the Treasury's handbook. Hence, there is joint command. The Treasury cannot issue general rules but [can] enforce them (Treasury team leader 3).

Therefore, accounting policy regulation by the Treasury was operationalized by the handbook, which was updated periodically. The creation of the handbook was the main legitimating strategy used by the Treasury. It was developed based on negotiations with the Budgetary & Planning Secretariat, the Institute, and the Social Security Supervisor (the handbook also comprises accounting policies for local government pension plans). Hence, the handbook comprised rules for fiscal, financial and budgetary accounting covering all levels of government.

Tensions between the Treasury and courts intensified with the IPSAS project. The Courts of Accounts considered that the Fiscal Council, as required by the Fiscal Responsibility Law, needed to be set up, and that the Treasury did not have the legitimacy to act as accounting standard-setter for the entire country:

The Treasury has no legal mandate to issue accounting standards for states and municipalities. That is why we [the Courts of Accounts] only enforce some standards issued by the Treasury, depending on our convenience (Court auditor 1).

However, half of the courts accepted that the Treasury should take the role of standard-setter but only temporarily.

Resistance from some Courts of Accounts was reduced by the symbiosis between courts and software providers (Azevedo et al, 2020b). The largest government software providers worked with the largest courts, helping local governments comply with quarterly data submission requirements.

The initial resistance was reduced because the Treasury started to include the different stakeholders in their technical groups organizing the chart of accounts. Additionally, the Treasury negotiated with the Courts of Accounts **that the Courts would have the discretion to extend the numbering of the standard charts of accounts**. The Institute had no issues with the Treasury because the handbook was aligned to the Institute's standards. Similarly, the Budgetary & Planning Secretariat did not challenge the Treasury's legitimacy because the budgetary cash-based logic was preserved in the handbook for budgetary reports (dual-system). A consensus was reached:

On the one hand, when we [Treasury team] began to launch accounting standards – before the organization of the technical working groups – everyone [other stakeholders, for example Courts of Accounts] complained...once we invited them to join the working groups, they had

the opportunity to present their concerns, and we had the opportunity to present our aims; the resistance decreased (Treasury team leader 2).

The successful adoption of the chart of accounts by virtually in the entire country by 2014 has been attributed to Courts of Accounts and software providers. Interestingly, some software providers adapted their software to automatically prepare all the required reports in compliance with the templates in the handbook. As a result, the Treasury started to consolidate the WPSA automatically. However, the quality of the information is still questionable and unaudited, since the handbook's accounting policies have not been fully adopted.

The non-adoption of accounting policies is down to the Courts of Accounts. Many present their audit reports with recommendations on fiscal issues that differ from the Treasury's fiscal handbook (Nunes et al., 2019, Lino & Aquino, 2018). This diminishes the handbook's normativity because what really matters to governors and mayors are their court's interpretations and recommendations. As a result, at the end of this phase, **Treasury shifted the IPSAS implementation from a universal to a gradual implementation approach (Azevedo et al., 2020a), and there were deferrals until 2025, and it was evident that there was no enforcement over financial reporting by states and municipalities.** Hence, local governments prioritized recommendations from their Courts of Accounts, **reducing their efforts on the IPSAS implementation (Azevedo et al., 2020a).** Since the economic crises in Brazil starting in 2014, many states and municipalities have been in deep fiscal stress and the courts' role and capacity to monitor governors' and mayors' decisions have been questioned. Therefore, fiscal agendas are the subject of discussions between the Treasury and courts.

Courts of Accounts still neglect the IPSAS project (2015–2019)

From 2015, convergence with the IPSAS under **the gradual implementation approach** had shifted to full adoption; **however, it was not the main concern of the Courts of Accounts.** The Treasury in this period had a new permanent member on the IPSAS board, and naturally increased its alignment with IPSASB's policies and best practices. The Treasury started to validate its choices based on

IPSASB's recommendations regarding each micro-regulation and implementation process. At the same time, some courts withdrew their support for the IPSAS project.

The Treasury's new 'less collaborative approach' included imposing additional requirements on local governments regarding the publication of their IPSAS project schedules, counting on the Courts of Accounts to enforce compliance. This did not happen: an interviewee stated during a technical group meeting that the 'courts are not subordinated to the Treasury!' Several courts left the IPSAS projects enforcing only fiscal and budgetary rules. The Treasury responded to the lack of support and growing resistance by relaxing their deadlines:

We [the Treasury and Institute] needed to slow down. Innovations in accounting policies of recognition, measurement, and report are very challenging (Treasury team leader 3).

The Treasury also began to invest in the modernization of its fiscal, budgetary and patrimonial data collection system. Governments had traditionally sent their data for consolidation in WPSA using spreadsheets, **but the Treasury implemented an online platform with the new chart of accounts to collect data from local governments. At that time, the courts did not share their collected data with the Treasury. Each Court had better data, as the courts vigorously enforce the quality of their data; however, the Treasury started to accumulate data from the entire federation. Despite the Treasury's proposal to integrate data collection, most of the courts initially rejected the idea of replacing their data collection systems with the Treasury platform. Due to this pressure, the courts started to enact a veiled resistance to the Treasury's role by not enforcing the accrual-accounting policies and by openly demanding that the Fiscal Council replace the Treasury.**

In the absence of 'rule-enforcer' support, the Treasury searched for alternative mechanisms to enforce the accrual accounting standards. For instance, the Treasury supported by legislation, started to reject some of the

annual reports uploaded to its own online data collection platform, due to material errors and inconsistencies. It also tried for a more collaborative approach, with co-operation agreements and creating mixed technical groups. In 2018, the Treasury signed a technical agreement with all 33 Courts of Accounts. This agreement created several study groups in different topics related to PFM. Specifically, there is one study group responsible for developing a shared set of data to be collected by the Treasury and courts, including budgetary and financial accounting data (the *Matriz de Saldos Contábeis*).

As the fiscal crises reached states and municipalities, undermining service provision and payments, courts were increasingly being challenged. According to a senior member of the Treasury, this resulted in more co-operation from some courts.

The debate then shifted from accrual accounting to fiscal ceilings, and budgetary accounts. Among the study groups created after the technical agreement, the most important one was trying to increase harmonization between courts and the Treasury regarding fiscal ceilings.

The Treasury has now started to use the data uploaded by mayors and governors to the Treasury Data Collecting System to track differences in the definitions of fiscal ceilings. Local government accountants have to justify the differences between the accounts generated according to the Treasury's fiscal ceiling measures with those adjusted by the Courts of Accounts. Despite the increasing collaboration between courts and the Treasury, our interviewees said that there is minimal uniformity between courts, that fiscal tension remains, and that the main focus of the discussion has now shifted from the implementation of IPSAS.

The Treasury attempted to develop other strategies. In 2018, the Institute and Treasury extended an ongoing co-operation agreement to 'supervise and enforce the adoption of public sector accounting standards by professional accountants'. According to this, the Treasury would send the Institute a list of states and municipalities with errors and inconsistencies in their accounting reports and the Institute would apply the 'appropriate' penalties on the professional accountant responsible. However, almost immediately, local

governments started to lobby the congress to have any inconsistencies the Treasury and Institute might find waived.

The co-operation agreement also covers developing standards, handbooks, training materials, and delivering courses. For instance, the Institute has issued a new set of BRGAAP now endorsing IPSAS, supported by the Treasury. **The Institute's enforcement over the professionals was still weak, although it continued its 'rulemaking' efforts.**

At this stage, the co-operation between the Treasury and Institute **was** a clear strategy to enhance the normativity of accrual accounting standards – they **were** supporting each other in a symbolic validation (Franck, 1990, p. 92). Their supply of training programmes and materials to **accountants was an attempt to persuade them** of the relevance of accrual accounting information, **and to enhance understanding of the standards.**

Effects of power disputes on normativity

Budgetary accounting has been the root of the Brazilian PFM since 1964 and **was the dominant logic in politicians' mindset, due to a coalitional presidentialism system (Power, 2010; Aquino & Batley, 2020).** Although the Fiscal Responsibility Law 2000 threatened the pre-existing equilibrium among key organizations, it reinforced budgetary accounting as the dominant logic since fiscal thresholds are dependent on budgetary accounting figures (Aquino & Batley, 2020).

It was in this context that the convergence process towards accrual-based IPSAS began, without the support of the regional Courts of Accounts. Therefore, following Deephouse et al. (2017), the Treasury's IPSAS-like accounting standards were not coherent with the traditional approach or with prevailing laws. **Furthermore, following Franck (1990), the Treasury had not succeeded in securing the 'pedigree' held by the Courts of Accounts for its own normative project. Two further factors challenged the Treasury's legitimacy and the IPSAS-like standards' normativity.**

First, the Courts of Accounts focused only budgetary reports and fiscal responsibility thresholds and did not enforce the IPSAS-like standards. One consequence of this lack of enforcement, added to the scarcity of resources,

practitioners, politicians, software developers, consultants, and trainers made the implementation of the IPSAS-like standards very difficult. Such non-acting is a silent form of systemic power (Lawrence, 2008); it discouraged the IPSAS adoption initiatives. The lack of action led to an unclear understanding about the normative project and the 33 autonomous courts developed own rules. **Moreover, the Treasury incurred significant costs bargaining with 33 independent actors in order to build its legitimacy and the normativity of its rules.**

Second, the Treasury, courts and the Institute did not share the same values, preferences, and interpretations of the IPSAS project. Hence, different interpretations of the rules emerged. This context is significantly different from the one described by Bebbington et al. (2012) in the UK. This problem is not exclusive to IPSAS in Brazil, there are different interpretations as well about specific aspects of the Fiscal Responsibility Law and with the Finance Law from 1964.

As the country's economic crisis has deepened, political tensions regarding fiscal ceilings and governors' and mayors' interests have increased. This situation is blocking the IPSAS project agenda **and may still be considered a not immediate priority due to the ongoing COVID-19 pandemic outbreak.**

Therefore, the Brazilian convergence process towards IPSAS does not present the key characteristics of reform legitimacy constructivism in many Anglo-Saxon countries, for example as in New Zealand's transition from IFRS to IPSAS (Baskerville & Grossi, 2019). This kind of situation was not explored by Bebbington et al. (2012); they focus on norm legitimacy, its coherency with previous values and expectations, and whether the norm is clear and can converge opinions and understandings of different stakeholders. If, as in Brazil, the enforcers do not agree on a mandated standard, their interpretations will reduce norm legitimacy, because there will be different sets of interpretations and conflicting opinions about the text of the standard.

Conclusions

We argue that in civil law countries the legal mandate to act as standard-setter is necessary, but not sufficient to have standards accepted and followed (Brusca et

al., 2018). We provide evidence for this from one Latin American country, where accounting reforms unbalanced the traditional equilibrium among **powerful macro-social roles – that is, the rule makers and rule enforcers**. Such roles should have a clear and incontestable legal mandate to issue accounting standards. However, in Brazil, these organizations operated for decades holding fuzzy, contestable and somehow overlapping legal mandates over regional and local governments.

In Brazil's case, the Courts of Accounts protected their power to interpret accounting rules and challenged the Treasury's and the Institute's legitimacy as standard-setters. **Hence, following a legalistic approach, the courts enforced only budgetary and fiscal rules, but neglected financial accounting rules** (Lino & Aquino, 2018; Lino & Aquino, 2020).

Such a 'non-law context', as stated by Franck (1990), requires a construction of normativity based on elements such as coherence, determinacy, symbolic validation and adherence (Franck, 1990). In the analysed case, the Treasury, courts and Institute presented different concerns and willingness to support IPSAS-like accounting standards. The rule's normativity then declined, and the government bodies that were required to compulsorily adopt IPSAS effectually would not comply with them (Deephouse et al., 2017).

Therefore, the standard-setters (in this case, the Brazilian Treasury and the Institute) co-operated to construct a perception of IPSAS' coherence with national laws. Additionally, they doubled the sources of enforcement, with both the Treasury and the Institute overseeing the accounting figures prepared by governmental accountants. This strengthens evidence in the literature about civil law countries, where the validity of rules depends on enforcement and the rule-maker's legal mandate (Bebbington et al., 2012; Brusca et al., 2018). The evidence we have presented about the strategies adopted by powerful organizations with macro-social roles over our three stages supports arguments that 'legitimacy changes over time as organizations, sources, and criteria change over time' (Deephouse et al., 2017, p. 15). Finally, we observed that the fiscal-economic context **persuaded** some courts of auditors that they needed to co-operate. Therefore, significant context variation may alter the legitimacy and power of relevant actors, and affect normativity.

Although this study has highlighted how the Brazilian approach has driven the adoption of IPSAS and whole of governments accounts in a civil law country, further comparative analysis could be beneficial for a better understanding of the role played by the different actors in the adoption of accounting standards.

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