

EARNINGS MANAGEMENT THROUGH DISCRETIONARY ACCRUALS IN BRAZILIAN STATES

GERENCIAMENTO DE RESULTADOS POR ACCRUALS DISCRICIONÁRIOS NOS ESTADOS BRASILEIROS

RESUMO

Este artigo teve como objetivo identificar o gerenciamento de resultados nos estados brasileiros após a adoção da contabilidade pelo regime de competência e implantação das IPSAS. Quanto ao período do estudo, foram considerados dez anos fiscais, iniciando em 2013 e findando em 2022. Para tanto, foram coletadas informações contábeis dos entes estaduais, tais como valores patrimoniais e financeiros. Foi utilizado os accruals discricionários como proxy do gerenciamento de resultado, na qual qualquer valor diferente de zero nos accruals discricionários já indica a existência de gerenciamento de resultados. O método quantitativo utilizado foi o modelo Jones Modificado que evidenciou valores de accruals discricionários. Como resultados, constatou-se que o gerenciamento de resultados nos entes estaduais é uma prática corriqueira e que as IPSAS, apesar da sua essência, não se mostra ser um fator inibidor da prática.

Palavras-chave: Gerenciamento de Resultados. Earnings Management. Accruals. Contabilidade Pública. Regime de Caixa.

ABSTRACT

This article aimed to identify earnings management in Brazilian states after adopting accrual accounting and implementing IPSAS. As for the study period, ten fiscal years were considered, starting in 2013 and ending in 2022. To this end, accounting information, such as asset and financial values, was collected from state entities. Discretionary accruals were used as a proxy for earnings management, in which any value other than zero in discretionary accruals already indicates the existence of earnings management. The quantitative method used was the Modified Jones model, which showed values of discretionary accruals. The results showed that earnings management in state entities is a common practice and that the IPSAS, despite their essence, do not prove to be a factor inhibiting the practice.

Keywords: Earnings Management. Accruals. Public Accounting. Cash basis.

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1 INTRODUCTION

The Brazilian public accounting system has evolved over the years. Until the late 1980s, accounting was characterized by its traditional nature and operated on a cash basis, meaning that information was only recorded when there was a financial movement. In other words, accounting information was not timely, resulting in a delay when it was released. In cash basis accounting, the primary concern of agents was to control budget execution and manage public resources (García, 2014).

In Brazil, Ordinance MF No. 184/2008 established that the National Treasury Secretariat and the Federal Accounting Council should standardize public accounting according to the International Federation of Accountants (IFAC). According to Aquino and Neves (2019), Ordinance 184/2008 announced that Brazil would adopt accounting standards following the International Public Sector Accounting Standards (IPSAS).

IPSAS utilizes accrual accounting as a standard because it has played a significant role in implementing and reformulating the financial apparatus of New Public Management (NPM), which began in Brazil around the 1990s. In NPM, the trend is to adopt accounting systems based on the accrual basis to achieve greater reliability (Christiaens et al., 2015). On an accrual basis, the financial event is recognized when the triggering event occurs, regardless of the financial aspect.

The Manual of Accounting Applied to the Public Sector (MCASP, 2021, p. 113) emphasizes that accounting information must be recorded regardless of budget execution to demonstrate the impact on public assets. In other words, the accrual basis of accounting aims to measure results in an economic sense, independent of financial expenditure. Although the cash and accrual bases will generate the same information in the long term, they produce differences in the short term (Colauto & Beuren, 2006).

However, the accrual scenario introduces subjectivity for managers, which can lead to biased adjustments in the financial statements (Martinez, 2008). These adjustments may be classified as Earnings Management (EM) when made discretionary, that is, when executed intentionally. One factor associated with earnings management is the quality of accounting information (Martinez, 2008).

There are two methods for managing earnings: the first is based on accruals, and the second is through operational activities (Gunny, 2005; Sibim et al., 2021). This research uses accruals to demonstrate EM. It should be noted that earnings management may not necessarily relate to fraudulent accounting since management occurs with the support of accounting standards. In contrast, fraudulent accounting occurs outside of accounting practices (Martinez, 2013). However, it is assumed that earnings management and fraudulent accounting have a very unclear boundary since both practices aim to alter accounting information (Martinez, 2013).

Studies on EM have gained notoriety over the years due to their direct impact on the quality of accounting information managers disclose. The first authors to explore this topic were Healy (1985), Schipper (1989), and Jones (1991). In Brazil, research began in 2001 with Antônio Lopo Martinez. However, studies on earnings management have primarily focused on the private sector (Morais & Macedo, 2021).

The public agent can also manage results to generate interest or influence perceptions in the public sphere. Cardoso and Fajardo (2014, p. 13) stated that the “use of EM is the existence of fiscal and budgetary rules that prevent spending that exceeds a target (or limit) defined by an external body or a higher body in the government hierarchy.” Another point of interest regarding the influence of accounting information may be on individuals, such as politicians, given that EM can become a significant ally in reelection or maintaining a party in power (Buti et al., 2007).

The literature addresses that several countries, in their respective public entities, manage results through accruals with various objectives, such as hiding deficits (Von Hagen & Wolff, 2006; Ding et al., 2018), through discretionary provisions to achieve financial balance (Ballantine et al., 2007; Baker et al., 2019), aiming at political reelection (Costa & Leão, 2021; Ferreira, 2023).

Based on the above and considering that Brazil provides a conducive environment for results management by public entities, this study poses the following guiding question: What is the behavior of discretionary accruals in Brazilian states and the Federal District? Specifically, this study aims to analyze the existence of earnings management under the adoption of IPSAS in the Brazilian states and the Federal District. With ten years of research, it will be possible to determine whether earnings management exists, occurs frequently, or is merely an isolated event.

The justification for this research is that most of the work on EM focuses on the private sector (Morais & Macedo, 2021). In general, the results on earnings management in the private sector emphasize the distortion of accounting quality (Menicucci, 2020). Given the volume of empirical data available, research on EM in public entities still has much to explore (Pilcher & Van Der Zhan, 2012). The published work on earnings management in the public context relates it to the political cycle, highlighting the disclosure of results around zero or based on the accrual basis (Akhmedov & Zhuravskaya, 2004; Ferreira et al., 2013; Costa & Leão, 2021).

This study differs from others by considering electoral cycles and breakeven disclosure, among other previously studied reasons, investigating accruals over ten years, and analyzing whether earnings management is achieved through the implementation of IPSAS. Therefore, this study will cover the behavior of all Brazilian states and the Federal District.

The contribution of this research is notable because there is a lack of studies that have proposed to work with a large state sample while covering Brazil. Most research on earnings management focuses on countries such as China, the United States of America, Australia, and the United Kingdom (Ahmad et al., 2023). Thus, the present study adds to the

academic literature. Another contributing factor is that, based on the results obtained, it will be possible to understand the quality of the accounting information issued by Brazilian state units.

Among the results found, earnings management by state units is commonplace. In all the years researched, there was an alternation between positive and negative discretionary accruals, indicating the compensation of these discretionary accruals in future periods. Another factor found is that IPSAS did not prove to be an inhibitor of earnings management by the public manager.

This research is relevant because it covers Brazil as a whole; that is, the information generated from the research results may interest citizens, municipal, state, and federal governments, accounting professionals, and public managers. Analyzing the quality of the accounting information disclosed by government entities will be possible based on the results obtained. Furthermore, no Brazilian research has proposed studying earnings management in the states and the Federal District for over ten years. Therefore, this study makes a rich contribution to the academic literature.

2 THEORETICAL FRAMEWORK

2.1 Results Management

Earnings management is an accounting field that may aim to manage (or manipulate) the accounting results to align with the interests of those who provide it, potentially distorting information for users. This subject gained relevance from seminal works such as Schipper (1989), Healy and Wahlen (1999), Jones (1991), and Dechow et al. (1995). EM can be summarized as managers who hold accounting information, opting for personal judgment in preparing accounting documents to distort reality before stakeholders (Christensen et al., 2022).

The motivation for such actions can be characterized by agency theory, in which the manager acts self-interestedly, seeking some benefit (Stalebrink, 2002). The agency problem's theoretical lens assumes conflicts when the state (agent) and the stakeholders (principal) are no longer aligned with each other's interests. According to Jensen and Meckling (1976), the agent and the principal seek to maximize their participation; each party focuses on its interest. A dogma about agency theory refers to the information asymmetry between the agent and the principal, where the agent is motivated to satisfy his or her interest. The stronger the personal interest on the part of the agent, the greater the degree of management based on accruals (Vansant, 2016).

They can also be characterized by public choice theory (Cohen et al., 2019), where individuals are maximizers, selfish, and rational. Scott (2006, p. 344) states that "earnings management is the choice by a manager of accounting policy to achieve some specific objectives." One of the foundations of public choice theory is understanding why managers act in specific ways. Buchanan (2009) showed that public choice theory aims to understand how public agencies operate while observing the behavior of the principals; that is, it evaluates the relationship between individuals and the outcomes. Boyne (1997) points to the "doctrine of private interest," where politicians (agents) prioritize their interests over those of the public (principal).

Earnings management can be used for quite diverse purposes. In the public sector, administrators are tasked with appropriately managing public funds. This responsibility entails being accountable to stakeholders such as taxpayers, the media, voters, and investors (Cardoso & Fajardo, 2014). Consequently, public administrators turn to EM with the intention of either avoiding or limiting accountability.

Confirming the objective of earnings management by managers in the public sector, Ferreira et al. (2013) demonstrated that during pre-election periods in Portugal, political managers manipulated negative results, transforming them into positive ones to convey to the population the idea of efficient public management. Similarly, Greenwood and Tao (2020) observed earnings management in public universities in the United Kingdom. Capalbo et al. (2021) investigated the practice of earnings management in Italian state-owned companies. In turn, Cohen and Malkogianni (2021) and Ferreira (2023) analyzed how earnings management is utilized in the indebtedness of public entities.

It is worth mentioning that EM can create issues regarding transparency, quality, and accountability, leading to a mismatch between IPSAS proposals and the accrual basis. Silva et al. (2014, p. 269) state that "the opportunistic behavior of managers can negatively affect the quality of accounting information disclosed to external users."

2.2 Accruals and IPSAS in the Public Sector

Regarding earnings management, accruals are noteworthy. Fuji and Carvalho (2005, p. 6) point out that accruals represent the difference between net income and operating cash flow. According to Martinez (2008), accruals are accounting accumulations that do not involve any financial movement. For Dantas et al. (2013), accruals are based on income statements that directly affect the financial result (surplus/deficit) but do not necessarily involve financial resources. In other words, accruals can be determined by the discrepancies between the accounting information in the tax documents and the entity's actual situation.

It is important to emphasize that simply identifying accruals does not indicate EM, as accruals consist of both non-manageable and manageable components. Accruals can be categorized as non-discretionary and discretionary (Erfurth & Bezerra, 2013). Discretionary Accruals (DA) are intended to manage results and can be either positive or

negative, depending on the public administrator's intention. However, discretionary accounting choices can distort information in the financial statements (Menicucci, 2020).

Regarding accruals and EM in the public sector, it is noted that managers use accounting maneuvers to serve personal interests, for instance, in political environments where accounting information for voters becomes a "channel," an ally in the search for electoral success (Baber & Sem, 1986; Stalebrink, 2002; Ferreira et al., 2013; Costa & Leão, 2021).

This can be explained by agency theory and public choice theory. Both theories address the behavior of those who possess information and how that information is utilized.

However, one cannot generalize the accrual basis with EM, as it follows the logic of accounting practices. In this scenario, IPSAS is mentioned. IPSASs are accounting pronouncements that provide guidelines on preparing accounting information from the public perspective. The convergence of accounting information breaks the borders between countries, as IPSAS brings uniformity to accounting information worldwide (Lemes & Carvalho, 2010).

IPSAS has developed as a trend in public administration, seen as an element of public sector development converging towards global accounting (Oshiole, 2022). Implementing new accounting standards stems from a movement to provide public administration with a serious, less bureaucratic, and more efficient management language (Cohen & Malkogianni, 2021). Agostinho et al. (2001) reiterate that if countries experience public economic events of the exact nature, that is, uniform economic and financial factors, the accounting statements must adhere to an international standard to serve users globally. In public accounting, transparency is closely linked to the adoption of standards (IPSASB, 2016).

Regarding the logic of IPSAS and the accrual basis, their adoption brought the justification that by using them, public entities can provide more precise and transparent information (Pina & Torres, 2003). Literature indicates that accounting effectively adopts the accrual basis (Cohen, 2012; Schmidhuber et al., 2022). Adopting IPSAS based on the accrual basis improves the quality of government reports across several dimensions, such as understandability, comparability, and consistency (IPSASB, 2016). Higher quality accounting aids policymakers in conducting fiscal actions transparently, showcasing public governance practices, reducing abuse of power, and protecting government assets (Cicatiello et al., 2017; Eigenstuhler et al., 2023).

The advent of accrual accounting brought about more timely information and improved accountability (Lampe et al., 2015). However, even with the adoption of IPSAS, managing results in public entities was not eliminated (Pilcher & Van Der Zahn, 2010). Accounting is believed to be utilized through EM, particularly in public bodies, to manipulate or persuade society. Studies indicate that the practice of Earnings Management can be observed in the public sector on a global scale (Bisogno & Donatella, 2021).

Therefore, this study has the following research hypotheses:

H₁: Even with the adoption of IPSAS, earnings management in Brazilian states still occurs through discretionary accruals.

3 METHODOLOGICAL PROCEDURES

3.1 Sample and Data

This research aims to analyze the existence of earnings management under the adoption of IPSAS in the Brazilian states and the Federal District. To this end, the modified Jones model of Dechow et al. (1995) was selected to measure EM and detect Discretionary Accruals (DA).

This study's sample includes all Brazilian states and the Federal District. Given the number of state entities, a heterogeneity of results is anticipated. The research period spans the years 2013 to 2022.

Data was collected from the Brazilian Public Sector Accounting and Tax Information System (SICONFI) website to achieve this. The data encompasses values for total assets, current assets, cash and cash equivalents, short-term receivables, current liabilities, non-current liabilities, short-term loans and financing, depreciation, fixed assets, current revenue, and other current expenses.

3.2 Calculation of Discretionary Accruals

The main variable of this study is the amount of discretionary accruals. The model used for this measurement is the Jones model (1991), modified by Dechow et al. (1995). This model uses net revenues and fixed asset values variations, assuming that non-discretionary accruals depend on these variables (Ramos & Martinez, 2006). Another critical point is that the model aims to improve the measurement of discretionary accruals (Beck, 2018). Examples of studies that have used the Modified Jones model as a theoretical lens include Ballantine (2007), Pina et al. (2012), and Beladi et al. (2020), among others. The tests were operationalized using Eviews software, version 8.1.

Measuring total accruals is necessary for calculating DA and identifying management results. The Modified Jones model (1995) was used to compute total accruals. The formulas for these operationalizations are presented below:

$$TA_{i,t} = [(\Delta AC - \Delta DISP_{i,t}) - (\Delta PC_{i,t} - \Delta DIV) - DEP_{i,t}] \quad (1)$$

Where: TA represents the total accruals of States i in fiscal year t ; ΔAC is the variation in the State's current assets i between the period t e $t-1$; $\Delta DISP_{i,t}$ refers to the variation in the State's available resources i between period t ; ΔDIV presents the variation in the short-term loans and financing account of State i between period t and $t-1$; ΔPC is the variation in the current liabilities of State i between period t and $t-1$; e $DEP_{i,t}$ represents the expenses related to depreciation, amortization, and depletion recorded in the State i in the period t .

In addition to DA, non-discretionary accruals (NDA) were measured for each state and over time. To this end, the following regression was applied:

$$TA_{i,t} = \alpha_1 \left(\frac{1}{A_{i,t}} \right) + \beta_1 (\Delta REV_{i,t} - \Delta REC_{i,t}) + \beta_2 (PPE_{i,t}) + \varepsilon_{i,t} \quad (2)$$

In which: $A_{i,t}$ represents the total assets of State i in period $t-1$; ΔREV are the gross revenues obtained by state i in period $t-1$, gradually scaled by the total assets of the state in year t ; ΔREC shows the short-term receivables of state i in year t minus the short-term receivables in year $t-1$; and $PPE_{i,t}$ represent the fixed assets of state i in period t .

As an example of the process of measuring non-discretionary accruals, the calculation for measuring NDAs is shown below:

$$NDA_{i,t} = Total\ of\ Accruals_{i,t} - DA_{i,t} \quad (3)$$

Where: $AND_{i,t}$ represents the total non-discretionary accruals (non-manageable portion); $Total\ of\ Accruals_{i,t}$ refers to the total number of accruals and $DA_{i,t}$ represents the discretionary accruals (manageable portion).

Once the DA and NDA were determined, the analyses were conducted temporally and by region. As Martinez (2008) states, when the DA is different from zero, there is already evidence of EM.

4 RESULTS AND DISCUSSIONS

This topic presents the results of the tests performed and includes discussions. Initially, the descriptive analysis of the research variables related to calculating total accruals is presented (Table 1).

Table 1 - Variables for calculating total accruals

Variables	Average	Median	Standard Deviation	Maximum	Minimum	N. Obs.
TA	-0,1348	-0,1261	0,1273	0,4991	-0,7156	243
AC	1,3200	7,2700	1,8300	1,4100	8,3200	270
DISPON	5,9000	3,1700	8,7200	8,1900	2,7800	270
PC	8,6200	2,5100	1,5500	9,9000	1,2400	270
EMPF	2,3500	4,3900	5,9500	3,8900	-3,4700	221
DEP	1,0700	1,900	2,1700	1,6200	0,0000	232

Source: Prepared by the authors.

Regarding the TA variable, it was noted that, on average, the values are negative; current liabilities and depreciation represent assets in the study sample. This can be explained by the fact that each state has its economic particularity, and in most entities, the operations of obligations seem to exceed current assets and cash. In other words, this demonstrates that the public entity, even though it does not focus on generating an accounting surplus, is obliged to meet the community's needs, ensuring the maintenance and provision of public services – which can lead to raising resources through third parties and utilizing cash (Lima; Diniz, 2016).

The variable of cash and cash equivalents explains the immediate financial capacity of the sample. Thus, entities can manage the accounting result from cash since accruals arise when there is a temporal discrepancy between cash flows and the moment of accounting recognition of the transaction (Ronen & Yaari, 2008).

The average current liabilities (CL) variable had the highest value. CL refers to the entity's short-term debt level. According to MCASP (2022, p.163), liabilities are "a present obligation, derived from a past event, the extinction of which should result in the outflow of resources from the entity." In other words, the total accruals derived from CL are debts incurred in the past to maintain the entity's operations. For example, the state may have taken out a loan to ensure the payment of employees' salaries, but in return, there was no financial expenditure. Consequently, this generates accruals, which explains the more negative average of the TA.

In turn, the depreciation variable draws attention because it has a minimum value of zero. This is because some states did not disclose the depreciated values (or did not carry out this accounting process), such as Amapá, Goiás, and Piauí. The method of choosing depreciation, especially in the public sector, is a topic that still raises doubts among managers. Delazare et al. (2010) pointed out that the information produced in the choice of depreciation calculations can be considered one of the uncertainty factors since it is an estimate that tends to vary according to the method chosen by the body, which can significantly affect the decision-making of its managers.

Table 2 presents the variables that help explain the non-discretionary accruals from the total accruals. This model's error points to the managerial aspect of the TA, specifically the discretionary accruals.

Table 2 - Variables of the discretionary accruals model

Variables	Average	Median	Standard Deviation	Maximum	Minimum	N. Obs.
1/AT	0,0000	0,0000	0,0000	0,0000	0,0000	270
REC_CRED	0,0638	0,0593	0,1026	0,7174	-0,5403	270
PPE	0,3406	0,3170	0,1660	0,8741	0,0000	270

Source: Prepared by the authors.

The variable 1/AT is present primarily to control the sample size and prevent biases in operationalization.

The REC_CRED variable presented the highest mean and median values. This variable refers to the amounts public entities collect from the state's revenue. These values differ between states, demonstrating each state's capacity for collection, including the receipt of intergovernmental transfers.

Regarding the PPE variable, the average values are representative, demonstrating the structural capacity of the states. However, there were zero values, not due to a lack of data but due to non-accounting practices. Fixed asset accounting in the public sector is dubious (Delazare et al., 2010), leaving room for opaque information. Public entities have exhibited deficiencies in managing and disclosing their assets in the financial statements.

The correlation of these variables in Table 2 (non-tabulated data) was carried out, and no evidence of multicollinearity was found. Table 3 discusses the results of the states' discretionary accruals determined in the operationalized regression error.

Table 3 – OLS model and types of accruals

Panel A - OLS Model		
Variables	Coefficients	t
1/AT	-1,2900	-0,6991
REC_CRED	-0,7987	-16,746***
PPE	-0,0115	-0,2108
Constant	-0,0671	-2,8217***
N. Obs.	243	
Effects	Random, robust with White	
Dependent Var.	TA	

Panel B - Types of Accruals for the Models	
Mean/Median	OLS
DA	0,0000/0,0059
NDA	-0,1348 /-0,1328
Maximum/Minimum	OLS
DA	0,2422/-0,3034
NDA	0,3594/-0,6445
Standard Deviation	OLS
DA	0,09400
NDA	0,08540
N. Obs. OLS	243
N. Obs. OLS	189

DA: Discretionary Accruals. NDA: Non-Discretionary Accruals. Source: Prepared by the authors.

As shown in Panel A of Table 3, the OLS linear regression model was developed for the discretionary accrual variables, with total accruals as the dependent variable. Only the REC_CRED variable was significant. The regression error represents the discretionary accruals that are the focus of this research (Panel B – Table 3).

Based on the average and median values of the DA, a tendency for the managed part in the accounting statements to be positive was observed; this may indicate that state public managers prefer positive accumulations to enhance accounting data. Another contributing factor to such a result could be improving the fiscal consequence for a given period. This aligns with prior studies, including those by Ballantine et al. (2007), Pina et al. (2012), and Ferreira (2023).

Such accounting maneuvers by public managers may create the impression of efficient management and influence societal perceptions. Merkl-Davies and Brennan (2007) indicate that managers follow two types of behavior to manage impressions: the first involves hiding negative results, and the second involves extolling positive results. Another noteworthy point is DA's maximum and minimum values, which are higher than the mean and median. As observed, the maximum value represented 0.2422, and the minimum value was -0.3034.

Negative discretionary accruals may indicate the reversal of positive discretionary accruals, as it is a natural process. The negative value can also be used in the final deficit or surplus result. For example, an increase in deficit through discretionary accruals in a given year may relate to the disclosure of a positive result in future and timely periods for managers. As the literature points out, public managers are more inclined not to disclose negative results in election years to maintain their position, leading to the disclosure of managed results being postponed to conventional periods. Previous research confirms this tendency among managers, such as Akhmedov and Zhuravskaya (2004), Silva and Freire (2021), Araújo et al. (2023), and Ferreira (2023).

It is also mentioned that the manager of the public entity can manage the information based on the DA so that the fiscal result is close to zero, as evidenced by Drew (2018). This fact can be interpreted in different ways depending on the economic situation. To illustrate, Ferreira et al. (2013) studied the EM in Portugal and found that public entities disclose results close to zero to demonstrate financial balance. This possibility was also researched by Costa and Leão (2021), where the researchers evidenced the practice of zero to zero in Brazilian municipalities, especially during election periods. The explanation for this is that the public sector, unlike the private entity, does not have as its essence to generate surpluses but rather to maintain fiscal balance; thus, the disclosure of positive results leaves room for society to interpret this as a fiscal overload. On the other hand, the disclosure of a negative fiscal result can set precedents for questioning the public manager.

As observed in Panel B of Table 3 and Table 4, the managed values alternated between positive and negative. One factor that may explain this is the political polarization that Brazil has been experiencing since 2014, or the accounting compensation carried out by public managers depending on their interests. For example, the accounting disclosure of a poor result may lead to losing a political mandate—not immediately, but eventually. This factor aligns with previously published works, such as that of Ferreira et al. (2013), who investigated Portuguese municipalities and found that public managers engage in earnings management (EM) to avoid presenting deficits in election years. They also noted less inclination to disclose deficits in environments of intense political competition. The research by Donatella (2019) examined whether political competition is a driver of EM in Swedish municipalities. The author reports that accounting information is managed to be presented to voters in a more positive light during election periods, especially in financial reports.

Costa and Leão (2021) are also cited as a complement. They investigated the practice of EM in Brazilian municipalities during election periods and concluded that there is a strong relationship between the manageable part of accruals and the probability of municipalities presenting small surpluses.

Table 4 - Annual averages of variables

Annual averages of variables			
Years	TA	DA	NDA
2013	*	*	*
2014	-0,0947	0,0358	-0,1305
2015	-0,1786	-0,0351	-0,1197
2016	-0,1014	0,0192	-0,1207
2017	-0,1714	-0,0536	-0,1177
2018	-0,1341	-0,0113	-0,1227
2019	-0,1008	0,0277	-0,1285
2020	-0,1224	0,0069	-0,1293
2021	-0,1522	0,0196	-0,1718
2022	-0,1579	-0,0092	-0,1486

Source: Prepared by the authors.

According to Table 4, it should be added that discretionary accruals were used as a control instrument, both to reduce the deficit when TA is negative and DA is positive, and to “generate” even more deficit when TA is negative and DA is also negative. Approximately 66.66% of DA were positive, and 44.44% were negative. Another significant point is that the big bath (Stalebrink, 2007) was not evident when managers disclosed a large deficit to report positive values in opportune periods. This finding aligns with the research by Baldissera et al. (2020).

The mean and median are expressed as negative values regarding the NDA values. In other words, Brazilian states tend to have deficits. Due to the fiscal federalism model established in Brazil, most states cannot sustain themselves solely through their revenues, contributing to significant tax competition concerning the ICMS (the main state tax) to increase revenue and reduce deficits.

Corroborating the paragraph above, a 2019 fiscal monitoring report by the Independent Fiscal Institution (IFI) highlighted issues with the payment capacity of Brazilian states. Of the 26 states and the Federal District, 16 indicated that their payment capacity was compromised, including Minas Gerais, Rio de Janeiro, and Rio Grande do Sul. Notably, these states are located in the country's wealthiest regions. Another critical point is that these three states have more expenses than current revenues.

In addition, the values of TA, DA, and NDA were consolidated, along with the regions that make up Brazil (not tabulated). It was noted that both total and non-discretionary accruals indicate negative values. Consequently, it can be concluded that, in most cases, the states of all regions report accounting deficits.

Furthermore, it is evident how each region manages discretionary values. For example, the Northeast region worked with DAs, presenting them as negative values, while the values managed in the Southeast region were positive. Given each region's heterogeneity and economic specificity, it is assumed that the values were managed to meet each region's particularities.

Finally, based on the findings of this research, we conclude that earnings management is present in the states and the Federal District. As Martinez (2008) mentions, any value of discretionary accruals other than zero already indicates the occurrence of earnings management.

The existence of EM confirms that managers and their technical structures can use the discretion of information to modify or generate impressions in public accounts. This scenario is explained by information asymmetry and accounting choices (Agency Theory and Public Choice Theory) to meet personal or professional desires – such as political image, maintaining power, or reelection of a candidate from the same party – as also noted in research by Stalebrink (2002); Buchanan (2009); Ferreira et al. (2013); Baldissera et al. (2020), and Costa and Leão (2021).

5 FINAL CONSIDERATIONS

The present study analyzed earnings management after adopting IPSAS in Brazilian states and the Federal District. The results provided evidence of earnings management through discretionary accruals in the study sample across all years researched. The findings indicate that accruals may have been utilized to manage perceptions, aiming to emphasize information favorable to managers or the public entity's situation. Furthermore, management occurs and continues during elections, which is common for politicians to bolster their societal position.

Furthermore, adopting IPSAS has not been shown to inhibit EM practices. A factor closely associated with this is that IPSAS considers accounting on an accrual basis, allowing public managers to manage accounting results for various purposes continually. IPSAS is contradictory to EM; on one hand, it can generate information quality with greater detail, but on the other hand, it can induce practices of individual interest or even the use of accruals, which, due to a lack of knowledge, can lead to a distorted accounting system.

There is still debate about whether the practice of EM oscillated between positive and negative values. This indicates that amounts managed in one year tend to be reversed the following year, generating the “accrual reversal” process. Likewise, 2014, 2020, and 2021 share two common characteristics: they were years of crisis, and the values of discretionary accruals were utilized positively. Since these were periods in which the financial situation of public entities was compromised, especially during the COVID-19 health crisis, it is assumed that managers opted to manage the values to reduce the deficit presented, since the unmanageable part was negative.

This study found that state public managers frequently utilize results management. The reasons for these practices vary, from personal to political motivations and impression management.

This study contributes to filling the gap in the literature, as much of it investigates the management of accounting results in the private sector. Consequently, few studies focus on the public sector, particularly in Brazil. This research enhances the academic community’s understanding of results management by the states and the Federal District over ten years, encompassing years of health, economic, and political crises, thus setting itself apart from other studies in the public sector. The perception is that this management may be driven by political reasons, image concerns, or the desire to demonstrate positive results.

A limitation of this study is that Brazilian public accounting remains a field with certain opacities, despite the presence of IPSAS guidelines, such as the accounting treatment of fixed assets. Another factor contributing to the limitations of this research is the exclusion of 2013 due to a lack of data provided by the states, which reduced the number of observations.

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