



AN ANALYSIS OF THE PROCESS OF CHANGE IN ACCOUNTING AT A LOCAL GOVERNMENT FROM THE PERSPECTIVE OF THE CRITICAL THEORY

UMA ANÁLISE DO PROCESSO DE MUDANÇA EM CONTABILIDADE EM UM GOVERNO LOCAL SOB A PERSPECTIVA DA TEORIA CRÍTICA

UN ANÁLISIS DEL PROCEDIMIENTO DE CAMBIO EN CONTABILIDAD EN UN GOBIERNO LOCAL BAJO LA PERSPECTIVA DE LA TEORÍA CRÍTICA

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ABSTRACT

The objective of this study was to investigate the process of change in the accounting systems from the perspective of the Critical Theory in a local public organization. The research process was conducted a case study in a municipal government in Brazil, which has undergone a process of change in their accounts over the last ten years. According to the information collected during the research process, depending on the source of information, the process of change in the accounts of the local government, which is the object of this study, originated from pressures that caused the change in the department called "internal audit" to "controllorship", legal pressures being detected, of external, internal and political origin, for this change. As a limitation, the results were calculated in a local government in Brazil and may not be applicable to other places. The city concerned has around 500,000 inhabitants and 9,000 civil servants, and the results may contribute to understand how to handle the change in structures involved with controllorship. The focus of change was directed to the technical field, without a diagnosis of the analysis process of the possible social gains and even effectiveness that the change would bring, with managers responsible for the change having a restricted action by external pressures from the federal and state government. As the main contribution, the research presents an analysis of the change process in accounts in the public sector, using fundamentals of the Critical Theory as the basis of a case study, usually not applied to the accounting field.

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Keywords: change in accounting; local government; Critical Theory.

RESUMO

O objetivo deste estudo foi investigar o processo de mudança em sistemas contábeis da perspectiva da Teoria Crítica em uma organização pública local. O processo de pesquisa utilizou um estudo de caso em um governo municipal no Brasil, que passou por um processo de mudança em suas contas nos últimos dez anos. De acordo com as informações coletadas durante o processo de pesquisa, dependendo da fonte de informação, o processo de mudança nas contas do governo local, que é o objeto deste estudo, originou-se de pressões que causaram a mudança no setor denominado "Auditoria Interna" para "Controladoria", sendo detectadas pressões legais, de origem externa, interna e política, para essa mudança. Como limitação, os resultados foram considerados em um governo local no Brasil e podem não ser aplicáveis a outros locais. A cidade em questão tem cerca de 500.000 habitantes e 9.000 funcionários públicos, e os resultados podem contribuir para entender como lidar com a mudança nas estruturas envolvidas com a controladoria. O foco da mudança foi direcionado para o campo técnico, sem um diagnóstico do processo de análise dos possíveis ganhos sociais e até mesmo da efetividade que a mudança traria, com os gerentes responsáveis pela mudança tendo uma ação restrita por pressões externas do governo federal e estadual. Como principal contribuição, a pesquisa apresenta uma análise do processo de mudança na contabilidade no setor público, utilizando os fundamentos da Teoria Crítica como base de um estudo de caso, usualmente não aplicado ao campo de estudos contábeis.

Palavras-chave: mudança em contabilidade; governo local; Teoria Crítica.

RESUMEN

El objetivo de este estudio fue investigar el proceso de cambio en los sistemas de contabilidad desde la perspectiva de la Teoría Crítica en una organización pública local. El proceso de investigación se realizó en un estudio de caso en un ayuntamiento en Brasil, que ha experimentado un proceso de cambio en sus cuentas en los últimos diez años. Según la información recogida durante el proceso de investigación, dependiendo de la fuente de información, el proceso de cambio en las cuentas del gobierno local, objeto de este estudio, se originó a partir de presiones que causaron el cambio en el departamento denominado "Auditoría Interna" para "Controloría", presiones legales detectadas, de origen externo, interno y político, para este cambio. Como limitación, los resultados se originaron en un gobierno local en Brasil y pueden no ser aplicables a otros sitios. La ciudad en cuestión tiene alrededor de 500.000 habitantes y 9.000 funcionarios públicos, y los resultados pueden contribuir a entender cómo manejar el cambio en las estructuras involucradas con la controloría. El enfoque del cambio se dirigió al campo técnico, sin un diagnóstico del proceso de análisis de los posibles logros sociales e incluso la efectividad que el cambio traería, con los gerentes responsables del cambio teniendo una acción restringida por presiones externas de los gobiernos federal y provincial. Como principal aporte, la investigación presenta un análisis del proceso de cambio en las cuentas del sector público, utilizando los fundamentos de la Teoría Crítica como base de un estudio de caso, usualmente no aplicado al campo de contabilidad.

Palabras clave: Cambio en la contabilidad; Gobierno local; Teoría crítica.

1. INTRODUCTION

In the past decades, the government in Brazil has been the subject of profound changes, especially regarding the management process. In the last twenty years, it was observed that the public management process has been insufficient (HELDEN et al., 2010), which caused a reaction on the part of the managers. Regarding the accounting field, it is considered that because it is an eminently practical field, it would also be subject to changes, because their methods help managers in planning and controlling the organization (MALMI; GRANLUND, 2009).

Along with this movement of change there was a specific movement, internationally researched and known as New Public Management (NPM) (HOOD, 1991, 1995), which aimed to provide public organizations with a process of revision of their procedures and structures, with the purpose of achieving higher levels of economy, efficiency and effectiveness (ARNABOLDI et al., 2010). However, these changes should not be restricted only to economic factors, but should also address social issues, since the main function of the government is to promote management whose ultimate goal is the improvement of society as a whole. In this context, considering the impact that the public sector can have on other companies, particularly in developing countries, the field of organizational studies has devoted relatively little attention to the limits, internal organization systems, growth and performance (financial or non-financial) of organizations that do not participate in the market (HILLMAN; KEIM; SCHULER, 2004), such as non-profit organizations and governmental organizations. Tikk's study (2010), for example, while analyzing the change in the public accounting system of Estonia, concludes that the adoption of more modern methods which are appropriate to the new reality of public service, allows the manager a more real and fair analysis of the figures. However, because it is a descriptive study and, in a way, prescriptive, it does not consider other factors, whether institutional or cultural, and does not perform one of the social aspects in the accounting change process.

This lack of studies, along with the growing demand for information to the whole society on how the use of public funds is carried out, especially when combined with the political factors that involve government decisions, is a motivating factor to perform this study. Considering that the information provided by the Accounts plays an important role in the companies, whether public or private ones, the emergence of new financial structures may result in the beginning of a process of change, either in search for more effective and efficient processes, or due to external pressures, or even from the perspective of the improvement of the management process, aiming at greater transparency regarding the way in which the funds are raised and spent by the government.

Studies such as Bogt and Helden's (2000) analyze the process of change in the German and Dutch governments in order to investigate the differences between what is predicted in accounting theory and practice, observing that the lack of employee training and the lack of top management commitment undermine the effectiveness of the change process. On the other hand, Jones and Mellet (2007) conducted a comprehensive study on the historical determinants of the accounting change process in the UK health services, investigating the nature of accounting and the institutional change process, as well as aiming at the role of individual action and identifying the role of external agencies in the accounting change process.

Considering the importance of public organizations in the social context, the following research question emerged: how did the process of change happen in the accounting systems structure in a local public organization, from the perspective of critical theoretical frameworks? Through the answers to be obtained during this study, the aim is to explore, from the perspective of the Critical Theory, the process of change in the accounting structure and systems at a local public organization, identifying the factors that led to the change, as well as the current stage of change, after the ten-year period since the beginning of the change process.

2. THE CRITICAL THEORY, THE PROCESS OF CHANGE AND THE GOVERNMENTAL INSTITUTIONS

In an environment of constant organizational change, in which Accounting operates, theoretical approaches have emerged over time for the study of the phenomenon of change in accounting. The research opportunities in accounting, with the use of organizational theories, were encouraged (COLVILLE, 1981; COVALESKI et al, 1996), in order to elucidate the organizational complexity and to observe the consequences of the change behavior in accounting. According to Colville (1981, p. 13), the recommendation to conduct a qualitative approach that analyzes, among other things, the behavioral field in accounting, is justified by the possibility of being able to explain a real behavior associated with the accounting process, unlike the abstract theoretical formulations predicted in some conceptual models. Covaleski et al. (1996) consider that the traditional perspectives, based on the concepts of neo-classical economics, used for the study of accounting, no longer responded to questions that addressed the social issues in the companies. So, these authors conducted a study on the use and influence of organizational theories in accounting research, such as the Contingency Theory, the Critical Theory and the Institutional Theory. According to Shields (1997), among the qualitative approaches used in accounting research, new theories were introduced in the business literature, and while several studies were performed using the Contingency Theory and the Institutional Theory, the Critical Theory, in certain aspects, is still less used than the other theoretical frameworks that make up the mainstream.

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From the initial study presented by Laughlin (1987), in which there was a presentation of a model to analyze the process of change in accounting systems with the use of the communication theory of Habermas, with clear emphasis on the so-called Critical Theory, opportunities appeared to perform studies with this theoretical framework, as Power confirmed later (2013), occupying the space between the social theory and the accounting practice, the latter having an emphasis on research with the positive theory.

One of the precursors of the sociological theory applied in the organizational context was Giddens (1976), who produced a breakthrough in organizational studies with his analysis of the new rules of the sociological method, allowing the emergence of various theoretical frameworks, such as the Institutional Theory, especially the New Institutional Sociology, with the studies of DiMaggio and Powell (1983, 1991), Meyer and Rowan (1977, 1992) and Scott and Meyer (1991). In the organizational area, from these initial studies derived studies focusing on the processes of change, such as those of Barley and Tolbert (1997) and, specifically in the accounting area, the work of Burns and Scapens (2000).

In turn, the accounting practice and its direct and indirect effects on the capital market has been the subject of extensive research work, especially with the so-called positive theory of accounting, from Ball and Brown studies (1968) and thereafter from Watts and Zimmerman (1986, 1990). In these studies, the neo-classical theory is adopted, in which the rationality of individuals is considered in the decision-making process, not considering social or sociological aspects.

Regarding the application of sociological theories in accounting, studies emerged recently using the Critical Theory as a theoretical source to perform the studies. Considering that there is some heterogeneity in applying the concepts of the critical theory, especially the Habermasians studies, in the accounting field there is a tendency to classify them through a technique that is also subjective.

Considering this issue, Davis (2007, p. 5) classified the Habermasians studies into three main categories, with the following representative projects from each category: a) **crisis of legitimacy** (LLEWELIN 2003; RAHAMAN; LAWRENCE; ROPER, 2004; WATKINS; ARRINGTON, 2005; DILLARD; YUTHAS, 2006; b) **the theory of Communicative Action** (ARRINGTON; PUXTY, 1991; BROADBENT; LAUGHLIN; READ, 1991; CHUA; DEGELING, 1993; WRIGHT, 1994; BROADBENT; LAUGHLIN, 1998; LAWRENCE, 1999; BROADBENT; JACOBS; LAUGHLIN, 2001; DILLARD, 2002; LAWRENCE; SHARMA, 2002; YUTHAS; DILLARD; ROGERS, 2002; DILLARD; YUTHAS, 2006); c) **accounting regulation** (POWER; LAUGHLIN, 1996). In this study, we will set special focus on aspects related to of the theory of communicative action, applied to a process of change in accounting. Thus, while seeking to occupy the space between the positivist practice and the social theory, the possibility has emerged to perform studies on the process of change in accounting, with the fundamentals of the Critical Theory, in particular by adopting Habermas

assumptions, from the studies of Laughlin (1987). In this context, in which the application of the theory of communicative action is performed, the language is not only seen as a complete and built text, but as a set of phrases that can have different purposes. In order to discover the "real" meaning of the change and the factors that produce it, it is necessary to analyze the process of social evolution, which will enlighten and emancipate the actors involved, through the separation of two perspectives: the first, representing companies as a tangible system in which rules and formal rules operate; and the second, which has the historical roots of each individual and their subjectivity, with their feelings and experiences in the company (Life-world of the organization) (LAUGHLIN, 1987). In the center of these two perspectives, where the human subjectivity operates, are the company's management mechanisms that seek the effectiveness of the proposed actions.

Considering Laughlin's proposal (1987) for the research and analysis of the process of change in companies, we tried to carry out the implementation of the proposals with the method described in section 3, while the findings and discussions about the analysis the process of change in accounting in a government institution, with the critical theory, can be found in the fourth section.

3. RESEARCH METHODS

The research process was developed with the case study technique, using the assumptions of the critical theory. The public institution chosen for this case study was the City Hall of Londrina, located in the State of Paraná, Brazil. According to the Brazilian Institute of Geography and Statistics (IBGE), the city of Londrina has approximately 515,000 inhabitants, and the City Hall had 8,645 employees in January 2014. Of this total, twenty-six are servers in the Municipal Controllershship who work as Accountants, aided by four trainees.

In order to conduct a case study that could cover the process of change in its entire extension, document analysis and interviews were adopted as data collection techniques. The documents analysis covered the official documents containing information on the structure of the Internal Audit sector (previous name for the Controllershship) and the Controllershship itself, as well as the decrees and laws that officially promoted the implementation of the office with the name of Municipal Controllershship. Through this initial phase, the researcher moved from the stage of near-ignorance to the stage of critical theorems formulation.

After that, interviews were conducted with three controllers of the city hall, who occupied key positions in the municipal administration from 2005 to 2014. During this period, the Controllershship had four controllers, and it was not possible to interview one of them, the controller from September 2007 to December 2009.

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The interviews were conducted in order to analyze, from the standpoint of the assumptions proposed by Laughlin (1987), the characteristics of the change process that occurred in order to verify the process of social evolution to which the accounting systems in the governmental office being discussed were subjected. The interviews were conducted from the months of June to August of 2014, each interview lasted approximately one hour, with their response transcription content analysis, in order to relate the answers given with the theoretical propositions.

The objective of the first set of questions listed in Table 1 was to investigate historical aspects in the change process. As all former controllers followed this process, as a controller or in other positions in the Controllershship field, the questions were asked to all of them without distinction. According to Laughlin (1987, p.489) in order to have knowledge about social roots, one must investigate the historical roots behind the factors that promoted the changes.

Table 1 – Questions related to the historical analysis of the implementation of the new accounting system

Questions	Objective
1) How did the need to implement the Municipal Controllershship come up? How was the historical process that motivated the change of the Internal Audit to Controllershship structured?	- Check the background of the change process
2) When was the Controllershship created? What was the main motivating factor for the creation of the Controllershship area?	- Analyze the factors that motivated the process of change

After determining the historical and cultural factors, as this is the analysis of a process of change, we tried to outline the differences between the previous model, whose focus was the Internal Audit, and the current model, whose name and characteristics are broader regarding the controlling area. This second group of questions is listed in Table 2.

Table 2 – Comparative aspects of the previous model x current model

3) What are the main technical fields in the performance of the Controllershship?	- Check the technical fields in the controllershship that are currently in operation
4) What are the differences between the	- Establish the existing differences

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<p>Controllership and the Internal Audit?</p>	<p>between the previous model and the current model of accounting management, from the point of view of the controllers.</p>
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In the third and last set of questions, which are described in Table 3, we tried to investigate the stage of the controllership. As a complement, implicit questions were asked about the existence of resistance and about the typical activities of the controllership that were being performed.

Table 3 – Implementation stage and activities developed by the controllership

<p>5) Does the Controllership control the effectiveness and efficiency in the control of public income and expenses?</p>	<p>- Analyze the relationship between the information generated by the controllership and factors such as effectiveness and efficiency in the management process.</p>
<p>6) Was there any resistance in the implementation of the Municipal Controllership? If so, in which departments?</p>	<p>- Check for resistance to the implementation process of the new controllership model.</p>
<p>7) Do you believe that activities of the controllership are incorporated to the routine of the municipal administration as a whole?</p>	<p>- Analyze if the routine of the controllership is incorporated to the municipal public administration.</p>

The interviews were conducted between May and July 2014, and after their transcriptions, there were analysis and discussions which are presented in the next section of this research.

4. FINDINGS AND DISCUSSIONS

The actions of local governments are usually more related to people, given the degree of relationship of this government level with the community, compared to the state and federal governments. Considering this proximity, the need for transparency in the management of public funds tends to be higher. In the case of Londrina City Hall, the situation in the city is even more delicate. Among the last four elected mayors, two were revoked because of political lawsuits that occurred due to suspicions of misuse of public funds. This feature causes the Municipal Controllershship, the office whose main function is the accountability process, to have its visibility enhanced. In Brazil, managers and public officials are not familiar with the release of details of public expenses, as well as other factors related to the transparency of public financial information that should be made available to society.

The process of change in accounting systems of all levels of the government started because of the provisions of the Complementary Law number 101, of the year 2000 (known as the Fiscal Responsibility Law) and subsequent laws, which made the adoption of more effective controls on revenue and expenditure mandatory, and one of the consequences of the legal obligation to be fulfilled was the substitution of the so-called "internal Audit", a legal office previously, with functions that were only related to internal control activities, by the Controllershship. As a rule, since the process in the public sector occurs over longer periods of time than in the private sector, the period of ten years was considered, which ranges from the formal beginning of the office called "municipal controllership" and the survey date as being sufficient for analysis of the implemented change process.

Considering that this process of change and all subsequent actions were adopted because of a legal requirement, and that the decision to begin the process had a time gap of approximately three years, a certain resistance is noted in public managers in the formal implementation of the "controllership" department. Thus, it is observed that the evolution of public accounting systems did not occur because of technical issues, but based on historical and social issues that affected the political decision to create the municipal controllership. These informal forces have affected the beginning of the internal audit conversion process into controllership, but have not motivated, at first, its implementation.

After analyzing the legal rules that established the Municipal Controllershship (Law number 9698 of December 29th, 2004 and Decree number 375 of March 29th, 2012, contained in the Controllershship By-law) it was found that the controllership consists of five boards: Auditing Board, Municipal Auditing Board, Municipal Information Board, Accounting Board and Cost Board. Considering the existing structure prior to 2004, that is, when the existence of the Internal Audit, a great structural change was observed, as previously under Law number 8834 of 2002 which established the activities of Internal Audit, granted this office only the tasks related to the accountability of the Federal Court, responsibility for internal control, and to perform internal audits, either preventive or upon complaints or suspicions.

This paradigm shift, in which the focus of operation of internal control widened, should bring many benefits to society with the proposed objectives. On the other hand, while critically analyzing the structure of the "new" controllership, there is no prediction of some activities commonly related to the Controllershship, such as the asset control or activities related to budget where, in the latter, only monitoring on budget implementation is performed.

Considering that the City Controllershship of Londrina, after the legal process of implementation in which they stopped using the name "internal audit" and adopted the term "controllership", expanding its operations, after the initial phase of legal and documentary analysis, the research process aimed to check how was the process of change with the controllers who would be responsible for the Controller area beginning in 2005. In order to carry out this stage of the research, interviews were conducted with three controllers of the period, in a total coverage of eight years.

The first controller responsible for the effective implementation of the Municipal Controllershship was the first respondent. According to the information provided in the first months of implementation there were no substantial changes, especially because of the lack of public servants to take over certain functions according to the law. A point to note regarding the implementation process concerns the motivating factor of change. Quoting the respondent, the reason to transform the old Internal Audit sector into Controllershship was mainly the intention to change of the Mayor at the time and the career civil servants who worked in the Audit. In this context, the process of change was seen as an evolution of Audit to Controllershship, with no emphasis on the imposing forces of law. Noteworthy is the fact that the first controller had strong political ties to the mayor at the time, which can cause an enhancement of the political and subjective aspects, rather than technical issues or legal requirement.

The main difficulties listed by the first controller in relation to the process of change are the lack of personnel to perform all the activities, and all the functions were carried out according to regulatory procedures established by the State Court of Auditors (TCE), which is a department that is not part of the municipal administration. As several changes occurred in normative acts and systems developed by the TCE, there was great difficulty in adapting to new models determined externally.

In turn, for the second officer interviewed, who worked as city controller from 2010 to 2011, the main motivation to start the controllership implementation process was the imposition of legislation, especially the Fiscal Responsibility Law, mentioned before. The second controller with a technical professional profile, made it clear in his statements that there wasn't, at first, any other factor besides the legal requirement. The discourse used by the second controller about the historical background differs completely from that of the first controller. At the time of transition, the second controller was a city official, the accounting director.

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Because of the legal requirements, combined with demands from society for more accounting expenditures presented, the number of city employees who were available to the controllership, who were only six servers at first, was raised to twenty-six servers, which allowed greater effectiveness in the activities developed and the expansion of the scope of action, with political support from the mayor.

In the second period analyzed, it was observed that the implementation process led to the incorporation of a talk that the controllership should be independent from other managers, including from the mayor to whom it was subordinated. Thus, the former controller considers that, although there is progress to be achieved, the city controllership is a consolidated office.

During the interview process with the second former controller, evidence was obtained that the main reasons for the acceptance of the controllership, with the acquisition of status, started with the external control offices, together with the work carried out independently which also resulted in processes that led to the arrest of some people. At this point, it was highlighted the resistance of some sectors of the municipal administration to the control activities performed, in order to more efficiently and effectively control public revenue and expenditure.

It was not possible to find consensus on the factors that motivated the change process. For the first controller, the main reason was evolution and political will, and for the second controller, legal impositions and external control offices prevailed. The third controller, in turn, pointed as motivational factors the two reasons (political and legal), which shows a diverse point of view as to how the change was conducted.

As control department in the municipal administration, it is highlighted the lack of centralized asset control, which is usually a responsibility function of the controllership in the private sphere. In most developing countries, this lack of control over how public funds are used causes a lack of credibility in public officials. As an example of this lack of control, we have the report of a former controller, who described the following situation:

"Once, the city hall wanted to buy some land, and hired a person, and the person said he could not sell the land because the land had been sold to the city twenty years ago. I think that more than 90% of public offices do not have this sector structured, it is something that has not been given attention. "

Unlike the private sector, in which the asset control and protection are one of the main activities of the controllership field, there is no such activity in operation, in the municipal government. Political, social and even technical issues can excel in relation to the basic questions of control, causing, however much they invest resources and there is an intention to

improve the management process, this improvement is not achieved, because of the lack of application of basic concepts, such as asset tracking.

Coinciding with the results reported by Lapsley and Pallot (2000), at no time were evidences found of effectiveness and efficiency gains due to the implemented process of change. In the course of this research it was noted that during the ten years following the implementation of the Controllership as a substitute to the internal audit, new features were included, with an increase in the number of employees, but the vast majority of the inserted activities relates to operational functions, with small increases in managerial aspects, which do not allow us to state the actual occurrence of a process of conceptual change, with impacts on the habits and routines of the company.

The case study conducted suggests the existence of other factors and conditions, such as the power of legislative imposition on the public sphere, as well as the existence of external control offices that impose certain controls, without due questioning about possible gains such as effectiveness or efficiency in the management process. Frequently, it was found the inexistence of a discussion process about how the change process should be conducted, with the change being imposed by political, legal and regulatory forces.

Considering Habermas's theory and its implications, the strategic options to develop a change through a process of validation of actions of the actors involved, whether socially, technically, becomes reduced because of external pressures and the resistance found in historical roots of Brazilian public administration. It should be stressed, as limitation of the data collection process, that the information was obtained only from the key elements in the change process, that is, the controllers, and the other employees of the controllership have not been questioned.

5. CONCLUSIONS

This study examined the process of change in the management accounting of a local government, from the perspective of the Critical Theory. It is observed that, unlike what says the literature on the process of change, in the local government analyzed the changes were imposed by the legislation and by the superior offices, with no room for discussion, negotiation or long-term planning about how this change would be processed. The focus of change was directed to the technical field, not being diagnosed an analysis process about the possible social gains and even of the effectiveness the change would cause, with managers having a restricted action by external pressures from the federal and state government.

Although with a restricted application of the model proposed by Laughlin (1987), considering the view of controllers, it was observed that it was not possible to implement some actions during the process of change since the dominant discourse of accepting external

pressures supplanted the existence of discussions about alternatives that could be viable for this sector.

As a complement, it is highlighted the contributions of this research to conduct a study on how the process of change happened in accounting in the public sector, which occurred, as shown in this study, by imposition, with no room for questions. The study was also carried out at the municipal level, with the focus on the Critical Theory, approach which is not usually used for analysis of processes of change in accounting.

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