

An analysis on the comprehension of governmental accounting information informed by the Budget Balance Sheet

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ABSTRACT: This study replicates, in an adapted way, the studies of Kinnersley and Fleischman (2001), Hall Jr. (2001) and Athayde (2002), focusing on the understanding of the information produced by the governmental accounts. The objective of the study is to assess if the citizens – principal recipients of the information produced by governmental accounts – understand the information disclosed in the statements published by the public entities. In this study, it is assessed specifically the Budget Balance Sheet, aimed at testing if this statement is written in a language understandable by citizens, permitting them to follow up on the budget execution. For such, it used a questionnaire, followed up by a Budget Balance Sheet from a governmental institution, which was applied in the Metropolitan Region of Recife (PE), with citizens of an educational level above the average of the Brazilian population. After applying some statistical tests adequate for this type of analysis (Alpha of Crombach, Chi-Square Pearson and Fisher tests), it is concluded that the information produced by the public accounts are not clear for the majority of citizens, regardless of the schooling level. Even among those considered to have a good knowledge of accounts and governmental accounts, the degree of understanding of the reports produced by the public accounts is low.

Keywords: budget balance sheet, comprehension of accounting information, citizenship, public accounts.

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1. INTRODUCTION

This study replicates, in an adapted manner, the studies of Kinnersley and Fleischman (2001), Hall Jr. (2001) and Athayde (2002), focusing of the comprehension of information produced. The objective of the study is to assess if citizens – the main recipients of the information produced by governmental accounts – understand the information published in the statements disclosed by the public entities. This study assesses especially the Budget Balance Sheet, aiming at testing if this statement is written in a language understandable by citizens, permitting them to understand the relationship between the budget authorized by the Legislative and the budget effectively performed by the Executive, i.e., if they follow the budget execution.

For the State to work in the sense of meeting the needs of society, it is necessary to collect revenues, which will enable the performance of programs and actions by the State, by incurring expenses. But it is still necessary that there be a balance between revenues and expenses. On the one hand, revenues must be defined in an adequate amount to comply with the will of society. The expenses, in turn, must be estimated in a volume adequate to the contributive capacity of society. According to the Magistrate General's Office of the Union (2007), for this process to be effective, careful planning is necessary, so that revenues beneath those necessary be estimated nor to collect in addition to what is necessary, causing sacrifices to society.

The obligation to control the use of public money is not a duty only of the control bodies, as they are not sufficient to control public expenses, considering the territorial extension of Brazil and the complexity in connection with inefficient or fraudulent management (CHAMBER OF DEPUTIES, 2005).

To this effect, social control requires access to information and this can only happen, if public management is transparent. This transparency depends on a comprehensible process by citizens, of the information disclosed. It is necessary, for example, for citizens to be capable of understanding the public budget, so that they can control its execution.

The Annual Budget Law follows the authoritative model and, in this sense, it defines the sources of collection, estimates revenues and sets expenses for the year following its preparation. But, how does one verify if the governmental budget was made according to the provisions expressed in this law and in a balanced way?

According to Silva (2000) the Budget Balance is an instrument responsible for this, since it shows the execution of the budget and the position of values executed at the end of the fiscal year in comparison with initial estimates.

The follow up of budget execution permits, according to Barbosa (2007), the correlation between the results achieved with result expectations as a form of management assessment. This confrontation permits the identification of possible deviations occurred and especially the causes of errors of planning, forecast and estimate that influence execution levels. Thus, one gives one step to guarantee that transparency in connection with the use of public funds is an effective input of social control.

But are citizens capable of understanding the information presented in the Budget Balance Sheet? The question of the research arises thus: Is the Budget Balance Sheet of the governmental entities written in a language understandable by citizens, permitting them to follow up on the budget execution?

Certain authors (Oliveira, 2005 and Platt Neto et al., 2005, for example) suggest that the governmental accounting statements (DCG) are not easily comprehensible by the common citizen, being addressed only to citizens with greater knowledge of governmental accounting.

Combining this evidence with the question of research, the hypothesis to be tested in this study arises:

HYPOTHESIS TO BE TESTED: Is the Budget Balance Sheet written in a language understandable to the majority of citizens, and the degree of comprehension does not depend on the knowledge of governmental accounting of the citizen.

This hypothesis will be tested in two items of the Budget Balance Sheet of a governmental entity: the **forecast** of budget revenues and expenses; and the **execution** of revenues and budget expenses.

2. REVIEW OF THE LITERATURE

2.1. Transparency Of The Public Sector

The Brazilian Constitution acclaims the principles of transparency and social control, recording explicitly: the exercise of citizenship as a foundation of the republic; publicity as a principle of the public administration; the possibility of the popular initiative in bills of law, according to certain requirements; and instruments that aim acts harmful to the government estate. Reinforcing the importance that Brazilian society gives to social control of public acts, the Constitution guarantees to citizens the possibility of appealing to the Federal Court of Audit to denounce irregularities and illegalities (BRAZIL, 1988).

Good governance, according to the OECD (2001), impacts positively the economic and social results and in order for its implementation, it requires as a key element transparency in relation to conception, formulation and implementation of public policies.

When Paiva (2003) discusses the ethics and good governance, it affirms that greater clarity of the budget and greater social participation in the follow up of execution of the budget, as a result of the imperiousness of transparency in public management in democratic societies, is desirable. However, to make public revenues and expenses incurred does not imply that the management is participative, as, according to Culau and Fortis (2006), popular understanding is impaired on account of the low level of politicization of the Brazilian people, as well as of the technicality of fiscal, budget and financial information.

One notices that there is soon a long way to be traveled for the citizen to appropriate the advances of Brazilian legislation, regarding the question of transparency. Monteiro, Lacerda and Luz (2004) have conducted a research with 60 students of undergraduate courses of administration, accounting science, economic science and law, with the objective of assessing the level of comprehension and importance attributed to the information generated as a result of the Fiscal Responsibility Law (LRF), as well as the degree of transparency in the various spheres of government. The research also assessed if the understanding helps in the involvement of the respondents, regarding the inspection of public management. With respect to the comprehension of the information accessed, 51% revealed that the same is not very comprehensible. More than 1/3 revealed having a very small degree of understanding of the LRF and more than half do not know the requirements of the LRF related to transparency.

Still in this respect, Sacramento and Pinho (2007), interviewed strategic actors of the Municipal Executive of six selected municipalities of the metropolitan region of Salvador, with the objective of knowing how transparency is materializing, with emphasis on the opening to popular participation, in local public administration, after the advent of the Fiscal Responsibility Law. They concluded that even though there are some advances, the transparency of fiscal management is still not guaranteed by popular participation.

2.2. Budget And Control

In Brazil, Law 4.320/64 determines the accounting rules for preparation and disclosure of phenomena that involves the equity of governmental entities. The different accounting statements required in this Law (BRASIL, 1964), shall subsidize the works of inspection of governmental expenses. It is up to the Legislative Power to perform the financial and budget inspection in connection with the use of public resources (BRASIL, 1988).

The budgets of the Union, States, the Federal District and Municipalities are proposed by the respective Executive Branches, which prepare them and refer to the Legislative Branch, which have the function of authorizing them or not, as well as of making the adjustments that they deem necessary. However, according to Nunes and Nunes (1997), the practice of overestimating the revenues forecasted in the budget proposal is already known for a long time, contributing to the lack of reality with respect to the budget, with the fixation of expenses at an improper level, more than effective collection.

Hence, two problems arise: the first is that one can spend more than one collects, generating a situation of imbalance in the execution of the budget. According to Buchanan (1995), intuitively every citizen is aware in his daily life of the importance of the principle of balancing the budget, as one has to pay for what one buys.

The second problem is that the Executive may have a high margin to perform annulments of budget allocations, which will serve as a source the extension of additional credits of the supplementary type. Considering that the Annual Budget Laws provide a budget percentage, which may be remanaged to supply for such credits, the greater the revenue estimated, the greater the freedom to generate them.

In this case, it occurs that the budget may, from a qualitative point of view, be decharacterized in relation to the initial legislative authorization. A research conducted in Brazilian municipalities by Vecchia and Montoya (2002), reveals that the budget authorized by the Legislative Branch does not normally express the true capacity of collection of the municipal coffers. According to these authors, the greater the use of additional credits, the greater the degree of inefficiency of budget planning.

This is a common concern in most countries. In the United States, for example, great importance is given to “budget integrity”, i.e., adherence of the execution of public expenses with laws and regulations that authorized them (FASAB, 2003).

Society is entitled to know how the resources collected by the government are being applied, requiring permanently correct evidencing of this application. After all, as affirmed Valente and Dumont (2003), democratized information represents a danger to the power of the bureaucracy, having in view that the latter runs the risk of becoming vulnerable by giving publicity to its failures and antagonisms.

In short, more than ever, there is the conscience that it is necessary to control budget execution, confronting it with what was contemplated. According to Moura (2005), with the Fiscal Responsibility Law, the estimate of public revenues gains importance, constituting a point of departure of public planning. The expense should be executed only within the capacity of the sources of financing of the State in the short, medium and long term.

The Budget Balance is the document created for this control (GIACOMETTI, CAVALCANTE e VENTURA, 2000), providing information on the revenues and expenses contemplated in the budget process and the revenues and expenses incurred in the process of budget execution. However, it is necessary to investigate if the citizens understand this information, so that they may exercise their role in social control.

2.3. Communication Of Accounting Information To Users

In the early 70s, Smith and Smith (1971) warned to the fact that financial information, to be useful, should adequately comply with its communicative function. On the other hand, at the time, professionals of the area affirmed that they ignored the theory of communication, but that, fortunately, in the 60s, they started to pay attention to the relationship of communication theory with accounting and its reports. In Brazil, Pinheiro (1997) is one of the authors who defend this same idea.

Dias Filho (2000) comments that most authors are aligned to the need of information being comprehensible by its users. To permit satisfactory understanding of all the accounting elements, which may influence decisions, the evidencing needs to be “fair, adequate and full”. He also affirms that there is a correlation between the type of language used in the accounting statements and the perception of their content by users. The author concludes that the average user of accounting information does not succeed in understanding perfectly many of the terms used in Accounting.

According to Nakagawa and Dias Filho (2001), several authors agree that accounting can improve the quality of its information if it considers the concepts from Communication Theory, as it offers an apparatus to assess to which point the user understands the information communicated to him.

This discussion becomes even more meaningful when dealing with governmental accounting considering its contribution as an element of communication among governmental entities and the citizen, who shall also perform his citizenship through social control, assessing the quality of decisions taken by management. According to the vision of Barbosa (2007), in order for the above mentioned assessment to be possible, it is necessary to resort to an instrument capable of confronting the results of governmental action with the expectation of results. If the expectations do not materialize, the management is assessed negatively, it being necessary to identify the deviations occurred, with respect to the forecast and execution, and their respective causes, to take corrective measures.

Moraes, Löbler and Bobsin (2006) conducted a study to find out the degree of satisfaction of the end user of Information Systems of the secretariats of finance of three municipalities and concluded that the simple fact that there is no computerization does not guarantee satisfaction of the needs of users of generated information, especially if the systems are not integrated. In this context, one can observe that the decision-making process can be rendered unfeasible through failures in the process of communication of this information, hence the importance of clarity in evidencing.

2.4. Comprehension Of Governmental Accounting

The low degree of comprehension of the information procedures by the government's accounts has been the object of study by many researchers. Stowers and White (1999) observed, in a field research with professionals from public accounts offices that the same had developed, in their accounts formation, effective skills of the communication that they produced, recommending that the teaching institutions should develop programs that included communication topics to prepare the counters for the challenges of the profession.

Ilufi (2000) applied questionnaires by e-mail to the teaching staff and coordinators of the Accounts Science courses of 08 (eight) Chilean universities, to determine the degree of incorporation of the Theory of Communication and Semiotics to the university formation of the accountant in Chile. He concluded that the Chilean universities strongly incorporated the

theory of communication applied to the accounts process, although the same does not occur with the theory of semiotics.

Nakagawa and Dias Filho (2000), when studying semantic problems in the process of accounts communication, conclude that to correct problems related to the comprehension of the accounts information, periodical research must be conducted, surveying the average characteristics of user strata. They must identify eventual difficulties and significant elements in use of accounts terminology, checking initially if such users attribute to the information the same meaning that the accountants intend to transmit.

Benevides (2000) questions the meaning of revenue forecast deficit, evidenced in the Budget Balance Sheet of governmental entities, establishing a list of their utility with clarity. He affirms that it is confusing for the user to have a statement presenting at the same time a deficit and a surplus, proposing another method of presentation of the information in connection with the governmental budget process.

A research conducted by Kinnersley and Fleischman (2001) exposed university students to summarized accounts reports, of governmental and private entities. The objective was to check the degree of legibility and consequent comprehension. They concluded that the main cause of the difficulty in reading is the complexity of words.

Ratifying this conclusion, Silva (2001) affirms that the complexity and coded language, related to the government budget in Brazil, imply in restrictions that prevent the active and qualified participation of almost all the citizens and organized social movements.

Mawad (2001) studied the relationship between the information system and citizenship and concluded that the comprehension of governmental accounts information by the citizen is a challenge. He affirms that, to become intelligible for the greatest possible number of users, the accounts system of the financial administration could be expanded to include management information geared to the user-citizen, varying its form of presentation.

In his doctorate thesis, Hall Jr. (2001) investigated how the governmental accounts reports were distributed and understood by US citizens. In a field research, he interviewed more than 500 citizens and concluded that they had limited knowledge in connection with the very existence of such documents and limited skills, also, to understand them as they were presented.

Athayde (2002) conducted a study with 27 users of accounts information of the municipality of Luziânia (GO), to assess the perception, by the same, of the effectiveness of public expenses in the accounts information published. He identified deficiencies in the form of accounts communication used, considering that a significant number of interviewees did not know how to inform the total resources applied in projects and programs. On the other hand, with respect to the public accounts language used, its study revealed that more than 80% of participants in the research do not know the meaning of certain terms.

Shirota (2003) interviewed public employees of the finance area, in the State of Texas, to observe their attitudes and perceptions with respect to "Statement 34", published by the *Governmental Accounting Standards Board – GASB*, to improve the comprehension of the public accounts information. In the perception of the interviewees, the rule of fact contributed for more relevant information to be disclosed, however, the intention of taking the most comprehensible statements was not reached. Moreover, the costs of implementation of the new statements exceeded the benefits obtained.

Montondon and Marsh (2005a) conducted a study of these same rule of GASB and concluded that for the first time citizens are considered as users of governmental accounts, a fact that represents a challenge to accounts and governmental finance professionals, who need to learn how to communicate with this new group of information users. However, the same

authors, in the same year, conducted another research (Montondon and Marsh, 2005b), where they exposed public employees of the finance area to popular financial reports, created from "Statement 34" and which should comply with the average citizen without deeper knowledge of governmental accounting. They concluded that there was no big difference between the popular reports in relation to other so-called more technical reports as to: legibility; sentence of very extensive structures frequently in the passive voice; and vocabulary.

In another research, Ewer (2007) verifies the comprehension of the accounts information, both of the private and governmental area, it is a concern of the regulatory organs of the United States. For Barbosa (2007), in a study conducted in a hospital center of Vila Nova de Gaia, in Portugal, the comprehension in connection with accounts information can only exist when the user is capable of understanding its meaning and depends both on the capacity of this user and on the information presented to him.

Platt Neto et al. (2005) conducted a qualitative research on the principles of publicity and transparency and concluded that transparency presupposes three elements or dimensions: publicity, comprehension and utility for decisions. With respect to comprehension of the information, they concluded that the main person responsible is the entity that discloses them, but that users must have minimal knowledge and be available to study the information with diligence.

Oliveira (2005) applied a questionnaire with professors of administration, law, economics and accounts, of the State University of Feira de Santana, to test the comprehension of the accounts terminology of certain DCG and found that the professors of accounts revealed a greater degree of comprehension than the others.

3. METHODOLOGY

To test if the citizens, the main recipients of the information presented, comprise the information of the Budget Balance Sheet, the relationships existing between the revenues and expenses incurred, used a questionnaire, accompanied by the Budget Balance Sheet of a Brazilian state.

The questionnaires were applied to citizens residing in the Metropolitan Region of Recife. Considering the low education level of the Brazilian population, one chose to select a sample of citizens with higher education level who, in addition to being more qualified to understand the information, could also be more interested in following up on the public accounts situation.

Thus, a sample of 58 citizens was selected, which includes: students of the last terms of undergraduate courses of Administration and Accounts Science of a Federal University (Federal University of Pernambuco - UFPE); postgraduate students of the Accounts Science program of UFPE; doctor professors, who work in courses related to Applied Social Sciences of UFPE; members of the Pernambuco's organized civil society and representatives of the Legislative Branch of Pernambuco State and of the municipalities of the Metropolitan Region of Recife. One has, therefore, a non-representative sample of the population, obtained through convenience, i.e., by the facility of access to the interviewees. Moreover, intentionally, the sample does not represent the common citizen, but instead a sample of the most educated citizens and with greater degree of schooling.

Certain concepts were operationalized, through questions where the interviewee was requested to make his self-assessment. It is the case of the degree of knowledge in governmental accounts, important attributed to the DCGs, understanding of the DCGs, and assessment of the language of the DCGs.

To operationalize the test of hypotheses proposed, the state Budget Balance Sheet was presented to the participations of the research, followed by some questions on the statement and meaning of certain numbers of the same. To facilitate obtaining answers, the interviewees were offered a scale from 1 to 5 (going from “totally disagree” to “totally agree”) instead of an answer in the form of dichotomy (right or wrong). Even though the answers left blank could be a sign that the interviewee does not know how to answer, they were disregarded from the analysis. All the affirmations presented to the interviewees were wrong. Having in view that the answers were given in a scale of 1 to 5, it was considered that the correct option (“totally disagree”) would be represented by the first two options (values 1 and 2). The “t” test was used to assess the difference of the average of answers in relation to the highest value of the correct options: 2. The average.

Once the constructions subject to analysis were obtained, the answers were submitted to statistical tests, to test the hypotheses proposed. Four tests were applied: Crombach’s alpha, Pearson’s Chi-Square, the Fisher test and the test of difference of average.

The Crombach’s Alpha Test was used to assess the internal consistency of some scales used. It permits to assess if the questions of the questionnaires were understood and are minimally reliable. Values superior or equal to 0.55 indicate good internal consistency.

To assess if the comprehension of the DCG content is affected by the degree of knowledge of governmental accounts, one appealed to contingency analysis. Contingency analysis consists of the study of the association between two or more variables, through the observation of the data provided in a double-entry table, or contingency table. The contingency table presents the frequencies observed of two or more variables, with the lines corresponding to a criterion, and the columns corresponding to another criterion. Their analysis, in general, is summed up to the application of the non-parametric Pearson Chi-square test and the Fisher test. Both have the purpose of testing if the two variables categorized are independent.

To test the hypothesis on the comprehension of the budget balance sheet, the “t” test average difference test was used. More details on the application of this test are presented in the application of the test.

4. ANALYSIS OF RESULTS

The analysis of the data is presented in two subsections. The first presents the descriptive analysis of the interviewees and two answers to the questions formulated to them. The second presents the test of the hypothesis formulated in the study.

4.1. GENERAL DESCRIPTIVE ANALYSIS

In this section, some results are presented of the descriptive analysis with respect to the characteristics of the interviewees. With respect to the sex of the interviewees, the sample presents a certain balance, according to Table 1 below:

Table 1 – Interviewees by gender

| | Male | Female | Total |
|-----------|-------|--------|-------|
| Frequency | 28 | 30 | 58 |
| % | 48.3% | 51.7% | 100% |

With respect to the education level (Table 2), the focus of the research was interviewees with the best education level. In the sample, almost 90% of interviewees are taking or have completed higher education. More than half (56.9%) of the interviewees had completed higher education, 20.7% being graduates and 36.2% postgraduates. Nineteen

interviewees (32.8%) are taking higher education, whereas out of these, nine are students of account science courses.

Table 2 – Education Level of the Interviewees

| Education Level | Frequency | Percentage | Accrued percentage |
|--|-----------|------------|--------------------|
| To the 3 rd year of high school | 5 | 8.6 | 8.6 |
| Technical Level | 1 | 1.7 | 10.3 |
| In Higher Education | 19 | 32.8 | 77.6 |
| University degree | 12 | 20.7 | 79.3 |
| Postgraduate | 21 | 36.2 | 100.0 |
| Total | 58 | 100.0 | |

With respect to the education level in accounts specifically (Table 3), it is noted that only 8.6% of interviewees did not receive any education in accounts and 19% had a low level of literacy. From the nineteen interviewees, who are graduate students in accounts, 8 are taking the three last semesters and one is in the second semester.

Table 3 – Education level of Interviewees

| Level of instruction in accounts | Frequency | Percentage | Accrued percentage |
|---|-----------|------------|--------------------|
| None | 5 | 8.6 | 8.6 |
| Small level of literacy | 11 | 19.0 | 19.0 |
| Studied a certain number of subjects | 13 | 22.4 | 22.4 |
| Student in Higher Education in Accounts | 9 | 15.5 | 15.5 |
| Technical course in accounts | 6 | 10.3 | 10.3 |
| Accounts graduate | 3 | 5.2 | 5.2 |
| Postgraduate in Accounts | 9 | 15.5 | 15.5 |
| Professional of the area | 2 | 3.4 | 3.4 |
| Total | 58 | 100.0 | 100.0 |

The interviewees were asked to classify their knowledge of public accounts, in a scale with 5 alternatives (“none”; “little”; “reasonable”; “sufficient to read”; and “good knowledge”). The research reveals that 60% of them consider themselves to have a low level of knowledge of public accounts (none or little knowledge), according to Table 4 below:

Table 4 – Interviewees in connection with their knowledge of public accounts who attribute to themselves

| Knowledge of Governmental Accounts | | Frequency | Percentage | Accrued percentage |
|------------------------------------|-------------------------|-----------|------------|--------------------|
| Low | None | 5 | 8,6 | 8,6 |
| | Little | 30 | 51,7 | 60,3 |
| Average or high | Reasonable | 14 | 24,1 | 84,5 |
| | Sufficient to read | 6 | 10,3 | 94,8 |
| | Good level of knowledge | 3 | 5,2 | 100,0 |
| | Total | 58 | 100,0 | |

Comparing the level of instruction in accounts with the level of knowledge of public accounts of interviewees, this is found only in the answers among those with a low level of education in accounts. Perhaps this indicates that public accounts is a specific area of knowledge, even for those who are instructed in accounts, it is found that, event among those with the highest level of education in accounts (technical program, graduates and postgraduates), a significant proportion of interviewees indicated to have low level of knowledge of public accounts (see Table 5).

Table 5 – Comparison between the Level of Instruction in Accounts and Knowledge of Public Accounts

| | | Knowledge of Public Accounts | | Total |
|----------------------------------|------------------------------|------------------------------|----------------|-------|
| | | Low | Medium or high | |
| Level of Instruction in Accounts | None | 5 | - | 5 |
| | Little literacy | 9 | 2 | 11 |
| | Certain Subjects | 8 | 5 | 13 |
| | Student of Higher Education | 5 | 4 | 9 |
| | Accounts Degree | | | |
| | Technical course in accounts | 2 | 4 | 6 |
| | Graduate in Accounts | 2 | 1 | 3 |
| | Postgraduate in Accounts | 4 | 5 | 9 |
| | Professional of area | - | 2 | 2 |
| Total | | 35 | 23 | 58 |

4.2. Relationship Between Knowledge And Opinion

The level of comprehension of the DCG was measured by the answer offered to a question on the understanding by the interviewees, in connection with what is presented in the DCGs. The interviewees also assessed the difficulty of language used in the Budget Balance

Sheet and the importance attributed to budget follow up. In all questions, the interviewees were asked to give their opinion, indicating in a scale from 1 to 5 the level of agreement with the affirmations presented (from “totally disagree” to “totally agree”). The result is presented in Table 6.

Table 6 – Opinion of the Interviewees, in percentages, in connection with understanding and importance in the Public Accounts Statements

| What one is assessing | Question formulated In your opinion... | ☒☒ totally disagree ☒☒ totally agree | | | | |
|--|--|---|------|------|------|------|
| | | 1 | 2 | 3 | 4 | 5 |
| Comprehension of the DCGs | I understand what is presented in the public accounts statements. | 19,3 | 29,8 | 29,8 | 21,1 | 0 |
| Perception on level of difficulty of language used | The Budget Balance Sheet uses a language that is difficult to understand. | 8,6 | 17,2 | 22,4 | 22,4 | 29,3 |
| Importance attributed to budget follow up | It is very important to know if the government spends according to the Law that authorizes expenses. | 1,7 | 8,6 | 6,9 | 19 | 63,8 |
| | It is very important to know the result of the budget result of the government. | 0 | 3,4 | 6,9 | 22,4 | 67,2 |

Reliability statistics between the question on comprehension of Public Accounts Statements (DCG) and the question on perception of the level of difficulty of the language used: Cronbach's Alpha (a) = -0.200

Reliability statistics of the two questions on the importance attributed to budget follow up: Cronbach's Alpha (a) = 0,767

To assess the internal consistency of the scales used, the Cronbach's Alpha Test was used (see footnote of Table 6). The test was applied initially to the answers given to the questions that assessed the level of comprehension of the DCG and the perception of the level of difficulty of the language used by the Budget Balance Sheet. The low level of the Cronbach's Alpha statistics (-20%) indicates that there is little consistency between these two *constructions*, i.e., they measure different things. And this makes sense. After all, a person can understand the DCGs and even so find the language of the Budget Balance Sheet difficult. Therefore, these two questions measure different *constructions*: one measures comprehension and the other perception of the level of difficulty of the language used.

In the sequence, the Cronbach's Alpha Test was applied to the answers given to the questions defined to measure the importance attributed to the budget follow up (importance attributed in knowing if the government spends according to the law that authorizes expenses and to know the budget result of the government). To this effect, one can affirm that the two questions measure the same *construction*, as the degree of reliability of the answers is statistically significant (76.7%).

To assess if the comprehension of the content of the DCGs is affected by the level of knowledge of public accounting, Pearson's Chi-Square test and the Fisher test were used. The variable in relation to comprehension was reduced to two dimensions: it does not understand (values 1 and 2 of the Likert scale used, from 1 to 5) and it understands (values 3, 4 and 5). Both tests indicated that the relationship between the two variables is statistically significant

at a lower level of 1%, i.e., the greater its knowledge of public accounts, the greater the understanding of the respective statements (see Table 7).

Table 7 – Comparison between the comprehension of the DCGs and the Level of Knowledge of Public Accounts

| | | Level of Knowledge of Public Accounts | | Total |
|-----------------------|---------------------|---------------------------------------|-----------------|-----------|
| | | Low | Average or high | |
| Comprehension and DCG | Does not understand | 23 | 5 | 28 |
| | Understands | 12 | 17 | 29 |
| Total | | 35 | 22 | 57 |

Pearson's Chi-square = 9.988 ($\alpha = 0.002$, two tail).
Exact Fisher test $\alpha = 0,002$ (single tail).

With respect to the perception of the level of difficulty of the language used in the Balance Budget, 30 of the 58 interviewees (52%) consider it difficult. The opinion of the interviewees with respect to the language used by the Balance Budget was contrasted with the knowledge of public accounts. The application of the Chi-square test that there is no significant statistical relationship between the level of Public Knowledge and the perception in connection with the difficulty of the language of the Budget Balance Sheet (see Table 8). This indicates that the language used is considered difficult for most citizens, regardless of the level of knowledge of public accounts (even those who know the subject consider the language difficult). Seventeen out of the 35 interviewees with low level of knowledge agree that it is difficult (49%). More than half (56.5%) of those who consider themselves to have average or high knowledge of public accounts consider the language of the Budget Balance Sheet difficult.

Table 8 – Comparison between knowledge of public accounts and perception of difficulty of the language of the Budget Balance Sheet

| | | Knowledge of CG | | Total |
|----------------------------------|--------------------------|-----------------|-----------------|-----------|
| | | Low | Average or high | |
| Language of Budget Balance Sheet | Do not find it difficult | 11 | 4 | 15 |
| | Intermediary Opinion | 7 | 6 | 13 |
| | Find it difficult | 17 | 13 | 30 |
| Total | | 35 | 23 | 58 |

Pearson's Chi-square 1.457 ($\alpha = 0.483$, two tail).

The majority of interviewees (83%) consider it important to know if the government

spends according to the Law that authorizes expenses and there is no statistically significant difference between this variable and the knowledge of public accounts (See Table 9).

Table 9 – Comparison between knowledge of public accounts and importance of knowing if the expense occurred according to the Law

| | | Knowledge of CG | | Total |
|---|----------|-----------------|-----------------|-------|
| | | Low | Average of High | |
| Importance attributed to knowing if the government spends according to the law that authorizes expenses | Disagree | 5 | 5 | 10 |
| | Agree | 30 | 18 | 48 |
| Total | | 35 | 23 | 58 |

Pearson's Chi-square = 0.540 ($\alpha = 0,462$, two tail).

Exact Fisher Test $\alpha = 0.348$ (single tail).

Regardless of the level of knowledge of public accounts, most interviewees (52 of 58, 89.6%) consider it important to know the budget result of the government (see Table 10).

Table 10 – Comparison between knowledge of business accounts and importance given to knowing the budget result

| Knowledge versus importance of knowing the budget result | | Knowledge of CG | | Total |
|--|----------|-----------------|-----------------|-------|
| | | Low | Average or high | |
| Important to know result | Disagree | 4 | 2 | 6 |
| | Agree | 31 | 21 | 52 |
| Total | | 35 | 23 | 58 |

Pearson's Chi-square = 0.112 ($\alpha = 0,738$, two tail).

Exact Fisher Test $\alpha = 0.552$ (single tail).

4.3. RELATIONSHIP BETWEEN KNOWLEDGE AND UNDERSTANDING

The hypothesis where one intends to test in this study, for purposes of operationalization of the statistical test, was split into two hypotheses, presented below, for purposes of a statistical test, was split into two hypotheses, in their null form (H0):

H0-a) The Budget Balance Sheet of a public entity is understandable for most citizens.

H0-b) The level of understanding of the Budget Balance Sheet does not depend on the knowledge of public accounts of the citizen.

To operationalize the test of these proposed hypotheses, the state Budget Balance Sheet was presented to the participants of the research, followed by certain questions on demonstration and on the meaning of certain numbers of the same. To facilitate obtaining the answer, the interviewees were offered a scale from 1 to 5 (from "totally disagree" to "totally agree").

agree”) instead of a right or wrong answer. Even though the answers left blank could be a sign that the interviewee cannot answer, they were disregarded from the analysis. All the affirmations presented to the interviewees were wrong. Having in view that the answers were offered in a scale from 1 to 5, it was considered that the correct option (“totally disagree” would be represented by the first two options (values 1 and 2). The “t” test was used to assess the difference of the average of the answers in relation to the greatest value of the option “totally disagree” (value 2).

The H0-a test (comprehension of the budget balance sheet by the citizens) uses the answers to four questions, as “proxies” of the comprehension of the Budget Balance Sheet: two questions related to understanding of the meaning of the forecast and two questions related to the budget execution. Table 11 presents a summary of the answers.

Table 11 – Opinion of the Interviewees, in percentages, in connection with the understanding the information Described in the Budget Balance Sheet

| What is being assessed | Affirmation presented | Status Of Affirmation | to a | | | N | Average | Standard Deviation | “t” average difference test |
|------------------------|---|-----------------------|----------------|----------------|----------------|----|---------|--------------------|-----------------------------|
| | | | disagree | | | | | | |
| | | | 1 or 2 | 3 | 4 or 5 | | | | |
| | | | % ¹ | % ¹ | % ¹ | | | | |
| Budget Balance Sheet | It was noticed that the revenues were overestimated. | WRONG | 50.0 | 25.9 | 13.8 | 52 | 2.33 | 1.382 | 1.71* |
| | Noticed that the Government spent more than it collected. | ERRADA | 43.1 | 22.4 | 25.9 | 53 | 2.72 | 1.498 | 3.48** |
| Budget execution | The deficit of R\$ 1,765,295,392.99, in the Revenue Forecast column indicates an error in the forecast of revenue. | ERRADA | 36.2 | 22.4 | 36.2 | 55 | 3.04 | 1.414 | 5.44** |
| | The surplus of R\$ 181,719,308.91, in the column Expense, indicates that the government applied the public resources efficiently. | ERRADA | 36.2 | 37.9 | 18.9 | 54 | 2.70 | 1.192 | 4.34** |

¹ Percentage over total of valid answers

* Significant to 10% level

** Significant to 1% level

As can be seen, in Table 11, three out of four questions presented had their hypothesis null (from equal average) rejected to the level of 1%, indicating that the interviewees do not

understand the information presented in the Budget Balance Sheet. With respect to one of the questions, related to overestimating the revenues, half of the interviewees got the answer right. This was the only item in which the null hypothesis would have been accepted at a significance level lower than 10%. Thus, the results permit us to reject Ho-a, i.e., the tests do not permit to affirm that the Budget Balance Sheet of a public entity is understandable to most citizens.

To test Ho-b (the relationship between the level of understanding of the budget balance sheet and the level of knowledge of the public accounts by the citizen), the answers were transformed into dichotomist variables, alternatives 1 and 2 being representative of the correct assessment and alternatives 3, 4 and 5 of the wrong one. Table 12 presents the results of the assessment of hypothesis H0-b.

Table 12 – Comparison between knowledge of public accounts (CG) and Correct Assessment

| | | Knowledge of CG | | n | Exact Fisher test (single tail) |
|--|-------|-----------------|-----------------|----|---------------------------------|
| | | Low | Average to high | | |
| Assesses the overestimation of revenue correctly | Right | 16 | 13 | 52 | $\alpha = 0,449$ |
| | Wrong | 14 | 8 | | |
| Assesses correctly if the Government spent more than it collected. | Right | 13 | 12 | 53 | $\alpha = 0,265$ |
| | Wrong | 18 | 10 | | |
| Assesses the deficit correctly | Right | 12 | 9 | 55 | $\alpha = 0,561$ |
| | Wrong | 20 | 14 | | |
| Assesses the surplus correctly | Right | 12 | 9 | 54 | $\alpha = 0,598$ |
| | Wrong | 19 | 14 | | |

As can be seen on Table 12, the knowledge of public accounts (CG) does not increase (statistically significantly) the level of understanding of the Budget Balance Sheet of a public entity. See that, with respect to the correct assessment of the revenue, 59% of the interviewees with average to high knowledge of public accounts answered correctly, against 53% of interviewees with a low level of knowledge in this area. Despite being superior, this difference is not statistically significant. In the case of the assessment of the budget forecast of the expense (if the government spent more than it collected), these percentages are 55% and 42%, respectively. The assessment of the deficit and the surplus registers the greatest similarity in the percentage of right answers among those with superior knowledge of CG and those with low knowledge (39.1% against 37.5%, in the assessment of the deficit and 39.1% and 38.7%). Thus, it is not possible to reject the null hypothesis H0-b, based on the answers obtained. Failure to reject H0-a and H0-b permits to affirm that the understanding by the citizen, in connection with the information on forecast and execution of the budget, is low and is not determined by the level of knowledge of governmental accounts that the citizens attribute to themselves.

5. CONCLUSION

The purpose of this study is to assess the level of understanding of the public statements in general and more specifically in the Budget Balance Sheet, in addition to verifying if the level of understanding of this statement is determined by the level of understanding of public accounts of the citizens. The results permit to affirm that most citizens, regardless of their level of knowledge of public accounts consider the language used in the Budget Balance Sheet difficult. Nonetheless, the vast majority of citizens consider it important to know how the government spends its money (if it spends is according to the Authorization Law) and to know the government budget result.

The research also reveals that most citizens do not understand the information of the budget balance sheet and the level of understanding is not related to the level of knowledge of public accounts. Considering that the research involved, deliberately, only citizens with a level of education above average, this result is even more relevant.

The results present indications that point to the difficulty of the citizen understanding the information in the Budget Balance Sheet, in particular, and may be taken as signs of the low level of understanding of the reports generated by the public accounts in general, even among citizens with a better education level. The majority does not succeed in relating the budget authorized by the Legislative Branch with the budget effectively performed by the Executive Branch.

The limitation of this research consists in the intention and size of the sample, which prevent generalizations. However, the care in selection of a sample of more educated citizens with a higher level of schooling and the size of the sample being superior to 30 give sufficient robustness for the results to be considered as a strong sign of the low level of the statements generated by the government accounts and to serve as a stimulus to the subscription of resources to deeper research on the subject.

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ATTACHMENT 1 – BUDGET BALANCE SHEET OF THE STATE OF PERNAMBUCO – 2006

| State of Pernambuco Treasury Secretariat Directorate of State Treasury Control General State Accountancy | | | | Consolidated Budget Balance Sheet (Attachment 12 of Act 4320/64) | | | Fiscal Year/2006 Table 1 in Reais | |
|---|--------------------------|--------------------------|---------------------------|---|--------------------------|--------------------------|---|--|
| ASSETS | | | | LIABILITIES | | | | |
| TITLES | FORECASTED | REALIZED | DIFFERENCE | TITLES | FIXED | REALIZED | DIFFERENCE | |
| Current Assets | 9.466.077.400,00 | 11.305.085.327,79 | 1.839.007.927,79 | Budget and Complimentary Credits | 12.067.840.533,58 | 10.501.203.971,51 | (1.566.636.562,07) | |
| Tax Revenues | 5.001.630.200,00 | 5.538.446.599,25 | 536.816.399,25 | | | | | |
| Contribution Revenues | 1.383.490.000,00 | 1.752.979.872,68 | 369.489.872,68 | | | | | |
| Patrimony Revenue | 103.457.000,00 | 122.537.353,34 | 19.080.353,34 | Special Credits | 36.506.056,08 | 12.191.056,11 | (24.314.999,97) | |
| Farming Revenue | 1.110.000,00 | 791.966,83 | (318.033,17) | | | | | |
| Industrial | 200.000,00 | 328.978,70 | 128.978,70 | | | | | |
| Services Revenue | 62.072.000,00 | 70.029.931,11 | 7.957.931,11 | Extraordinary Credits | 38.201.803,33 | 6.215.034,12 | (31.986.769,21) | |
| Current Transfers | 2.754.257.000,00 | 3.678.672.138,76 | 924.415.138,76 | | | | | |
| Other Current Revenues | 159.861.200,00 | 141.298.487,12 | (18.562.712,88) | | | | | |
| Capital Revenues | 911.175.600,00 | 286.177.198,79 | (624.998.401,21) | | | | | |
| Credit Operations | 320.410.000,00 | 66.358.637,25 | (254.051.362,75) | | | | | |
| Assets Conveyance | 420.000,00 | 52.620.659,31 | 52.200.659,31 | | | | | |
| Payment of Loans/Funding | 1.390.000,00 | 378.855,79 | (1.011.144,21) | | | | | |
| Capital Transfer | 537.147.000,00 | 116.200.702,41 | (420.946.297,59) | | | | | |
| Other Capital Revenues | 51.808.600,00 | 50.618.344,03 | (1.190.255,97) | | | | | |
| Withholdings for FUNDEF | 0,00 | (889.933.155,93) | (889.933.155,93) | | | | | |
| Withholding of Tax Revenue | 0,00 | (541.194.910,38) | (541.194.910,38) | | | | | |
| Withholding of Current Transfers | 0,00 | (348.738.245,55) | (348.738.245,55) | | | | | |
| SUM | 10.377.253.000,00 | 10.701.329.370,65 | 324.076.370,65 | SUM | 12.142.548.392,99 | 10.519.610.061,74 | (1.622.938.331,25) | |
| DÉFICI | 1.765.295.392,99 | 0,00 | (1.765.295.392,99) | SUPERÁVI | 0,00 | 181.719.308,91 | 181.719.308,91 | |
| TOTA | 12.142.548.392,99 | 10.701.329.370,65 | (1.441.219.022,34) | TOTA | 12.142.548.392,99 | 10.701.329.370,65 | (1.441.219.022,34) | |
| Recife, December 31, 2006 | | | | | | | | |
| MARIVÂNIA MONTEIRO DA SILVA General State Accountancy - Reg.8975 - CRC - | | | | ILKA MEDEIROS PAPARIELLO Control Directory of State Treasury | | | | |