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The impact of responsibility in fiscal management on the financial condition of municipalities

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ABSTRACT

Responsibility in fiscal management, according to the Fiscal Responsibility Law, presupposes planned and transparent action, through compliance with limits and conditions, including in relation to registration in Remains to Pay. The present study sought to identify the influence of responsibility in fiscal management on the financial condition of municipalities. To this end, the influence of the main variable Remains to Pay on the financial situation of the municipalities was analyzed, using the econometric model based on Martins et al. (2021). The financial condition is represented by the surplus/deficit divided by the total revenue of the municipalities, while the volume of commitments registered in Remains to Pay divided by the total expenditure is used as a metric for responsibility in fiscal management. It was also investigated whether the election year (2020 was a municipal election year) has a significant influence on the financial situation of the municipalities. To achieve the objective of the research, a sample of municipalities in Bahia with a population of up to 100 thousand inhabitants was used, whose information was made available in the Brazilian Public Sector Accounting and Tax Information System (Siconfi). The absence of some data was a limitation of this study. Bahia is the state in the Northeast with the most municipalities, which justifies the selection of the sample. In addition, there are no related studies that contemplate the region. The period chosen was from 2019 to 2021, using multiple linear regression and applying the Ordinary Least Squares (OLS) method. The results suggest that the main variable Remains to Pay negatively influences the financial situation of the municipalities, while the election year, represented by the *dummy variable*, did not present statistical significance. This result shows the impact of the Remains to Pay on the financial situation of the municipalities, revealing that a better control of this institute by the managers should be carried out.

Keywords: Fiscal Responsibility Law, Bahian Municipalities, Remains to be paid, Financial situation.

INTRODUCTION

Over time, some measures have been taken with the objective of controlling the indebtedness of municipalities, such as the renegotiations allowed by Law No. 8,727/1993 and the enactment of Complementary Law No. 101/2000 (Fiscal Responsibility Law - LRF). This law, sanctioned on May 4, 2000, establishes public finance standards aimed at responsibility in fiscal management and must be complied with by the Union, States, Federal District and Municipalities (BRASIL, 2000).

Cardoso, Pansani, Serrano and Wilbert (2018) state that the imposition of limits by the LRF, while causing a decrease in the growth of the debt of some municipalities, induced others to spend up to the limit established therein. In addition, this Law contributed to the improvement of the primary result.

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Coelho (2020) points out that the LRF, in order to try to prevent the one who will assume the mandate from receiving debts as a legacy, prohibits the public administrator from contracting financial obligations in the last two four-month periods of the mandate (from 05/31 to 12/31) without the availability of cash. In addition, if the payment is made in the following year, it is imperative that financial resources are set aside to meet this liability. This is article 42 of the LRF, which restricts the registration of expenses in Remains to Pay in an election year.

The Manual of Fiscal Statements (MDF) notes that the verification of the existence of cash availability for the registration in Remains Payable must take place in all fiscal years, as stated in article nine of the LRF. The aforementioned article establishes the need to limit commitment and financial transactions, if it is verified at the end of each two-month period that the realization of revenue may not entail the fulfillment of fiscal targets. (Brasil, STN/MDF/2022, p. 648).

In line with the provisions of the MDF, Freitas and Teixeira (2020) state that the availability of cash and the generation of obligations should be controlled at the same time as financial execution occurs, not only in the last year of the mandate but in all fiscal years. Thus, the obligations must be left for the following financial year on an exceptional basis, and must be executed and paid within the current financial year.

Remains Payable correspond to committed and unpaid expenses and can be classified into Processed Remainders Payable (RPP), when expenses have been settled, and Unprocessed Remainders Payable (RPNP), when expenses have not been settled. These expenses are recorded in the Financial Liabilities in an account called "Remainders Payable" and would have a function equivalent to the "Suppliers" or "Accounts Payable" account in private accounting (Santos, Dias & Fernandes, 2009).

According to Freitas and Teixeira (2020), responsibility in public management implies that revenues are not overestimated and that there is no excessive accumulation of financial liabilities. A high volume of enrollment in Remains Payable causes an increase in the floating debt that is part of the Financial Liabilities. The higher increase in Financial Liabilities in relation to Financial Assets leads to a financial deficit, which can generate indebtedness.

Considering that responsibility in fiscal management, according to the LRF, presupposes planned and transparent action through compliance with limits and conditions, including in relation to the registration in Remains to Pay, this work has the following research problem: do **the expenses registered in Remains to Pay exert an influence on the financial situation of the municipalities?**

In order to understand the problem mentioned above, the present study will be limited to municipalities in the State of Bahia with up to one hundred thousand inhabitants. This study is justified by the need to verify the influence of the expenses recorded in Remains to Pay on the financial situation of the municipalities of a state the size of Bahia, which is the largest in the Northeast in terms of number of

municipalities, considering that the regions of Brazil have great economic and regional inequalities. Having as a contribution a reflection on the impact of responsibility in fiscal management on the financial condition of municipalities of up to one hundred thousand inhabitants and on the behavior of the public finances of these entities.

According to Rosa, Vieira, Lopes and Meurer (2020), each municipality has its particularities, including political characteristics, as a consequence, the level of indebtedness will differ from one municipality to another. Thus, a dummy variable will be inserted in the econometric model, in order to verify whether there is a significant influence of the election year on the financial situation of the municipalities.

THEORETICAL BACKGROUND

In this chapter, the main concepts of the theoretical framework will be addressed, as well as the subjects related to the theme. In the theoretical framework, bibliographic materials already published by other authors will be used to contextualize the problem and bring information to the reader.

THEORY OF AGENCY

The Theory of Agency is one of the theoretical bases of this work. According to this theory, in a contractual relationship, there is the figure of the principal and the agent. The problem of agency occurs when the interests of these figures become conflicting (Jensen & Meckling, 1976).

In the case of the public sector, the main thing is society and the agent would be represented by the Executive, Legislative, Judiciary and State Bureaucracy (Peres, 2007). In this sphere, the conflict between the principal and the agent occurs when managers make decisions that go against the interest of society.

According to Hitt, Ireland, and Hoskisson (2019), due to the administrative opportunism arising from the principal/agent relationship, managers may act according to personal interests.

According to Slomski (1999), in order to observe the relationship between the principal and the agent, three conditions must be met: the possibility of the agent adopting different behaviors, the agent's action affecting both the agent itself and the principal, and informational asymmetry.

For Santos, Freitas, Batista and Martins (2020), information asymmetry refers to the fact that the agent holds more information than the main one regarding the activities performed. In this way, the agent can handle the information for the purposes of personal interests or those of his group.

Feitosa and Freitas (2021), in their studies, show how the inscription of expenses in Remains to Pay can be used by politicians to serve their own interests, since such a practice transfers the financial expenditure to the following year and favors the primary result. Thus, the cash basis adopted for the calculation of the primary result would act as an incentive to record the expenditure in Remainders

Payable. On the other hand, what society expects is transparent management and that public resources are applied appropriately.

The culture of *"use it or lose it*" also promotes an increase in the volume of Remains to Pay, since there would be an obligation to fully use budget appropriations by the end of the financial year (Feitosa & Freitas, 2021). Regarding this practice, Araújo, Lins, and Diniz (2022) state that the term could be translated as "use it or lose it" in the sense that the agent avoids the return of resources, executing it irrationally and inefficiently. Such conduct also demonstrates agency conflict.

Governance arises to minimize agency conflicts. The Fiscal Responsibility Law, which establishes public finance standards aimed at responsible fiscal management, incorporates some of its principles such as transparency, accountability, and fiscal responsibility (Cavalcante & De Luca, 2013).

FINANCIAL CONDITION

The Governmental Accounting Standards Board (GASB) treats financial condition as the government's ability to meet financial obligations in a timely manner. (GASB, 1987, p.14).

Financial condition is defined by Nollenberger, Groves and Valente (2003) as the government's ability to continuously and satisfactorily meet society's demands, whether they are daily or due to emergency situations.

Wang (2007) states that the most accepted concept of financial condition would be the one in which the entity has the capacity to meet its financial obligations, in addition, if the organization has the capacity to meet these financial obligations without having difficulties, it is deduced that it is in good financial condition.

For Casal and Gómez (2011), financial condition is not a directly observable concept and can be measured in several ways. For this reason, it is questioned which are the most appropriate mechanisms to measure it. Lima, Santos, Anjos, and Silva (2018) state that, as the literature offers several indicators, it is important to take into account the location of the research and the availability of data when defining which one to use. Similarly, Wang (2007) states that several researchers, when analyzing the condition of local and state governments, use several dimensions and indicators.

For Martins, Caldas and Bezerra (2021), the financial condition is measured by the financial surplus/deficit divided by the Total Revenue. The financial surplus/deficit defined by Freitas and Teixeira (2020) as the capacity of municipal entities to meet their short-term commitments. This indicator corresponds to one of Brown's (1993) indicators adapted by Nobre, Diniz and Araújo (2019).

FISCAL RESPONSIBILITY LAW AND THE REMAINS TO BE PAID

The Fiscal Responsibility Law (LRF), sanctioned on May 4, 2000, establishes rules for responsibility in fiscal management, whose provisions are binding on the Union, States, Municipalities and the Federal District.

According to Gerigk and Clemente (2011), this law establishes the concept of responsible fiscal management that involves planned and transparent action, risk prevention, balancing public accounts, meeting goals, results and obeying various limits. Registration in Remains to Pay must comply with the limits and conditions brought by the LRF.

According to Araújo et al. (2022), Remainders Payable can be defined as committed but not paid expenses until December 31 of the financial year and can be classified as Processed Payables (RPP) and Unprocessed Payables (RPNP), with the first having already been settled and not not.

The Manual of Fiscal Statements (MDF) of the National Treasury Secretariat (STN) establishes that expenses must be executed and paid within the financial year, and obligations to be paid in the following year are admitted only when there is sufficient financial availability to honor them (Brasil, STN/MDF/2022, p. 648).

Therefore, the general rule is that expenses must be executed and paid within the financial year and, extraordinarily, obligations can be left to be fulfilled in the following year, by means of the entry in unpaid remainders.

Aquino and Azevedo (2017) also state that before 2004, the average RPP was falling due to the entry into force of the LRF, while the RPNP was stable and less representative. After the first transition of the mayors' mandate post-LRF in 2004, there has been a continuous growth of the two forms of Remains to Pay.

Similarly, the studies by Freitas and Teixeira (2020) showed that there was a negative influence of Remains to Pay on the financial situation and that among the variables observed, Remains to Pay was the one that had the third highest growth in the period studied. Martins et al. (2021), in line with the studies by Freitas and Teixeira (2020), also showed a negative influence of the Remains to Pay on the financial situation of the municipalities studied.

Considering the theoretical framework presented, the following hypothesis can be formulated: **H1**: The Remainder to Pay has a negative influence on the financial situation of municipalities.

METHODOLOGY

EMPIRICAL MODEL

To estimate the association between the expenses recorded in Remains to Pay and the financial situation of the municipalities, as well as to test the research hypothesis, Equation 1 was used, based on Martins et al. (2021):

$$Sitfinit = \beta 0 \text{ plus } \beta 1 \text{ Rtrib It } _{Plus} \beta 3 \text{ RCAP}_{It} \text{ Plus } \beta 4 \text{ FPM}_{It} \text{ Plus } \beta 5 \text{ ICMS}_{It} \text{ Plus } \beta 6 \text{ Transvol}_{It} \text{ Plus } \beta_7 \text{ Despecit plus } \beta 8 \text{ Ginvit Plus } \beta 9 \text{ Poplog}_{It} \text{ Plus } \beta_{10} \textit{Ale} \text{Plus } \text{Ɛi}$$

The dependent variable SitFin represents the financial condition and is calculated using the surplus/deficit calculated on the Balance Sheet divided by the Total Revenue (Martins et al., 2021). The surplus/deficit corresponds to the difference between the financial asset and the financial liability. When this difference is positive, there will be a financial surplus, when negative, there will be a deficit. According to Freitas and Teixeira (2020), this metric ascertains the capacity of public entities to meet their short-term commitments. While Financial Assets correspond to short-term credits, Financial Liabilities represent short-term obligations.

PR is the variable of interest and corresponds to the expenses recorded in Remainders Payable divided by the total expense.

To the model, the variable ELE was inserted, which represents the election year and will be operationalized by means of a *dummy variable* that assumes a value of 0 in a non-election year and 1 in an election year. Sakurai (2009) and Queiroz (2018) in their studies show the influence of this variable on public spending.

In addition to the variables described above, which are compatible with previous studies, covariates were used that can influence the financial situation of the municipalities. Table 1 presents a summary of all the variables of the econometric model.

Table 1. Dependent Variable, Independent Main Variable, and Control Variables

	Variables	Explanation	Formula	Authors
Y	SitFin (dependent)	Financial Surplus/Deficit as a Function of Total Revenue	(AF-PF)/RT	Freitas and Teixeira (2019)
X1	RP	Registration in unpaid remainders	RP/DT	Freitas and Teixeira (2020)
X2	Rtrib	Tax Revenue Share	RTrib/RT	Santana (2019); Freitas and Teixeira (2020)
X3	Rcap	Share of Capital Revenue	Rcap/RT	Santana (2019); Freitas and Teixeira (2020)
X4	FPM	FPM Revenue Share	FPM/RT	Santana (2019); Freitas and Teixeira (2020)

	Variables	Explanation	Formula	Authors
X5	ICMS	Participation of the ICMS quota	ICMS/RT	Santana (2019); Freitas and Teixeira (2020)
X6	TransVol.	Share of Voluntary Transfer revenues	TransfVol/RT	Diniz et al (2012); Santana (2019); Freitas and Teixeira (2020)
X7	Ginv	Investment Expenses	Ginv/DT	Santana (2019)
X8	Expenses	Personnel Expenses	Pes/DT	Santana (2019); Freitas and Teixeira (2020)
X9	Poplog	Population of the Municipality	Population of the municipality, in logarithm	Santana (2019)
X10	ELE- *Dummy*	0 non-election year and 1 election year		Sakurai (2009), Queiroz (2018)

Cast iron: Adapted by Martins et al. (2021)

Based on Martins et al. (2021), the above variables are described as follows:

- SitFinit: corresponds to the financial surplus/deficit variable, extracted from the balance sheet, due to the total revenue (RT) of municipality i at time t, refers to the dependent variable of the study;
- RPit: % of unpaid remainders in relation to the total expenditure (DT) of municipality i at time t, corresponds to the main independent variable of the study;
- Rtribit: % of tax revenue in relation to total revenue (RT) of municipality i at time t;
- Rcapit: % of capital revenue in relation to total revenue (RT) of municipality i at time t;
- FPMit: % of FPM revenue in relation to the total revenue (RT) of municipality i at time t;
  ICMSit: % of the ICMS share in relation to the total revenue (RT) of the municipality i at time t;
- TransVolit: % of Voluntary Transfer revenue in relation to the total revenue (RT) of municipality i at time t;
- DesPesit: % of personnel expenditure in relation to Net Current Revenue (RCL) of the
- municipality I at time t;
- GInvit: % of expenditure on investment in municipality i at time t, in relation to Total Expenditure (DT);
- Poplogit: population of municipality i at time t, in logarithm;
- HIM: Dummy variable , which represents the election year, with 0 for non-election year being 1 election year;
- Ɛit: model error.

SAMPLE SELECTION

To carry out the objective of this research, the data of the municipalities of Bahia that were made available in the Brazilian Public Sector Accounting and Fiscal Information System (Siconfi) in the period from 2019 to 2021 were analyzed. A total of 273 municipalities (out of 417) are part of the research

sample, and those municipalities whose data used to calculate the financial surplus/deficit were not made available in the System (the absence of these data is a limitation of the research) were removed, in addition to the seventeen municipalities whose population is above one hundred thousand inhabitants, they are: Barreiras, Feira de Santana, Ilhéus, Jequié, Salvador, Vitória da Conquista, Camaçari, Juazeiro, Itabuna, Lauro de Freitas, Teixeira de Freitas, Alagoinhas, Porto Seguro, Eunápolis, Paulo Afonso, Santo Antônio de Jesus and Simões Filho.

The multiple linear regression model, based on Martins et al. (2021), was used, with panel data, in which the dependent variable is the measure of financial condition and is represented by the financial surplus/deficit divided by the amount of total revenue collected by the municipality and the independent main variable represents the responsibility in fiscal management, being operationalized by registered Remainders Payable divided by Total Expense.

RESULTS

DESCRIPTIVE STATISTICS

Table 2 presents the descriptive statistics of all the variables used in Equation 1. The values were calculated considering 819 (273 municipalities multiplied by 3 years) observations for each variable in the three-year interval (period from 2019 to 2021, with 2020 being the year of municipal elections).

Table 2. Descriptive statistics

Variable	N	Average	Median	D.P.	My	Max
SITFIN	819	0,0345	0,0360	0,233	-2,11	1,18
RP	819	0,0309	0,0210	0,0363	0,000	0,411
RTRIB	819	0,0498	0,0380	0,0409	0,000	0,438
RCAP	819	0,0234	0,0150	0,0309	0,000	0,455
FPM	819	0,266	0,292	0,147	0,000	0,794
ICMS	819	0,104	0,0827	0,0863	0,000	1,02
DESPPES	819	0,501	0,537	0,441	0,000	7,96
GINV	819	0,0716	0,0570	0,0638	0,000	1,06
TransfVol	819	0,00859	5.36E-005	0,0180	0,000	0,231
POPlOG	819	9,80	9,75	0,680	8,18	11,5
ELE	819	0,333	0,000	0,472	0,000	1,00

Source: Survey data

Note. N = number of observations, Med. = median, Asymmetr. = asymmetry, min. = minimum, max. = maximum

According to Table 2, the mean PR is 0.0309, which indicates that the mean of the independent study variable Remains to Pay in relation to the total expenditure was 3% per municipality.

The dependent variable of this research is a percentage of the city, representing the financial situation (financial surplus/deficit) of the municipality in relation to the total revenue. The average financial situation in the sample corresponds to 3.45% of total revenue and a standard deviation of 23.3%.

Regarding the *dummy variable* ELE, which represents elections, the results show that 33% of the municipalities have, on average, their financial situation influenced by the election year and a standard deviation of 47.2%.

Table 3. Correlation matrix between variables

	SITFIN	RP	RTRIB	RCAP	FPM	ICMS	DESPPES	GINV	Transf Vol	POPlOG	HE
SITFIN	1,0000										
RP	-0,0487	1,0000									
RTRIB	0,0373	0,0899	1,0000								
RCAP	0,0076	0,0107	-0,0472	1,0000							
FPM	-0,1269	-0,0378	-0,2618	0,0096	1,0000						
ICMS	-0,0318	0,0424	0,2504	-0,0647	-0,1172	1,0000					
DESPPES	-0,1306	-0,0591	0,0025	-0,0121	0,2697	-0,0160	1,0000				
GINV	0,1177	0,0530	0,0668	0,3035	-0,0210	-0,0222	-0,0095	1,0000			
Transf Vol	0,0055	-0,0544	-0,0741	0,2247	0,0047	-0,0655	0,0402	0,1297	1,0000		
POPlOG	0,0394	0,1031	0,4517	-0,0468	-0,3021	0,1051	0,0431	0,0002	-0,0647	1,0000	
ELE	0,0359	-0,2864	-0,0132	0,0966	-0,0371	-0,0681	0,1912	0,2040	0,1498	-0,0207	1,0000

Table 3 above shows the estimated correlation coefficients for the chosen explanatory variables. It is observed that there is no significant correlation between them, which indicates the absence of multicollinearity.

MODEL ANALYSIS

Table 4 presents the results of the regressions for Equation (1) using the sample of municipalities in Bahia with less than 100 thousand inhabitants analyzed in the three-year period. The model was run using the GRETL statistical software.

Table 4. Multiple linear regression estimates

	Coefficient	*Standard Error*	*T-Ratio*	*p-value*	
const	0,0249797	0,135526	0,1843	0,8538	
RP	−0,406174	0,233592	−1,739	0,0824	*
RTRIB	0,0630695	0,228696	0,2758	0,7828	
RCAP	−0,236772	0,278102	−0,8514	0,3948	
FPM	−0,145710	0,0612755	−2,378	0,0176	**
ICMS	−0,122889	0,0965252	−1,273	0,2033	
DESPPES	−0,0596032	0,0195656	−3,046	0,0024	***
GINV	0,453551	0,135806	3,340	0,0009	***
TransfVol	−0,0583770	0,462367	−0,1263	0,8996	
POPlOG	0,00734015	0,0136861	0,5363	0,5919	
ELE	0,00583886	0,0188013	0,3106	0,7562	

Average var. dependent	0,034453		D.P. var. dependent	0,233322
Sum of Resid. Square	42,44519		Regression E.P.	0,229197
R-squared	0,046847		R-squared set	0,035050

F(10, 808)	3,971275		P-value(F)	0,000026
Likelihood Log	49,95626		Critério de Akaike	−77,91252
Schwarz criterion	−26,12360		Hannan-Quinn Criterio	−58,03963
rho	0,279467		Durbin-Watson	0,819951

Source: survey data Note. i) *, **, *** indicate statistical significance at 10%, 5% and 1%, respectively; ii) standard error in parentheses; iii) the description of all variables is shown in Table 1

In the analysis of the assumptions, the model presented a serial autocorrelation problem, since in the Durbin-Watson test the value found was 0.8119951, therefore, outside the acceptable limit. An attempt was made to correct the serial autocorrelation problem by lagged the independent principal variable, but the model still violated this premise. In view of this, it was decided to maintain the initially proposed model and continue the analyses. When performing the other tests, the model did not present problems of specification, linearity and heteroscedasticity. However, in the residuals normality test, the model violated this assumption.

According to Table 4, at the level of 10% significance, the coefficient associated with the main variable under analysis, Remains to Pay, presented statistical significance and a negative sign, i.e., the greater the volume of registration of Remains to Pay in relation to the total expenditure of the municipality, the more unfavorable the financial situation will be. Therefore, it is observed that no evidence was found that leads to the rejection of the hypothesis formulated in this study and that the result regarding this variable corroborates the studies carried out by Martins et al. (2021), Aquino and Azevedo (2017) and Freitas and Teixeira (2020), with regard to the remainder to be paid.

The dummy *variable*, election year, represented by ELE, showed a positive relationship with the financial situation, but without statistical significance. This result is in line with the studies by Fiirst (2019) in which the election year presented statistical significance and positive influence on financial performance.

It is important to note that the absence of statistical significance of the ELE variable means that the financial situation in election years does not differ statistically from the average variation in non-election years. In other words, there is a change in the financial situation in election years, but this variation does not differ from other years.

Regarding the control variables, RTRIB, RCAP, ICMS, TransVol and POPLOG did not show statistical significance.

The FPM control variable showed statistical significance, at the level of 5%, and a negative sign, i.e., the greater the participation of the Municipal Participation Fund in relation to the Total Revenue, the more unfavorable the financial condition of the municipalities will be. This result confirms the studies by Freitas and Teixeira (2020), but goes against the findings of Martins et al. (2021), in which this variable presented a non-significant result and a positive sign.

The variable DESPES showed statistical significance at the level of 1% and a negative sign, which means that the higher this variable, the less favorable the financial situation of the municipalities will be. The result is compatible with the studies by Martins et al. (2021), Santana, Faroni and Cassuce (2019) and Aquino and Azevedo (2017). Regarding GINV, the result found corroborates the studies by Martins et al. (2021), who also found statistical significance in this variable.

FINAL THOUGHTS

The present study sought to identify the influence of responsibility in fiscal management on the financial condition of municipalities. To this end, the influence of the main variable Remains to Pay on the financial situation of municipalities was analyzed using the econometric model based on Martins et al. (2021).

In addition, it was investigated whether the election year, represented by a *dummy* variable, has a significant influence on the dependent variable studied. The Gretl software was used, a sample of 273 municipalities in Bahia with data collected from the period from 2019 to 2021, with 2020 being the year of municipal elections. From a statistical point of view, the most appropriate model for this research is panel data, with random effects.

The results suggest that the main variable Remains to Pay negatively influences the financial situation of the municipalities. Therefore, no evidence was found to lead to the rejection of the hypothesis formulated in this study, corroborating the studies carried out by Martins et al. (2021), Aquino and Azevedo (2017) and Freitas and Teixeira (2020). In relation to the election year, represented by the *dummy variable*, the evidence revealed that there was no statistical significance of the election year on the financial situation.

Regarding the main variable Remains to Pay (PR), the negative influence on the financial situation can be explained by the increase in the volume of PR caused by the *"use it or lose it"* phenomenon and the lack of planning (Araujo et al., 2021). In addition, transferring expenses to the following year, through the registration of Remains to Pay, can be a way of manipulating the primary result, positively impacting the state debt (Feitosa & Freitas, 2021). This may make a good impression on society, but it reflects negatively on one's financial condition

The main findings show that, in the period analyzed, the election year (2020) did not exert a statistical influence on the financial situation. A possible explanation for the result would be the fact that, for electoral purposes, managers make changes in the composition of expenditures, instead of increasing them, since certain public expenditures are more visible to society than others. This would imply a better evaluation by potential voters (Sakurai, 2009).

Understanding the impact of responsible fiscal management on the financial condition of municipalities is important to understand the dynamics of municipal finances, to verify the compliance of these municipalities with the precepts of the Fiscal Responsibility Law, as well as to verify its reflection on the financial situation of municipalities. In addition, it is valid to understand the behavior of municipal managers and how they can use the public machinery to serve their own interests or the interests of their political group, going against the interests of society.

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