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# **FRAMEWORK FOR MANAGEMENT OF INTERNAL CONTROL RECOMMENDATIONS**

A Case Study of the State of Rio Grande do Sul, Brazil

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## 1. INTRODUCTION

The Brazilian government, since the beginning of the 1990s, has experienced constant reforms permeating the Public Administration while demanding changes in order to provide the State with greater speed and effectiveness in their actions. The reforms allow the Brazilian government to be competitive in the globalized world while at the same time endowing it with a consistent democracy in which one lives fully the rule of law, providing that each Brazilian acquires his or her own citizenship by exercising the rights freely and consciously.

In this context, the bodies responsible for the control of the public accounts have a key role and must be able to keep up with innovations, always seeking the improvements necessary to fulfill its role of control with efficiency in the procedures used. This allows the external and internal control to effectively obtain strategically planned results, which subsequently leads to greater effectiveness of their actions within the society. The Brazilian Constitution of 1988 imposed requirements for efficient government management, transparency and social control, changing the control function of public administration. However, the government control obligations are not limited to verifying the correctness of the acts, according to the formal conception of the State law; they must also examine the efficiency, economy and effectiveness of these acts. In Rio Grande do Sul, the Internal Control Agency (CAGE) is responsible for acting in the accounting, financial, budgetary, operational and property control of State Executive, Legislative and Judiciary Branch and Public Prosecution. Among other tasks, CAGE carries out audits and inspections in order to check the execution of State Government budgets, in the matters of

lawfulness, legitimacy, morality, transparency, efficiency, effectiveness and economy.

The main purpose of government auditing is to develop specific techniques for analysis, and identifying distortions in governmental actions, related to what was planned and what is accomplished in real terms, generating a higher level of efficiency and effectiveness in the use of public resources and effectiveness in its outcome.

CAGE has systematically pursued the advancement of the areas of audit and control, with the prevention and combating of occurrences of failures and irregularities and corruption within all entities and agencies of the State Executive. However, it is still necessary to continue to develop methodologies that will enable greater efficiency and effectiveness in the control actions.

Historically, CAGE has pointed out a vast list of irregularities in their audit reports; however, there is not an established action management policy that directs the actions that must be implemented and followed up in the public administration. This deficiency contributes to the reduction in the effectiveness of the work carried out by Internal Control, as well as in the rework of the analysis of the same problems.

Audits carried out by the public control can review how programs are being executed and how activities are being managed, thus affording excellent opportunities to make recommendations to management that would improve their ongoing programs, conserve resources, provide better customer service and ultimately provide the service taxpayers expect. Nonetheless, it is necessary not only to make recommendations to correct the irregularities and

weaknesses but also to establish and maintain a system to monitor the disposition of audit recommendations communicated to public administrators.

The main objectives of this study are (a) to identify alternatives for greater efficiency and effectiveness in the performance of Internal Control working together with the state administration in the phase following the issuance of audit reports; and (b) to propose a methodology to manage these recommendations.

This study also intends to show international control practices and evaluate them against CAGE.

## **1.1. Structure**

The aim of this paper is to discuss how to make State Internal Control Agency of Rio Grande do Sul (CAGE) more effective in the action of auditing. To achieve this objective, first the most useful theoretical concepts in the auditing and public control field will be presented. Secondly, the External Control in Brazil and the Internal Control System in the Federal Executive Branch will be explained. The Internal Control of the state of Rio Grande do Sul will then be analyzed. Next, Chapter 5 will address the recent national and international experiences in auditing and monitoring. In Chapter 6, the proposal for implementing a Framework for Management of Internal Control Recommendations will be shown. Finally, the study will analyze the benefits of the methodology proposed and the alternatives for greater efficiency and effectiveness in the performance of Internal Control in the future.

## 2. THEORETICAL REFERENCES

The present theoretical reference addresses the concepts related to the object of this study. For a better understanding, this paper will explore a wider concept of auditing, government audit, the public audit process and its phases, and the differences between Control, inspection and auditing in the public sector.

### 2.1. Auditing

The term auditing, which is of Latin origin (from *audire*), was used by the British to tag the technology of book reviewing (auditing), which today has a more comprehensive meaning. Auditing for Araujo (1998, p.15) can be defined as “a set of procedures applied to certain actions in order to verify whether they were or are made in accordance with the norms, rules, budgets and objectives”.

According to Sá (1998, p.21) the significance of auditing has been acknowledged for thousands of years since the ancient Sumerians (or Sumer) because “there is evidence of archaeological records of inspections and verifications carried out between the royal family of Urukagina and the temple Sumerian priest dating from more than 4,500 years before Christ”.

The term “auditor” is quite old but it is not known for certain its origin nor the exact date it was created, though it is believed to have been adopted around the thirteenth century, in England, during the reign of Edward I. The term auditor, in Latin, as a noun, just had the connotation of "one who hears" or "the listener", not considering what it would be used to represent, that is, the one who gives opinion on something which has proven to be the truth or not.

Despite the fact that the origin of auditing is uncertain, the most significant impulse for its development can be attributed to England, given the economic power of that country from the time of colonization. As a ruler of the seas and the regulator of the world trade, England was the first nation to own big trading companies, which made auditing emerge as a systematic practice, consolidating its position as we know it in the late 19<sup>th</sup> centuries with the Industrial Revolution. (Franco,1992).

In the beginning of the last century, the growth of the U.S. economy largely determined the evolution of auditing activity as a result of business growth, the increase of its complexity and the involvement of the interest of economy in large ventures. Still, according to Franco, the export of capital by the economically more developed nations was responsible for the growth achieved by the profession in their home countries and their dissemination throughout the world. By creating overseas subsidiaries, large companies also sent their auditors to audit the right use of resources, the calculation of profits and return on invested capital. (Franco,1992).

There are several classifications of auditing regarding the field of operation, which may classify it in government and private sector. The next section addresses government auditing, which is the focus of this study.

## **2.2. Government Auditing**

Government auditing can be considered a specialization within the field of auditing, as it presents peculiarities in the application and specific techniques, despite following principles and technical standards. (Sá, 2002, p.44). According to Araújo (1998, p.18) a government audit is a type of auditing



working directly with the monitoring of actions, carried out by agencies and entities that comprise the three branches of government, and usually the work is carried out by Audit Institutions, whether they are Audit Courts or Controllerships, and internal control bodies of the Public Administration.

The government has the duty to be accountable to society, and society has the right to monitor the government actions. This is exactly the main purpose of government auditing, to develop techniques for analysis, allowing identification distortions in the governmental actions, related to what was planned and what is accomplished in real terms, generating a higher level of efficiency and effectiveness in the use of public resources.

According to the Brazilian Court of Audit (2011) this concept has evolved, reflecting not only the changes that have occurred in the development of organizations and the balancing of interests of the parties involved, but also in increasingly large goals that have been put in place in the field of auditing. If it was initially focused on the discovery of errors and frauds, audit has evolved into other domains, assuming specific forms and specialized not only going to focus on the events which have already passed, but also to have a preventive and advisory role looking forward to contribute to the achievement of objectives and to improve the performance of public administration.

Government auditing is configured as a broad field of study and practice aiming at the comprehensiveness of the field, the multiplicity of goals and the diversity of objects, whose approach may require its decomposition into various classifications to better characterize its auditing. These classifications can be based on linking of the auditing entity, the kind of audited object, in the

form of execution and even their own other specific classifications adopted due to procedural provisions of the auditing entity.

In the International Organization of Supreme Audit Institution's (INTOSAI) system of standards, government auditing is divided into financial audit, compliance audit and performance audit. This division corresponds to the following government sector considerations.

**Financial audit** – An independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework.

**Compliance audit** – Compliance audit deals with the degree to which the audited entity follows rules, laws and regulation, policies, established codes, or agreed upon terms and conditions, etc. Compliance auditing may cover a wide range of subject matters. In general, the purpose of a compliance audit is to provide assurance to intended users about the outcome of the evaluation or measurement of a subject matter against suitable criteria.

**Performance audit** – An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its

responsibilities, also known as “Value for money audit”. Performance audits encompass:

- a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- b) audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- c) audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

### **2.3. Audit Process**

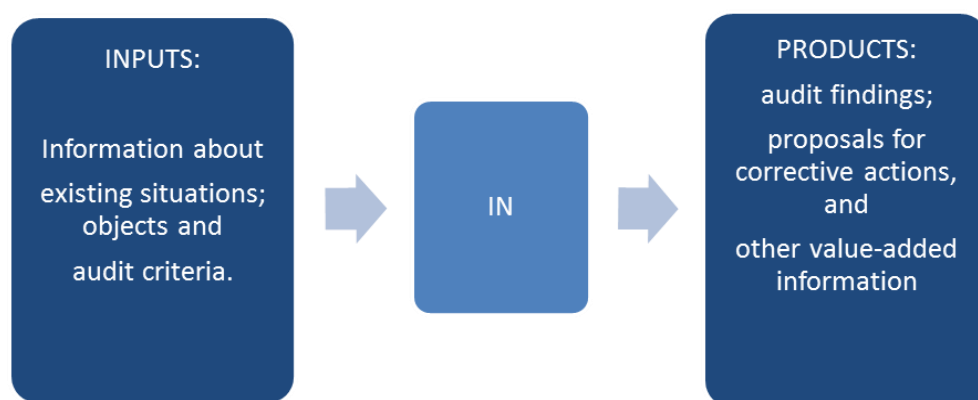
Initially, before the discussion of the concepts and phases of the audit process a short review regarding the concept of process will be incorporated.

Process, from the Latin *processus* or *procedure*, literally means advance, march, progression or succession of states of change. Process is a method, system or way of doing something. All definitions for the term “process” allude to a succession of events which transform into something else by the action of a specific force.

According to the Brazilian Association of Technical Standards (ABNT), a process can be defined as “set of interrelated activities or interactive

that transform resources (inputs) into products (outputs)." (ABNT, 2005, n. 3.4.1). In economics, the production process (known as supply chain) involves the transformation of inputs (raw materials) into outputs / final product (goods and services), through the use of physical resources, technological, human and other.

Considering these definitions, it is possible to visualize the auditing as a process that transforms:



As illustrated in the figure above, and based on the concept of process, it is possible to identify the inputs and outputs of auditing.

The audit process in the public sector does not differ from the audit process in general and consists of using an established method and applying a set of procedures and techniques in order to obtain information and knowledge to support the findings, opinions and proposals on auditor's actual results, performance and correctness of management of organizations, government programs and activities. (TCU, 2011).

The audit process involves the set of stages intended to examine the regularity and to evaluate the efficiency of administrative management and the results obtained, as well as to provide subsidies for improving administrative procedures and internal controls of an organization. To achieve this objective,

the auditor needs to adequately plan his work in order to evaluate the system of internal controls related to the matter audited and determine the nature, extent and depth of the audit procedures to be conducted, as well as collect the supporting evidence of their findings to form their opinion. In this scenario, the auditor shall track the following workflow in the audit process:

## 1. Planning

The planning of the audit represents the moment when the auditor estimates the duration of the procedures to be performed, and allows the routing of work for both the applicant and to the audit team in order to achieve the intended goals. Performing an audit without prior planning will allow for the neglect of important areas, adoption of inappropriate audit procedures, delay in identifying the significant issues that affect the test's purpose, and especially higher risk in issuing the opinion.

The most important phase of any examination is the initial stage of planning. There is not another stage in the audit process which more significantly affects the success of a work that the time is used in carrying out a preliminary audit inspection and scope of overall planning in the course of the referred process. When planning an audit, the critical issue is the definition of the volume of information required for this purpose. This decision relies heavily on the expertise of the auditor's specific knowledge about the activity being examined and the peculiarities of each organization. Therefore, planning should consider that the priority areas for internal control and analytical review are

implemented first, allowing the determination of the nature, extent and timing of audit tests and procedures to be applied.

### 1.1. Pre-Audit

Pre-Audit includes mapping the internal environment, the operating environment and the macro environment of an auditable entity. It is the recognition based on the analysis of legislative acts (legal and regulatory), consulting databases, the analysis of performance reports, examination of operational processes, up to the readout of the committees' meeting minutes, aimed at identifying and/or understanding the nature and features of organizational variables. The Pre-Audit provides the outlining of the management profile or of a process subsidizing conclusively the audit to be executed in the field. They comprise a basic resource for defining the criteria of planning of auditing activities.

## 2. Implementation of Audit – “Field Work”

The objectives of the Audit Planning, formalized in the Work Plan Audit, may be achieved more efficiently when the ideas or decisions concerning "what to do, how, where, when and why to do it" are converted to the auditing procedures disclosed written in the form of programs, which must be detailed to serve as a guide and means of execution control of the work. The implementation phase of the audit work or examination is commonly referred to as “field work” and is in the stage of implementation of the Audit Program and evidence collection, comprising the following steps:

- opening meeting of the works with the auditee;
- study and evaluation of internal controls;
- implementation of audit programs (exams and gathering of evidence);

- record in assessments; and
- elaboration of the audit report.

### 3. Auditing Report

This is the technical formalization document of the products or results from an audit, due to administrative procedures at odds with the standards and guidelines concerning the efficiency and effectiveness of internal control and safeguarding of public assets, whose correction is from a superior administration, whether or not the acts are committed with malice or bad faith.

### 4. Action Plan

The action plan is a document submitted by the manager which formalizes the actions that shall be taken to fulfill the proposed resolutions in order to correct the issues identified during the audit. Basically, it involves a timeline in which people are appointed that are accountable for all activities and deadlines for the implementation of the deliberations. This instrument guides the process of monitoring and it tends to increase the effectiveness.

### 5. Follow-Up

The auditor must apply a procedure for monitoring the adoption of corrective actions completed in his work, which is usually known as **Follow-up**. After the established deadline for implementation of corrective actions, the auditor responsible for the project conducts a return visit to the audited area.

This is not a new audit, but a check-up that all agreed corrective actions have been implemented by the area. In this determination, the auditor will test the implementation of corrective action, that is, it will perform the

required procedures in order to verify its adoption by the area, according to the form and deadline agreed in the Audit Point.

It should be noted that the Follow-up is a perfect measure regarding the importance and value of data for the area audited outcomes indicated to the audit work. The fulfillment and implementation of corrective actions within the time limit, denotes that the area audited recognized the importance of the changes and the added value generated based on the adoption of the corrective actions completed.

All stages outlined in this section are summarized in the following figure:



Source: Public Service Commission of Canada (PSC) <http://www.psc-cfp.ca/>



### **3. CONTROL, INSPECTION AND AUDITING IN THE PUBLIC SECTOR**

The control of public administration is a prerogative and specific function of the State of Law. The purpose is to assure that the formal structure designed to achieve the objectives of government, in the interest of public property, act according to the set of rules and principles which form the legal system.

In several of Brazil's legal norms, we find the combination of the words "control and inspection". However, control and monitoring account for different sides of the public administration, even though they are linked. Control is a broad concept; inspection is a strict concept and it is a sort of control and audit that can be defined as one of the forms of inspection.

Next we distinguish the terms control, inspection and auditing:

#### **Control**

- The power of monitoring the branches of the Judiciary, Legislative and Executive have on public administration.
- Power and duty of offices to which the law confers this role.

#### **Inspection**

- Part of the power of the State Police given to an branch or public servant to exercise control.
- A procedure for controlling and providing efficacy.

#### **Auditing**

- Set of methods, procedures and techniques used to perform inspections.
- One of the forms of conducting accounting, financial, budgetary, operational and property monitoring.

Regarding the management of public resources we can conclude that audits and inspections are forms of supervision in order to give effect to the control of the public administration.

The Constitution has assigned the role of power-duty of the control of public resources to specific agencies, prescribing **the supervision** as an instrument to make it effective:

*Article 70. Control of accounts, finances, budget, operations and property of the union [...]shall be exercised by the national congress, by means of external control and of the internal control system of each power. (emphasis by me).*

The internal supervision of each branch is held by agencies of its own structures, denominated organs or units of internal control. As for the external audit, it is carried out by the Legislative branch with the support of the Court of Auditors.

The Brazilian Court of Audit (TCU) is the external control in Brazil and the Office of the Comptroller General (CGU) is responsible for the Internal Control of the Federal Executive branch.

### **3.1. External Control in Brazil**

The Brazilian Court of Audit - TCU - audits the accounts of administrators and other persons responsible for federal public funds, assets, and other valuables, as well as the accounts of any person who may cause loss, misapplication, or other irregularities that may lead to a loss in the public treasury. Such administrative and judicative authorities, among others, are provisioned in Article 71 of the Brazilian Constitution.

The Constitution of 1988 expanded jurisdiction and powers of the Federal Court of Audit, empowering it to, in aid of the National Congress, exercise accounting, financial, budgetary, operational and patrimonial supervision of the Union and entities of the direct and indirect administration. This is in regards to the legality, legitimacy and the economy.

### **3.2. Internal Control System in the Federal Executive Branch**

The Office of the Comptroller General (CGU) is the agency of the Federal Government in charge of assisting the President of the Republic in matters which, within the Executive Branch, are related to defending public assets and enhancing management transparency through internal control activities, public audits, corrective and disciplinary measures, corruption prevention and combat, and coordinating ombudsman's activities. As a central agency, CGU is also in charge of technically supervising all of the departments making up the Internal Control System, the Disciplinary System, and the ombudsman's units of the Federal Executive Branch, providing normative guidance as required.

The CGU is responsible for, among other tasks, carrying out audits and inspection activities to check how public money is being used. This task is carried out by CGU through the Federal Internal Control Secretariat, which is the unit in charge of evaluating the execution of Federal Government budgets, inspecting the implementation of governmental programs, and auditing the management of federal public funds under the responsibility of public and private agencies and organizations, among other functions.

## 4. INTERNAL CONTROL OF THE STATE OF RIO GRANDE DO SUL

In the state of Rio Grande do Sul, the Internal Control Agency is called State Auditor-General Office (CAGE), which is directly subordinate to the Finance Secretary. The Internal Control acts in the inspection of accounting, financial, budgetary, operational and property of the direct and the indirect public administration of the State of any entities formed or maintained by the State, Public Prosecution, the Legislative and Judiciary branches.

The Internal Control System within the public administration is determined in Articles 70 and 74 of the Federal Constitution, and in Articles 70 and 76 of the State Constitution.

Federal Constitution:

*Article 70 - Control of accounts, finances, budget, operations and property of the union and of the agencies of the direct and indirect administration, as to lawfulness, legitimacy, economic efficiency, application of subsidies and waiver of revenues, shall be exercised by the national congress, by means of external control and of the internal control system of each power.*

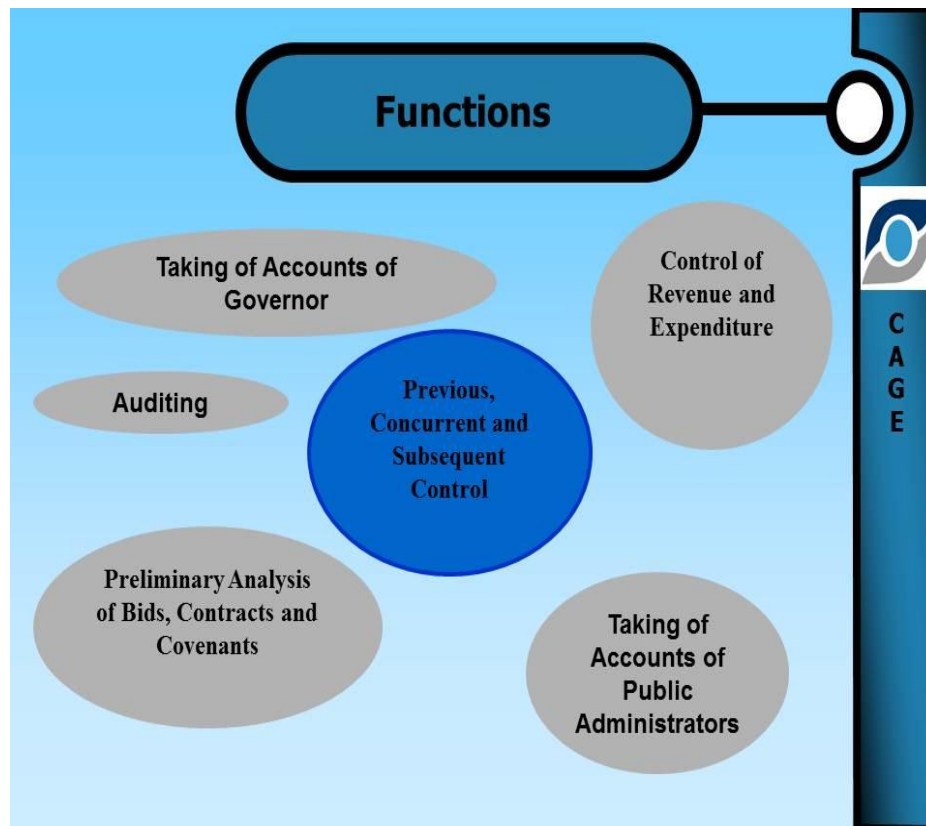
State Constitution:

*Article 70 – The accounting, financial, budgetary, operational and property inspection of the State and of the organs and entities of direct and indirect administration, and any entities incorporated or maintained by the State, as to the legality, legitimacy, morality, advertising, efficiency, effectiveness, economy, applying for grants and waiver of revenue, shall be exercised by the Legislature by external and internal control system of each of the Powers, subject to the provisions of arts. 70-75 of the Federal Constitution.*

CAGE is also responsible for updating and maintaining the Transparency Portal RS ([www.transparencia.rs.gov.br](http://www.transparencia.rs.gov.br)) and participates in the

management committee of the Law on Access to Information ([www.acessoinformacao.rs.gov.br](http://www.acessoinformacao.rs.gov.br)) in the state.

The following figure summarizes some duties outlined above:



Source : CAGE 2010 –Manager Orientation

The scope of CAGE's control duties is extremely wide; this particular study intends to focus only on auditing in the indirect public administration.

Under the Indirect Administration, audits are conducted in autarchies, foundations of public and private law, in mixed capital companies and their subsidiaries and the private entities that use public resources by issuing their reports and opinions. The autarchies, foundations and mixed capital companies make up 47 entities in the state.

According to Decree 38.553/98, there are three modalities of internal control audits by the State of Rio Grande do Sul:

a) Compliance audit

This audit controls the accounting, financial budget, operational procedures and property management, and considers the legality, morality, transparency, efficiency, effectiveness and economy. The audit report is designed to instruct the process of Management Rendering of Accounts, guide the correction of irregularities and rectify faults in the internal control systems of organizations.

b) Management Audit

This audit monitors the actions of administrators under accounting, financial and operational management and complements the compliance audit.

c) Special Audits

This audit investigates events or significant situations of extraordinary nature, as requested by the respective Secretary of State or another authority with a similar position of power.

#### **4.1. Current Scenario – Auditing Methodology at CAGE**

The methodology originally used by the Internal Control State in order to carry out the work of the Indirect Administration Audit of the State is as follows:

1. Annual Audit Plan

The Annual Audit Plan (PAA) is a management tool used by the Division of Control of Indirect Administration of CAGE to perform its duties as an organ of internal control indirect administration state, embodied in the works of

the Compliance, Management and Special Audit among other works carried out.

This management tool is also intended to support the Director of CAGE and the Finance Secretary for the decision making by the streamlined information transfer concerning the goals, objectives, means and resources, as well as the methodology used to perform activities.

The PAA includes the planning of activities to be developed during the following year or for a stated period, the purpose of the PAA, the legal basis of the system of internal control, the objectives of the Audit Division, the scope of operations, human resources and materials available. The PAA still differentiates based on the following factors:

- The criteria for the allocation of hours for each activity;
- The methodology for execution of the works;
- Scheduling and management of planned activities;
- Improvement proposals and procedures, among others.

## 2. Pre-Audit

After the elaboration of PAA and the definition of the audits to be undertaken begins the stage of pre-audit that favors the design of the profile of an entity or management, based on the analysis of data such as: normative acts (minutes of board meetings, directors, general meetings, ordinary and extraordinary activities and reports), database entity, which contains information such as previous reports, legislation regarding the entity, issued information, complaints, suggestions that auditors have carried out work in the body, etc., thus decisively subsidizing the works to be performed by the auditor in the field work.

For CAGE this constitutes one of the basic resources for defining the planning parameters of audit activities and elaborates the Audit Programs by defining the procedures that will be applied in the field work. Program audits are prioritized according to issues of materiality (i.e. size of the budget), relevance (i.e. contribution to a public organization's mission) and operational risks.

### 3. Implementation of Audit "Field work"

This step consists of the execution of the audit program planned before and when the audit team goes to the field to obtain evidence to substantiate the audit conclusions. The main activities carried out during the execution are: analysis of data collected; evidence collection and record in assessments.

### 4. Issuance of Reports

This is the technical formalization document of the products or results from an audit, due to administrative procedures at odds with the standards and guidelines concerning the efficiency and effectiveness of internal control and safeguarding of public assets, whose initiative correction is from a superior administration. The audit reports of CAGE aim to formally notify state administrators of any irregularities found during the audit work.

## **4.2. Problematic Situation**

After the issuance of reports at CAGE, there is no systematic subsequent monitoring of irregularities pointed out, whether they have been resolved and what actions have been implemented. Based on all the concepts



presented in the section 2.3 regarding the audit process it is clear that CAGE has not adopted two important phases of the audit process: “Action Plan” and “Follow-up”.

As approached the “Action Plan” is a document that formalizes the actions that shall be taken to fulfill the proposed resolutions in order to correct the issues identified during the audit and it is an instrument guides the process of monitoring and it tends to increase the effectiveness. The “Follow-up” is a tool with which the auditor will test the implementation of corrective action; in other words, it will perform the required procedures in order to verify its adoption by the area.

This deficiency without adoption of the phases of audit process contributes to the reduction in the effectiveness of the work carried out by Internal Control, as well as in the rework of the analysis of the same problems.

Under the state executive branch, every four years elections are held to choose a new Governor and State Representatives. It is worth mentioning that historically in the State of Rio Grande do Sul, the incumbent Governor is not usually reelected. Consequently, there is an exchange of managers in almost all levels and these substitutions impact and disrupt the flow of actions being developed in agencies and public entities statewide. Therefore, irregularities reported over four years that dealt specifically with managers in the office at that time are lost, because they are reported only in Reports, and the actions that have been taken are not identified in a systematic way, which would enable the state government to have access.

Every financial year the irregularities are reanalyzed by the team that will implement the new audit work, initially by the team that performs the pre-audit and subsequently in the field activity generating rework and inefficiency.

In a nonsystematic way in these new works, the control area performs actions with administrators to look for the solution of problems that are repeatedly mentioned. However, the actions end up not being effective because, with the systematic exchange of managers and the audit team, any progress that had been made leaves with the old managers, and actions end up having no continuity.

It is worth mentioning that even if the new administrator taking over the new post knows which problems were reported and what actions were agreed to be corrected, there is no system within the state control to submit and document this information.

All problems are reported in Audit Reports in paper form which requires a lot of time to review. However, there is no systematic monitoring of subsequent actions that were implemented to be corrected.

This situation leads to the need for the establishment of a State Control tool that enables management of the recommendations of the internal control state seeking greater effectiveness in performance with public administrators. It is necessary that in addition to performing actions to identify these problems, there is also constant monitoring of the results of this work. It is essential the implementation from the public control of a step monitoring the actions taken, with the implementation of an action plan and follow-up of all the recommendations made.

## 5. NATIONAL AND INTERNATIONAL REFERENCES

Aiming to seek alternatives that could support the objective of this study, I analysed national and international structures of control with particular attention to the process of auditing and monitoring phase.

### 5.1. National References

#### 5.1.1. *Monitoring by TCU*

According “Performance Audit Manual” by TCU (2010), monitoring is the assessments of compliance with TCU’s deliberations and of the outcomes derived from their implementation aiming at verifying the actions taken and assess their effects. TCU considers the main objective of monitoring is to increase the likelihood of resolution of the problems identified during the audit, either by the implementation of the deliberations or by adopting other measures initiated by the manager. The expectation of control created by systematic monitoring helps increase the effectiveness of the audit.

The action plan is a document submitted to TCU by the manager that formalizes the actions to be taken to implement, and the deliberations proposed to correct the problems identified during the audit. It essentially involves a schedule that defines those responsible for each action, as well as the activities and deadlines for the implementation of the resolutions. This tool guides the monitoring process and tends to increase its effectiveness.

TCU also considers it desirable that representatives of the audit team guide the construction process of the plan, so that the document submitted meets the monitoring requirements and includes satisfactory steps to correct

the problems identified. This interaction can be conducted through meetings with managers.

TCU recommended that the technical unit in charge of the monitoring process contact the manager of the audited body or program to provide guidance about the audit monitoring, right after the audit. If there is interest, a meeting may be scheduled during which the TCU team will explain to the participants the systematic monitoring. It is recommended to invite representatives of the internal control board (whenever necessary), representatives of the audited object and other agencies and entities involved with the implementation of the recommendations and determinations. The monitoring schedule (quantity, periodicity and term) should be adapted to the particularities of each audit and defined based on the content of the TCU deliberations and the dates established in the action plan.

The last step is the monitoring report that must be a stand-alone document, in other words, it must contain enough information and it aims to show the status of implementation of deliberations; to demonstrate, analytically, the effective benefit resulting from this implementation; and measure the audit cost/benefit (Brazil, 2009b).

Based on data and information, TCU classifies the deliberations, according to the degree of implementation, in one of the following categories:

- a) Implemented - when the problem identified by the audit and that is the object of the deliberation proposed has been resolved through measures incorporated into the regular activities of the audited object;
- b) Not implemented;

- c) Partially implemented - when the manager considered the measures concerning the implementation of the deliberations concluded, without fully implementing them.
- d) Under implementation – if there is evidence that actions are underway in order to solve the occurrences identified during the audit and that led to the proposed deliberation; and
- e) No longer applicable - due to changes in conditions or occurrence of facts which make it impracticable to implement the resolution.

### **5.1.2. Monitoring by CGU**

In 2008, CGU established the Permanent Plan of Measures as an official instrument of permanent monitoring of the recommendations formulated by the board of internal control and the measures adopted by the jurisdictional units. This instrument consolidates the measures to be taken by jurisdictional units and should contain all the recommendations made by the internal control unit, accompanied by measures undertaken by the management for the resolutions or explanations for its no adoption. It is the responsibility of the Manager to ensure the implementation of the steps he has taken over, as well as to keep the instrument updated with respect to the adoption of measures by the manager.

To support the manager in the review of the Permanent Plan of Measures, it is up to the unit of internal control to conduct on an ongoing basis the monitoring of the execution of this plan. Every audited unit is obliged to have three meetings per year with the Secretariat of Federal Internal Control (typically, January, March/May/June and October). These meetings help the

Secretariat of Federal Internal Control to monitor the implementation of the Permanent Plan of Measures. Information on progress in addressing recommendations is input into an internal database to support the activities of the Secretariat of Federal Internal Control. Recommendations may be given one of the following statuses: fulfilled; revised; postponed at the request of the public manager; reiterated, recommendation only partially implemented; reiterated, recommendation refused by the public manager but not accepted by the Secretariat of Federal Internal Control; and refusal of recommendation accepted by the Secretariat of Federal Internal Control.

The Secretariat of Federal Internal Control developed computerized monitoring software to support effective monitoring of its recommendations. The software "Monitor-web", allow managers to more easily register the actions taken to implement, and internal audit authorities (including decentralized and network internal audit) to monitor, internal audit recommendations. The Monitor-web reduced the paperwork for public managers in complying with internal audit recommendations, allowing public managers to respond to recommendations and register their "action plans" online.

## **5.2. International References**

### **5.2.1. *United States***

#### **5.2.1.1. *Monitoring by GAO***

The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress. GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the

performance and ensure the accountability of the federal government for the benefit of the American people.

GAO's work embraces financial audits, program reviews and evaluations, policy analyses, legal opinions and investigations. The primary products of GAO are reports, often called "blue books," as well as testimony, and each has a standard set of components and its own unique structure. In these reports, auditors prepare engagement documentation that contains support for findings, conclusions, and recommendations. After conducting and reporting the results of an engagement, analysts follow up on the reviewed entities, to determine the extent to which GAO's recommendations have been implemented and the benefits traceable to GAO's work have been realized.

The follow up work is conducted on issued reports by: discussing the status of recommendations with cognizant agency officials; obtaining copies of agency documents supporting the recommendations' implementation; and performing sufficient work to verify that the recommended actions are being taken and, to the extent possible, that the desired results are being achieved.

Analysts record and track the implementation status of recommendations, at least once a year, using the "Recommendation Follow-up" web-based application, which is part of GAO's Engagement Results Phase (ERP) system. The application records information on recommendations and on whether timely and appropriate corrective actions have been taken.

GAO provides the same information in an electronic format to users of the reports. Because this format allows searches by agency, congressional committee, key words, etc., it is much more useful to answer specific concerns. This format also enables auditors when planning new assignments to efficiently

check what has been previously accomplished in the proposed area for audit. GAO requires its staff to prepare the necessary accomplishment reports for both quantifiable and non-quantifiable key results and recommendations.

#### **5.2.1.2. *Monitoring by Inspector Generals (IG)***

In the United States, Inspector Generals (IGs) are an independent force for promoting economy, efficiency, and effectiveness in Government operations while preventing and detecting fraud, waste, and abuse in their agencies' programs. The IGs have responsibility to report to their respective agencies as well as to Congress. This relationship to Congress is intended to give the IGs the independence and objectivity needed (CGIE, 2011).

There are 73 Federal Offices of Inspectors General (OIGs), a significant increase since the statutory creation of the initial 12 offices by the Inspector General Act of 1978.

The OIG conducts independent and objective audits, evaluations, investigations and inspections and examines all actions of a government agency or military organization. Audits by OIG evaluate whether established goals and objectives are achieved and resources are used economically and efficiently are consistent with laws and regulations and determine whether financial accountability is achieved.

In the same manner as GAO, the OIG conducts follow up work on issued reports and adopted the Compendium of Unimplemented Recommendations (Compendium). The Compendium summarizes significant monetary and nonmonetary recommendations that, when implemented, will result in cost savings and/or improvements in program efficiency and



effectiveness. Implementation generally requires one or more of three types of actions: legislative, regulatory or administrative. Some issues involve more than one type of action. Each narrative in the Compendium contains a background summary, findings, recommendation(s), management response summary, status, and report titles, numbers, and issue dates. In the case of monetary recommendations, there is also an estimate of the savings that may be achieved by implementing the recommendations. The estimated value of each monetary recommendation is based on the specifics of each review and is not projected beyond the scope of the original review. The estimates provide indicators of potential savings, but the actual savings to be achieved depend on the scope of the legislative, regulatory, or administrative implementing actions.

#### **5.2.1.3. *Monitoring by New York State of Comptroller***

This study seeks to examine best practices with respect to government auditing and control around the world, including public control of several states in the U.S.; however, this section will address the public control in the State of New York.

The New York State Comptroller is a state cabinet officer of the U.S. state of New York and the duties of the comptroller include auditing government operations and operating the state's retirement system.

The Office of the State Comptroller has the constitutional authority to conduct financial, compliance and performance audits of all State and New York City agencies. A typical audit has several interrelated stages or activities. This paper discusses only the monitoring phase in the main objective of this study:

### **Phase I: Corrective Actions by Agency**

Within 90 days following the distribution of the final report, the head of a State agency or public authority must report to the State Comptroller the corrective action taken to implement the recommendations contained in the report, and if they are not implemented, the reason why. Additionally, the Executive Law requires State agencies and public authorities to report this information to the Governor, Legislative leaders, and Legislative fiscal committees.

Approximately one year following the issuance of the final report, the Office of the State may schedule a follow-up audit to assess the extent to which the organization has implemented the recommendations made in the final report. These audits generally take less time to complete.

The Office of the State Comptroller developed the “Standards for Internal Control in New York State Government”. All organizations subject to audit by the Office of the State Comptroller are expected to adhere to these standards, and will be evaluated accordingly in any audits that are performed by that Office.

### **Phase II: Monitoring Audit Findings**

The Internal Control Act requires internal auditors to identify internal control weaknesses that have not been corrected and make recommendations to correct those weaknesses. To accomplish this, each unit needs to establish and maintain a system to monitor the disposition of audit recommendations communicated to management. The auditor should also follow up with management to document either that audit recommendations have been

effectively implemented, or that senior management has accepted the risk of not implementing the recommendations.

## **5.2.2. Canada**

### **5.2.2.1. Monitoring by Office of the Auditor General of Canada- OAG**

The Auditor General of Canada is an Officer of Parliament who audits federal government departments and agencies, most Crown corporations, and many other federal organizations, and reports publicly to the House of Commons. The Auditor General performs regular financial audits of how the federal government collects and spends public funds.

The Auditor General's reports may be reviewed by Parliamentary committees, which conduct hearings and make recommendations for action. The government has the opportunity to respond to the findings, and may implement recommended changes.

The Office of the Auditor General of Canada – OAG – carries out three main types of legislative audits: financial audits, special examinations, and performance audits. OAG codifies the standards and practices to be followed by auditors in carrying out their work. In accordance with these standards, the Auditor General requires that audits often include recommendations that point to the direction in which positive changes can be made for the most serious deficiencies reported. These recommendations address areas where there are significant risks to the entity if deficiencies remain uncorrected and it should be fully supported by and flow from the associated observations and conclusions and aimed at correcting the underlying causes of the deficiency.

In the “Guide to the Performance Audit Process”, the OAG considers that recommendations should be action-oriented and some aspects are necessary to identify:

- practical (able to be implemented in a reasonable time frame, taking into account legal, fiscal, and other constraints);
- cost-effective (the benefits of implementing it will outweigh the costs);
- efficient (optimizing the use of resources);
- results-oriented (giving some indication of what the intended outcome is, ideally in measurable terms); and
- able to be followed up (the audit team will be able to determine whether it has been acted upon).

The OAG publishing an audited entity’s response to a recommendation gives the government the opportunity to inform Parliament whether the entity agrees with the recommendation, and what actions the entity intends to take and their timing.

The OAG also encourages the departmental audit committee to play an active role in reviewing and assessing the entity’s responses to the recommendations.

#### **5.2.2.2. *Monitoring by The Office of the Comptroller General (OCG)***

The Comptroller General of Canada is responsible for providing functional direction and assurance for financial management, internal audit, investment planning, procurement, project management and the management of real property and material across the federal government.

The Office of the Comptroller General (OCG) provides oversight and direction to government-wide efforts to improve the stewardship of taxpayers' dollars and government assets. The Internal Audit Sector (IAS) supports the

Comptroller General of Canada in strengthening the internal audit function across the government. In addition to the standards contained in the IIA Standards, the Government of Canada standards adopted Government of Canada Internal Auditing Standards and in section 4.2.1.1 there is a discussion of “Communication of results of internal auditing engagements shall be communicated in written reports”. They include a management action plan that clearly identifies actions to be taken by management to address recommendations and findings, the timing of such actions, and who is responsible for their implementation.

The Chief Audit Executives (CAE) are responsible for monitoring and for preparing an annual report for the deputy head and the audit committee that will include the results of the follow-up on the implementation of management action plans. It also includes an overview of the aggregate findings following the execution of the audits including the actions taken by management to address key findings. The CAE's report will include an assessment of the impact of the proposed actions and whether these actions will address the risks identified.

### **5.3. Comments about national and international experiences**

According to the entire analysis of this study, we can conclude that in auditing, the public control can review how programs are being carried out and how activities are being managed, thus affording excellent opportunities to make recommendations to management that would improve their ongoing programs, conserve resources, provide better customer service and ultimately provide the service that taxpayers expect. However, as outlined specifically in

section 5 (national and international experience), it is necessary not only to make recommendations to correct the irregularities and weaknesses but to establish and maintain a system to monitor the disposition of audit recommendations communicated to public management. It is also possible to conclude that the goal of government audits is to achieve benefits by effectively implementing the auditors' recommendations.

## 6. PROPOSED METHODOLOGY: FRAMEWORK FOR MANAGEMENT OF INTERNAL CONTROL RECOMMENDATIONS

Grosshans' article "How to Get Action on Audit Recommendations of GAO's" (2004) affirms that to ensure successful implementation of auditors' recommendations, the following basic principles have to be met: commitment to results; quality recommendations; aggressive monitoring and follow-up; and special attention to key recommendations.

To reinforce the importance of monitoring, in another article by Bokdong Ha of the Board of Audit and Inspection of Korea (BAI), observes that auditing and monitoring functions are intertwined with oversight procedures that can provide management with information critical in preventing, detecting, and responding to fraud and misconduct. Auditing and monitoring are more important today than ever before; as the government expands its regulatory and enforcement scrutiny, it increasingly views proactive auditing and monitoring as a litmus test of sincere compliance efforts.

Contemplating all aspects contained herein, the internal control of the state of Rio Grande do Sul should consider the following proposal to establish a Recommendations Management System for action by the audit in public administration:

### **Methodology**

For the execution of the Action Plan, Monitoring and Follow-up, it is initially recommended to establish a Technical Unit, within the CAGE,

responsible for monitoring and managing of the Action Plans of the State Internal Control. CAGE also must have a system that enables it to track the status of management's actions on significant or material findings and recommendations from its prior audits.

### **Phases of the Action Plan, Monitoring and Follow-up**

#### ***1st Phase***

Based on documents issued by CAGE, one must first identify and record in a spreadsheet specific weaknesses and irregularities pointed out that were not regularized. In the elaboration of the Action Plan it shall be observed the characteristics of relevance, substantiality and criticality. Also at this stage it shall be recorded in the Action Plan the Internal Control actions or measures to be proposed to remedy the deficiencies and weaknesses found, or mitigate the risk of their occurrence.

While all properly developed recommendations are important, a few really make a substantial difference. They are the ones that, if not properly implemented, could most seriously undermine the audit entity's effectiveness. These recommendations deserve special attention and treatment because they concern particularly significant or sensitive issues, large quantity amounts or highly controversial. For these key recommendations, special tracking is desirable to ensure that the right attention is given to them and that audit agency management has proper visibility data. Sometimes implementation may require top management to take extra steps.



### ***2nd Phase***

In this phase CAGE forwards to the manager the proposition actions or validation of the recommendations proposed by Control for correcting problems. The managers of these entities shall be responsible for implementing the Action Plan and must prioritize its execution and present actions or measures to be taken in order to remedy the weaknesses observed, or mitigate the risk of their occurrence.

### ***3rd Phase***

At this stage a schedule should be established which will outline the liable persons, activities and deadlines for the implementation of the proposed actions.

According to the Performance audit manual of TCU (2011) it is important that representatives of the audit team guide the construction process of the plan, so that the document submitted meets the monitoring needs and covers satisfactory measures for addressing the issues identified. This interaction could be conducted through meetings with managers. The expected outcome of this effort is that the action plan is feasible. Also, it is recommended that the action plan include a section to record the benefits expected after the implementation of the corrective actions. The benefits are what ultimately justify the audits and should be estimated with the managers, even during the audit. They may involve reducing costs, increasing revenue, eliminating waste, and improving performance. It is also possible to obtain non-financial benefits, such as: organizational improvements, improvement of internal controls, social and

economic benefits, reduced sense of impunity and increased sense of citizenship.

#### ***4th Phase***

The monitoring will consist of following the measures adopted by the State Government Administrators regarding recommendations and proposed actions for correction, interacting with the managers in charge, in order to maximize the likelihood that the recommendations are properly adopted.

Besides following the progress of the actions of audited entities, monitoring will allow the system to give feedback, as it gives managers the feedback they need to verify that the actions that they have been adopting have contributed towards achieving the desired outcomes.

At this stage the Technical Unit in charge of monitoring and managing the Plans of Action of the State Internal Control shall contact the manager of the entity to advise on the monitoring of actions.

It is recommended that a team member who performed the audit takes part in the management group of the Action Plan. This involvement could be in accordance with the demand of "the Technical Unit", that is, during the stage of monitoring the "the Technical Unit" may request the participation of a member of the audit team according to the complexity of the irregularities pointed out.

Depending on the difficulty of interaction between entities and organizations involved in the implementation of the corrective measures, the resources needed to carry out the monitoring and the complexity of the

proposed measures a monitoring plan could be developed to verify the adoption of the measures.

In the stage of monitoring activities the Technical Unit of CAGE shall classify the actions according to the degree of implementation and classification may be as follows:

- a) implemented
- b) not implemented;
- c) partially implemented
- d) implementing
- e) no longer applicable

CAGE will have obtained verification, with sufficient supporting documentation, that an agency's reported actions are adequately being implemented before closing out a recommendation. The Technical Unit may interview entity officials, obtain entity documents and access entity databases. Managing Directors can review all open recommendations over a year old to determine whether implementation can be reasonably expected. The review includes consideration of alternative strategies for implementing the recommendations.

In order to enable effective implementation and adoption of the Action Plan by public administrators, a formal act of the executive branch must be issued that will establish minimum rules, and assign specific responsibilities as well as timelines for completion.

## 7. OPPORTUNITIES AND BENEFITS WITHIN THIS PROPOSAL

### 7.1. Strategy against Corruption and Money Laundering

The National Strategy Against Corruption and Money Laundering<sup>1</sup> in Brazil is composed of 60 public organizations of the executive, the Office of the Public Prosecutor of the Union, the National Congress and the Judiciary. The government of the state of Rio Grande do Sul participates in this strategy and is also working to develop a coordinated approach of the state for creating a culture of integrity and preventing corruption.

Decree no. 49.414 of 27 July 2012 was issued creating the Forum on Prevention and Combating Corruption and Administrative Improbability, in order to develop objectives and incorporate prevention and combating corruption and administrative improbity.

Incumbent to the Civil Office, through the *Subchefia* Ethics, Transparency and Public Control is the organizational and administrative support for any activities carried out in this context. Participating in this forum are several state agencies, as well as CAGE. The highlighted responsibilities of the Forum, are: a) **map and elaborate diagnoses on possible irregularities pointed out<sup>2</sup>**; b) suggest measures for the improvement of structures, procedures and systems within the State Public Administration aimed at preventing and confronting corruption and administrative improbity; c) propose actions aimed at ensuring transparency in Public Administration with the purpose of encouraging social control; and d) propose the establishment of legal instruments, if necessary for full compliance with strategic objectives.

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<sup>1</sup> *Estratégia Nacional de Combate à Corrupção e à Lavagem de Dinheiro*

<sup>2</sup> *The system proposed in this paper treats exactly about this point*

I believe that the proposed Recommendations Management System of CAGE will be an important supplement to the actions of the Prevention and Combating Corruption and Administrative Improbability Forum, because it will enable the government to assess a dashboard in order to monitor the actions that public managers have adopted for the correction of the irregularities. Furthermore, it can provide management with information critical in preventing, detecting, and responding to fraud and misconduct. Finally, it will be an important instrument for the efficient improvement of control on the effectiveness of the State action, as well as for explaining what the government is doing.

## **7.2. Improvements of CAGE**

The reduced number of CAGE public servants had impeded the execution of audit of government programs, risk assessment audits and information technology audit, as these methods demand a greater expenditure of time and human resources. However, in 2010, the State Government opened a public service entrance exam and has given conditions to reassess the performance of the internal control searching for more effectiveness and greater extent of their work.

Since the end of 2010, some studies have begun, including project implementation of the methodology of risk-based auditing. This project featured as one of its objectives the establishment of auditing of planning and methodology to assess the effectiveness of management, focusing on the risks of greater relevance and impact. In 2012, CAGE started projects for the implementation of audit of government programs and information technology

audit (IT). The audit of government programs is an instrument that assesses efficiency, economy and effectiveness of government programs; it is also a tool used to propose improvements in the services available to the population. The IT is the audit that aims to analyze the IT infrastructure and communication systems, involving aspects such as the computational environment, information security and internal control of the unit audited, indicating their strengths and/or deficiencies, and allowing for the necessary adjustments.

These types of audits, based on performance audit concepts and monitoring comprise, an imperative step to follow since it updates the diagnosis and provides information needed to verify whether the actions taken have contributed to the achievement of the desired results. Indeed, Hedley and Ori (2011), have affirmed that auditing and monitoring activities have been significantly influenced by numerous regulatory and evaluative frameworks, including the Sarbanes-Oxley Act of 2002 (SOX). This framework makes clear that the design and implementation of effective auditing and monitoring activities are critical components of an effective internal control environment.

Also according to TCU (2010), within monitoring it is possible to assess the quality of audits and identify opportunities for improvement, learning and quantification of benefits. CAGE through implementation of the methodologies cited has pursued the advancement of the areas of audit and control; however, to enable greater efficiency and effectiveness in these new methodologies, action plans and monitoring are fundamental tools to implement. Failure to do so would mean that CAGE would continue to

experience the same systematic problems and inefficiencies that have been realized for many years.

For this reason the management system proposed will contribute to the methodology that has been implemented at CAGE.

### **7.3. Performance Indicators**

In addition to the benefits previously mentioned, the implementation of a management tool of the recommendations proposed will also enable some elements to measure and evaluate the performance of CAGE.

According to OECD, in the final report of Integrity Review of Brazil: Managing Risks for a Cleaner Public Service (2011, p.219), performance indicators do not exist for government internal control in Brazil. Nevertheless, OECD member countries are moving forward in the development of such indicators for internal audit. Performance indicators can be defined as a set of measures that help a company determine if it is reaching its performance and operational goals. Indicators can be both financial and non-financial, and there is no one set of indicators used by all companies.

We can find some international control references where audit findings and recommendations are elements to measure and evaluate the performance of the Institution.

According to GAO (2011), audit findings and recommendations may produce measurable financial benefits for the federal government when Congress or agencies act on them to reduce annual operating costs or the costs of multiyear projects or entitlements or to increase revenues from asset sales or changes in tax law or user fees. Also, a non-financial benefit

documents the effect related to GAO's work but that cannot be quantified monetarily. Non-financial benefits reflect occurrences in which information provided by GAO to the Congress resulted in a statutory or regulatory change, agencies took actions in response to GAO's finding and recommendations to improve government services and operations, and actions by GAO led to improvements in agencies business processes or advanced government-wide management reforms.

In order to reinforce this assumption the Australian National Audit Office (ANAO) in its annual report 2011-12 describes some kind of measures for "ANAO performance" and "agreement to recommendations in performance audit reports" is one of that measure. ANAO assists the Auditor General to undertake audits of financial statements and performance of Australian Government public sector entities. According the report cited above, ANAO made 144 recommendations in its audit reports to improve entity performance and accountability. Of the 144 recommendations, 137 (95 per cent) were fully accepted in all parts. Seven recommendations (5 per cent) were accepted with some qualification; no recommendation was rejected altogether.

Table 1 provides more details:

Agreement to Recommendations in Performance Audit Reports, 2009–10 to 2011–12

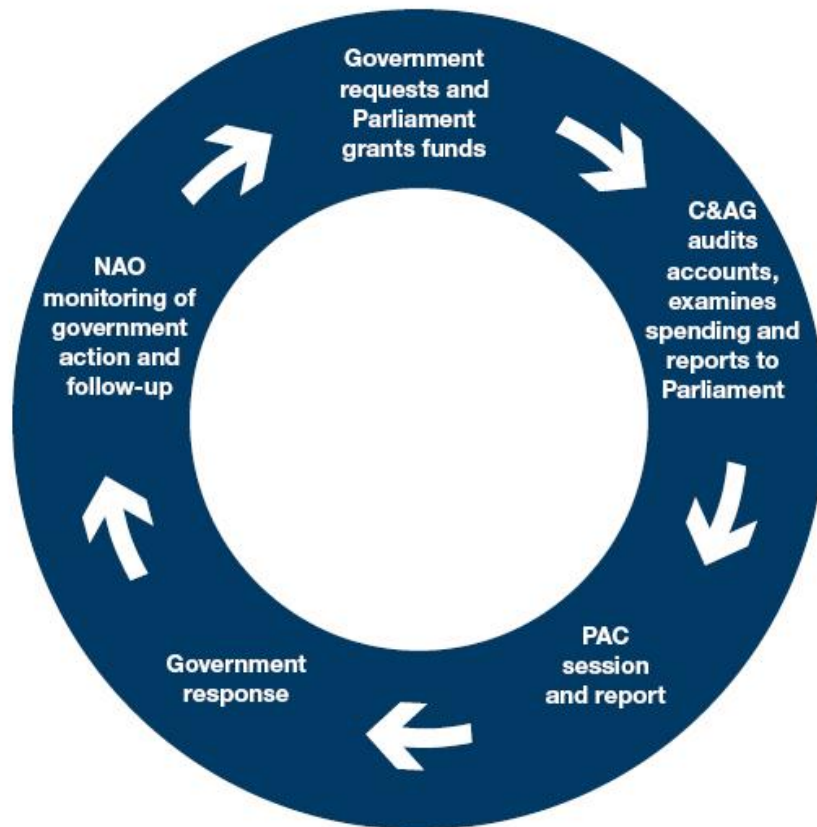
	Recommendations fully agreed (%)	Recommendations agreed with some qualification (%)	Recommendations not agreed (%)
2011–12	95.1	4.9	0.0
2010–11	95.1	4.2	0.7
2009–10	93.1	6.2	0.7

Source: The Auditor-General - Annual Report 2011–2012



The United Kingdom National Audit Office (UK NAO) – which is responsible for certifying the accounts of all government departments and many other public sector bodies – uses ongoing engagement and rigorous follow-up on individual recommendations to help identify improvements that this work has helped to generate.

The following figure demonstrates the full lifecycle of the UK audit process:



Source: National Audit Office - accountability process

NAO has adopted a set of indicators in order to provide both quantitative and qualitative measures of its progress and evaluate the work against the performance management. NAO estimates the financial benefits

achieved following implementation of the Office's recommendations. Financial impacts arise where there is a direct link between NAO's work and a beneficial change in an audited body. Financial impacts must be either cashable, reduce expenditure or increase revenue through improved efficiency or effectiveness; non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or represent benefits to third parties. The NAO reports impacts on a calendar year basis. Also, according to NAO, being able to measure performance is a key step to managing performance.

Considering the features addressed, the management system proposed in this study will be several functions that reinforce the implementation for Rio Grande do Sul because the process as a whole will be an important step for the managing performance of state public control in Rio Grande do Sul.

#### **7.4. Framework for Management of Internal Control Recommendations: Actions for the future**

In the future after the implementation of a Recommendations Management System of CAGE, in order to strengthen the efficiency of the public control of the state of Rio Grande do Sul, the state could consider including both internal and external audit recommendations and progress made in implementing the same system. Focusing on internal control recommendations alone does not allow the government to have a holistic picture of all control actions of the state. This would ensure a single dashboard for the government to monitor and evaluate the actions that public managers have adopted for the correction of the deficiencies noted by the External and Internal Control.

## **8. CONCLUSION AND RECOMMENDATIONS**

The Brazilian Constitution of 1988 changed the control functions of public administration and enforced requirements for efficient government management, transparency and social control. The bodies responsible for the control of the public accounts have a key role and must be able to keep up with innovations, always seeking the improvements necessary to fulfill its role of control. The government auditing constitutes a major instrument of control, and can allow for a better allocation of public resources, helping to detect and propose corrective actions regarding wasteful resources, administrative impropriety, negligence and omission.

The State Internal Control Agency (CAGE) has made strides in the areas of audit and control, with the prevention and combating of occurrences of failures, irregularities and corruption within all entities and agencies of the State Executive, as well as the intensification of orienting actions and preventive control, seeking also new tools to strengthen their performance. Nevertheless, it is still essential to continue to develop methodologies that will enable greater efficiency and effectiveness in the control actions.

At the present time, after the issuance of reports at CAGE there is no subsequent systematic monitoring of irregularities pointed out, nor whether they have been resolved and what actions may have been implemented. The Internal Control needs to go further than just identifying problems. There must be continuous monitoring of the results of this work, because inadequate monitoring leads to weaknesses in internal controls, which in turn can provide

an opportune environment for fraud, abuse, and waste, and may result in loss or inefficient use of state resources and added costs to taxpayers.

This situation leads to the need for the establishment of a Recommendations Management System of CAGE that will require an action plan, monitoring and follow-up of recommendations by CAGE. The Action plan is a document that formalizes the actions that shall be taken to fulfill the proposed resolutions in order to correct the issues identified during the audit. It is also an instrument that guides the process of monitoring and it tends to increase the effectiveness. The follow-up is a tool with which the auditor will test the implementation of corrective action; in other words, it will perform the required procedures in order to verify its adoption by the area.

It is initially recommended to establish a Technical Unit responsible for managing the system of recommendation proposed of CAGE. Another concern: CAGE must have a web-based system that enables them to track the status of recommendations and whether timely and appropriate corrective actions have been taken that will allow searches by entities, secretariat, etc.; it is much more useful to answer specific concerns. This format also will enable auditors when planning new assignments to efficiently check what has been previously accomplished in the proposed area for audit.

Similar to the Brazilian Court of Audit (TCU) and the Brazilian Office of the Comptroller General, there are several other government audit institutions around the world which consider it necessary not only to make recommendations to correct the irregularities and weaknesses but to establish and maintain a system to monitor the disposition of audit recommendations

communicated to public management. International examples of such best practices include: GAO, IG, OAG, OCG, etc.

In the same direction and complementarily we can find national and international control references where audit findings and recommendations are elements to measure and evaluate the performance of the Institution. It is recommended that the action plan include a section to record the benefits expected after the implementation of the deliberations. Benefits are what ultimately justify the audits and they may involve reduced costs, increased revenue, elimination of wastes, improving performance.

Bearing in mind all the aspects addressed in this study, the previous proposal for implementation of a Framework for Management of Internal Control Recommendations that will enable greater efficiency and effectiveness in the control actions also will enable some elements to measure and evaluate the performance of CAGE. After its implementation, this methodology could very well be considered as an instrument for monitoring the performance of the public sector to prevent abuse and illegal structuring mechanisms in order to combat fraud, permanent money diversions, waste and irregularities.

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