

CGU

The Brazilian Office of the Comptroller-General



**IMPLEMENTATION GUIDE FOR THE PROFESSIONAL
PRACTICE OF GOVERNMENT INTERNAL AUDITING
WITHIN THE BRAZILIAN FEDERAL EXECUTIVE BRANCH**

Brasília, 2017

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**THE BRAZILIAN OFFICE OF THE COMPTROLLER-GENERAL
THE FEDERAL SECRETARY OF INTERNAL CONTROL**

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Brasília, December 2017.

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LISTA DE ABREVIATURAS E SIGLAS

AGU	Office of the Attorney General
Audin	Internal Auditing Unit at the government bodies and entities within the federal executive branch
CAAT	Computer-Assisted Audit Technique
CGU	Brazilian Office of the Comptroller-General
Ciset	Secretaries of Internal Control
COSO ERM	Enterprise Risk Management – Integrated Framework
ICAQ	Internal Controls Assessment Questionnaire
IN	Normative Instruction
ISA	International Standard on Auditing
IT	Information Technology
MP	Brazilian Ministry of Budget, Planning, and Management
NA	Audit Memo
PGMQ	Quality Assurance and Improvement Program
SA	Audit Request List
SCI	Internal Control System
SFC	Federal Secretary of Internal Control
TBAT	Technology-Based Audit Techniques
TCU	Brazilian Federal Court of Accounts
UAIG	Government Internal Auditing Unit

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INTRODUCTION

Over the past years, globalization, the increasingly intensive use of technologies, and various events related to financial statements of large companies have generated important changes in the business environment of public and private organizations around the world. As a result, society, in general, has been demanding higher quality in the provision of services by organizations, in addition to more transparency, responsibility, and accountability. All of that has been generating a series of challenges and demands for Internal Audit Activity. For example, the increasingly frequent requirement to perform in governance and risk management areas, also in the public administration realm, which was oblivious to these discussions until a few years ago.

Specifically in Brazil, from the enactment of Law No. 12,527, of November 18, 2011, which regulates the fundamental right of access to information, and of Normative Instruction MP/CGU No. 01, of May 10, 2016, which guides on governance, risk management, and internal controls within the Federal Executive Branch, new horizons were opened for the Government Internal Audit Activity. Since then, it has been benefiting from better opportunities to directly contribute to the achievement of the objectives of the organizations, in addition to greater visibility of the work carried out. These improvements have brought the Internal Audit Activity closer to the business areas of the organizations. Moreover, since the Internal Audit function started to be requested to directly collaborate with the decision making processes, its relevance has been recognized by the strategic level of the organizations.

In turn, those changes have increased the responsibility of the Government Internal Auditing Units (UAIG) so to adequately address the society's wishes, which require that government internal auditors acquire new skills, adopt new strategies, and, consequently, provide a greater variety of services.

In light of that, the practice of internal auditing is expected to increasingly contribute to the improvement of government bodies and entities` governance. For this purpose, The Standards for the Professional Practice of Government Internal Auditing within the Federal Executive Branch (Framework), approved by Normative Instruction No. 3, of June 9th, 2017, has defined principles, concepts, and guidelines in order to guide the practice of government internal auditing, thus ensuring that the UAIGs perform efficiently and effectively.

Complementarily, this Implementation Guide intends to provide technical guidance to the bodies and entities that comprise the Internal Control System (SCI) and the singular internal auditing units (Audin) within the Federal Executive Branch on the means to operationalize the contents of the Framework. Thus, the Implementation Guide indicates ways of putting the established requirements into practice, contributing to standardize understandings and practices. However, it is not meant to restrict the autonomy that each UAIG has regarding the definition of its work methods, systems, and frameworks.

Therefore, the first chapter presents the concepts of Assurance and Consulting. According to the guidelines established by Normative Instruction No. 3, of June 9th, 2017, assurance and consulting services constitute the Government Internal Auditing typical activities. Both activities have many similarities, but also their specificities. Assurance services are intended to provide an independent opinion on governance, risk management, and internal controls. On the other hand, consulting services aim to help the audited unit in those same areas, but they are performed through advisory, counseling, training, and facilitative activities.

Intensive investigation complements assurance and consulting activities and is addressed in the Implementation Guide as the subject of the second chapter. Due to the mandates of Law No. 10,180, of February 6th, 2001, the investigative audit is performed by the UAIGs within the Internal Control System of the Federal Executive Branch (SCI). Its objective is the investigation of illegal or irregular misuse of federal public funds by public or private agents.

The third chapter presents the essential activities for “Managing the Government Internal Audit Activity” properly. It describes the internal auditors` duties regarding the audit process, in particular the responsibilities of the UAIG’s chief audit executive and the team members. It also addresses the necessary precautions to employ in situations when the UAIG decides that outside professionals may participate on audit engagements; the necessary attention to situations that may impair the auditor’s objectivity, and the minimum requirements for implementing a Quality Assurance and Improvement Program (PGMQ).

The fourth chapter deals with the Government Internal Auditing Unit Planning and the resulting Internal Auditing Plan. The core matter is the risk-based planning, an important instrument capable of ensuring that the UAIGs concentrate their efforts on areas and activities where the achievement of objectives may be strongly impaired in face of internal or external events, that is, the major risk areas. The chapter also addresses the essential components of the Internal Auditing Plan and the supporting activities for the establishment of the Engagement Work Program, as well as the commonly used audit procedures and techniques.

Performing individual engagements is the subject of the fifth chapter. The contents are presented based on auditing standards and national and international best practices that are necessary for the development of the work phase also known as fieldwork, namely: communication with the Audited Unit during the performance of the audit work; data collection and analysis; obtaining evidence; preparing audit findings and recommendations, and organizing and storing working papers.

As a fundamental phase of audit engagements, “Communication of Results” is addressed in the sixth chapter. At this point, the necessity of specific planning so to communication reaches its purpose is emphasized. Quality requirements and types of communication are also emphasized. The audit report, the most commonly used type of communication, is highlighted as well: in addition to presenting different species of audit reports, the most frequently audit report components are also indicated.

Monitoring is an auditing fundamental phase, considering that the engagement is only accomplished after the Audited Unit has complied with the issued recommendations. This is the subject matter addressed in the seventh and last chapter, in which are presented: the monitoring process, with emphasis on its stages; approaches to deal with specificities, such as recommendations resulting from consulting engagements; how to address repeatedly missed recommendations; communication on the implementation stage of recommended improvements, and finally quantification and recording of financial and non-financial benefits obtained as a consequence of the UAIG’s performance.

At the end, examples of documents to support understanding and implementing the contents of this Implementation Guide are also presented.

1 GOVERNMENT INTERNAL AUDITING

According to Normative Instruction no. 3, of June 9th, 2017, Government Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition presents some aspects that deserve a highlight. They are presented in detail as follows:¹

Governmental

Although Government Internal Auditing has many similarities with Independent Auditing, the former also holds its specificities. Among them, we can highlight:

- a) obtaining and analyzing evidence concerning the use of public resources, which directly contributes to ensuring government accountability, especially considering its transparency, answerability, and responsiveness dimensions;
- b) contributing to the improvement of public services deliveries by means of evaluating government policies and programs and gauging the performance of its bodies and entities due to their primary role in serving society;
- c) operating towards the safeguard of public assets.

Independence and objectivity

Independence and objectivity are fundamental requirements for the internal audit activity in conducting the auditing work as well as in supporting the issue of the Government Internal Auditing Unit's (UAIG) institutional opinion. The former is associated with the UAIG's positioning and the latter with the auditor's attitude towards the Audited Entity.

Technical independence is a requirement for an independent internal audit function. It means that the UAIG's chief audit executive must have direct and unrestricted access to the highest management level within the Audited Entity (senior management or the board, if any), that allows the UAIG to fulfill its responsibilities free from interference in determining the scope of internal auditing, performing work, professionally judging, and communicating results.

In their turn, government internal auditors must conduct their work impartially and exempted from bias, conflict of interest or the undue influence of others, as well as they must not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.

Add value

The proposal for adding value directly relates to internal audit planning. Therefore, the UAIG planning must consider the Audited Entity's strategies, objectives, priorities, and the risks which its processes are subject to, as well as the expectations of the recipients of the audit work: senior management, federal government organizations and entities' managers, and society, in general.

¹ ANDERSON, URTON L. et al. Internal Auditing: Assurance & Advisory Services (adapted), 2017, p. 31-36.

Only in this way, will audit work not be separated from the Audited Entities' actual demands as it timely and effectively contributes to relevant, critical, and/or strategic matters for the organizations. For example, internal audit engagements on corporate systems important for the achievement of the organization's strategic objectives should emphasize the systems' managerial aspects rather than only whether the transactions resulting from those systems are compliant or not. This approach reflects the maturity of the audit function and allows a new positioning for the UAIG, making it an essential part of the senior management decision-making process.

Systematic and disciplined approach

The more complex the engagement objects become, the greater the requirements for performing the audit work are. In response to this new challenge, the necessary approach requires major involvement of the audit team and broad knowledge of the Audited Entity's business areas, in addition to extensive mastery of audit procedures and techniques. Thus, the audit work must be methodologically structured, supported on technical and professional norms and standards, and always sufficiently evidence-based.

Internal auditors' performance toward the improvement of the effectiveness of risk management, control, and governance processes.

The objectives of the audit engagements must be established accordingly to contribute to the accomplishment of the Audited Entity's institutional objectives and strategies, as well as to the enhancement of its governance, risk management, and control processes. To contribute to the amelioration of those processes, when developing the Internal Auditing Plan, the UAIG must consider the strong relationship among them in addition to the Audited Entity's specific characteristics due to define the best operation strategy.

Assurance and consulting

Assurance and consulting are the two typical services of the internal audit activity and, for that reason, they will be covered in specific sections following later in this chapter. Both complement each other to achieve the objective of adding value to organizations.

Along with assurance and consulting, intensive investigation fulfills an extremely relevant role since it contributes to effectively respond to integrity violation situations hence meeting a strong social expectation. Although investigative audit does not constitute a typical government internal audit function, it has been performed by the UAIGs within the Internal Control System of the Federal Executive Branch (SCI) due to the mandates of Law No. 10180, of February 6th, 2001. For this reason, the subject of intensive investigations will be covered in the second chapter.

1.1 ASSURANCE

As part of the internal audit activities, assurance services are defined as obtaining and analyzing evidence to provide an independent opinion or conclusions regarding an audit object.

The Federal Constitution (CF) of 1988 establishes that assurance services cover a variety of subjects such as the accomplishment of multiannual plan's objectives; the implementation of policies and budgetary expenditures; the asset, financial and budgetary management of federal government bodies and entities concerning their legality, economy, efficiency and effectiveness; and the expenses made with public funds by private enterprises. Several audit objects can be derived from those themes, on which the audit teams will provide their opinion through the assurance work.

Types of assurance services

The characteristics of the audit objects, together with the engagement objectives and scope definition, are decisive for determining the type of assurance service to be performed. Traditionally, there are three basic types of assurance services.^{2 3} The use of an individual type of assurance service or a combination of them is perfectly acceptable.

Financial Statements Audits: obtaining and assessing evidence from the financial statements of a body or entity to express an opinion on whether those financial statements are presented fairly, in accordance with the accounting principles. Its purpose is to provide reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

Compliance Audits: obtaining and assessing evidence to confirm whether financial or operational activities regarding a selected audit object adhere to stated conditions and to program rules and regulations.

Operational or Performance Audits (value-for-money auditing): obtaining and assessing evidence on the efficiency and effectiveness of the operational activities related to an audit object such as a body or entity, a department, a policy, a process, or an activity. Its purpose is to verify whether the established objectives are being achieved or not. It provides objective analyses to help management improving operations and results, lowering costs, enabling the decision-making process, and facilitating the necessary corrective actions. This type of assurance service involves a variety of subjects and methodologies.

Improvement of governance, risk management, and management internal controls

In addition to assessing the mentioned aspects, assurance services must seek to foster governance, risk management, and control processes related to the audit objects and the Audited Entity since those processes hold a strong relationship with each other. Therefore, audit teams are also responsible for providing objective evaluation on the effectiveness of the three processes and contribute to their improvement.

For this reason, the UAIG must assess the organization's governance processes to verify the accomplishment of its governance objectives such as: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the organization, and coordinating the activities of, and communicating information among, the board, if any, external and internal auditors, and management.

Regarding the assessment of the organization's risk management processes, the UAIG must address issues such as whether or not: significant risks are identified and assessed, appropriate risk responses are selected that align risks with the organization's risk appetite, relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board, if any, to carry out their responsibilities. Moreover, the audit team must evaluate the potential for the occurrence of fraud and identify whether the organization has controls to address the fraud risks.

² BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 31-32.

³ KINCAID, James K. et al. Profesional Certificado en Auditoria Gubernamental: Guia de Estudio para el Examen, 2008, p. 51-53.

In assessing management internal control processes, the following internal control components must be considered: control environment, risk assessment, control activities, information and communication, and monitoring. Furthermore, competent evaluation of the effectiveness of controls entails assessing the controls in the context of mitigating the associated risks and how senior management is aware of its responsibility for the implementation and continuous improvement of those controls. The evaluation of the adequacy and effectiveness of internal controls must consider the achievement of the strategic objectives, reliability and integrity of information, safeguarding of assets, and compliance with laws, policies, procedures, and internal and external regulations.

Additionally, with regard to assessing the effectiveness of governance, risk management, and internal control processes, as well as contributing to management improvement, the UAIG must design the adequate assurance approach. It means the UAIG's performance strategy over those three dimensions of the organization. Among the possible approaches, we can cite:

- a) assessments of structures, processes, or activities related to each of the three dimensions. For example, with respect only to governance processes, an audit engagement would address the functioning of the board or a committee while another audit engagement would verify the integrity policies and measures. Added up, both assessments would enable the issue of an opinion on the organization's governance by the UAIG;
- b) a single assessment of structures, processes, or activities related to each of the three dimensions. Returning to the previous example, both design and functioning of all aspects related to governance processes would be assessed at once in a single audit engagement;
- c) incorporating governance, risk management, and internal control components in the assessment of the audit objects that constitute the Internal Audit Plan. For example, an Internal Audit Plan establishes a department, a government program, and a system as audit objects. Wherefore, the three dimensions would be addressed in the assessment of each of these audit objects.

1.1.1 ASSURANCE PHASES

Assurance services are basically constituted of the following phases: planning, execution, communication of results, and monitoring. However, it is important to emphasize that there is no strict segmentation of those phases. As examples of the flexibility regarding those work phases, we mention: the initial planning can be revised after the execution phase starts; audit techniques that are peculiar to the execution stage can be used while the audit work is still in the planning phase, consequently providing the engagement plan with sufficient inputs; and communicating identified relevant facts, directly to the auditees, still during the execution phase. An overview of each of these assurance phases follows. In detail, they are presented in section 4.3. and chapters 5, 6, and 7 of this Practice Guide.

1.1.1.1 Planning

Typically, a single assurance engagement results from general planning previously carried out by the UAIG for a specific period. The Normative Instruction No. 3, of June 9th, 2017, determines that a risk-based Internal Auditing Plan that considers the Audited Entity's strategies, objectives, priorities, and the risks which its processes are subject to must be established.

The Normative Instruction No. 3, of June 9th, 2017, also determines that planning for a single assurance engagement is mandatory. For this purpose, preliminary analyses and an evaluation of the major risks and the control practices are performed to define the engagement objective and scope. In this sense, the work program must include the audit questions which the single assurance engagement intends to address.

Still, during the planning phase, the adopted criteria and techniques, as well as the required audit tests and procedures, are defined and included in the work program. Likewise, the material and human resources necessary to perform the assurance engagement are established.

1.1.1.2 Performing

This phase consists of putting the assurance engagement work program into practice. In other words, the audit tests are performed, by means of the selected audit techniques, and the resulted findings are documented. Those findings enable the audit team to respond to the audit questions, which were established during the planning phase, hence accomplishing the assurance engagement objectives.

In this process, the audit team collects and analyzes data and subsequently compares the identified situations to the criteria previously established in the engagement work program. The comparative results are the audit findings themselves, which must be supported by sufficient, reliable, relevant, and useful evidence.

Throughout the whole audit process, clear and objective communication with the auditee is indispensable both to obtain the necessary information to perform the engagement and to report the audit findings. Indeed, audit findings must be discussed with the Audited Entity.

Recommendations may be issued as a result of the audit findings. In this case, recommendation proposals must also be presented and discussed with the auditee. The purpose behind that is to establish together the appropriate actions to mitigate the root causes of the issues, as well as to provide an environment conducive for debate and mutual understanding.

1.1.1.3 Communicating Results

After completing the execution phase, the UAIG must communicate the final results of the engagement. It is appropriate to report the identified situations, undertaken analyses, conclusions, and opinions, along with recommendations concerning the audit object. Communication of assurance engagement results is mainly addressed to the Audited Entity's senior management. Nevertheless, it may be addressed to other stakeholders as external control bodies and society. Final communication of assurance engagement results must be published on the Internet in compliance with the Federal Constitution publicity principle except for the cases exempted by law.

1.1.1.4 Monitoring Progress

Once the planning, performing and results communication phases of the engagement are completed, there comes an extremely important audit work phase: monitoring the progress of the implementation of the issued recommendations.

Such monitoring activity must be permanently carried out to ensure the assurance work effectiveness since it derives from the implementation of the recommended actions previously

agreed with senior management. It is imperative to check whether the recommendations resulted in performance improvements to the audited objects. Similarly, to investigate the possible reasons for any lack of implementation of what has been previously agreed upon is required.

Equally important is to record and measure the financial and non-financial benefits obtained through the internal audit activity. Naturally, considering that the main objective of the entire UAIG is to add value to management, the verification of the accomplishment of such purpose is an essential accountability instrument. This mechanism also provides more transparency to the results achieved by the UAIG.

1.2 CONSULTING

As a consequence of the assurance work they perform, government internal auditors get in contact with a large variety of essential subjects regarding the functioning of organizations. In addition, they usually demonstrate knowledge about rules and regulations along with other relevant and complex matters such as risk management and internal controls. In light of this, senior management is likely to ask for counseling and advice, besides expecting support from internal auditors on how to deal effectively with those matters. This type of service provided by internal auditors in response to requests from the Audited Entities is defined as consulting.

Consulting services are government internal audit activities consisting of advisory, counseling, and related client service activities provided to senior management to support the organization's operations. As a rule, consulting services are provided on specific requests from a body or entity within the Federal Public Administration. Likewise, these requests may originate from an inter-ministerial committee or collegiate body responsible for assessing and monitoring policies and government programs or strengthening governance, risk management, and internal control processes within the Federal Executive Branch administrative units. Consulting services should approach the strategic issues of the organization. The nature and scope of consulting engagements are subject to previous agreement with the engagement customers.

Consulting services are intended to add value and improve an organization's governance, risk management, and internal control processes, in a manner consistent with the values, strategies, and objectives of the organization, and without the government internal auditor assuming management responsibility.

Consulting engagements may enable the UAIG:

- a) to contribute to the improvement of policies and the performance of the organizations in charge of those policies. To illustrate, the UAIG can assist the organization in the designing or redesigning process of its programs and systems;
- b) to help the bodies and entities within the Federal Executive Branch in structuring and strengthening their first and second lines of defense;
- c) to support the bodies and entities within the Federal Executive Branch in identifying risk management and control methodologies;
- d) to promote training and guidance.

1.2.1 TYPES OF CONSULTING SERVICES

Consulting services comprise advisory/counseling, training/educational, and facilitative activities. These services can be tailored to resolve specific issues that senior management has identified as requiring attention as long as they do not impair the technical independence of the UAIG or the objectivity of the government internal auditors.

1.2.1.1 Advisory Consulting Engagements

Advisory consulting engagements generally consist of the proposition of guidelines in response to questions posed by management. They may derive from changes in the environment where organizations operate (external and/or internal). Such services are not intended to answer to authorization or approval requests, as “can I do it?” or “yes or no?”, given that decision-making is an exclusive management prerogative. In truth, consulting activities are merely sources of information to support management decisions.

Consulting engagements that are advisory in nature are usually similar to assurance engagements with respect to their operational processes. Advisory consulting engagements are designed to answer the following sorts of questions:⁴

- a) What kind of control standards could be designed to address the risks of a particular work process?
- b) What are the risks and implications for the control of operations that the implementation of a new computerized system can raise?
- c) What are the available options to increase the efficiency and safety of a particular work process?
- d) What are the design alternatives for a particular policy that management should consider before its implementation?
- e) What are the required actions to improve the governance process of an organization?

Questions of that nature are the starting point for consulting services that intend to provide answers with strong potential for effectively contributing to the management and adding value to government organizations. Yet, scope and time frame must be objectively defined. Accordingly, consulting engagement boundaries should be established notwithstanding scope and time frame may be adjusted in the face of additional information revealed during the consulting work.

1.2.1.2 Training Consulting Engagements

Training consulting engagements originate from educational opportunities identified by the management or internal auditors. Following this, they address the improvement of work processes that may be provided through educational activities conducted by the UAIG. Training consulting engagements are required to concentrate on improving governance and risk management processes as well as on implementing management internal controls.

Consulting engagements that are educational in nature usually require:

⁴ ANDERSON, URTON L. et al. Internal Auditing: Assurance & Advisory Services (adapted), 2017, p. 594.

-
- a) post-mortem analysis, that is, determining the lessons learned from a well-succeed project after it has been completed;
 - b) benchmarking internal areas of the organization with comparable areas of other similar organizations to identify best practices (for example, comparing practices among universities or public hospitals).

1.2.1.3 Facilitative Consulting Engagements

As with training consulting engagements, facilitative consulting engagements are based on the knowledge the internal auditors have regarding governance, risk management, and internal controls. In this activity, government internal auditors offer their knowledge to facilitate discussions on those subjects. On the other hand, facilitation requires the internal auditors to be more involved with the activity in question. Consequently, when performing consulting services of this nature, governmental internal auditors must refrain from assuming any management responsibility whatsoever.

Consulting engagements that are facilitative in nature usually consist of:

- a) facilitating the organization's risk management process;
- b) facilitating governance and control self-assessment;
- c) facilitating the process of redesigning controls and procedures for a new or significantly changed area as well as for creation, expansion, and improvement of a police or government program;
- d) mediating discussions on business processes and controls that are needed to support the organization in achieving its goals.

Although the purpose of each type of consulting engagement is clearly established, consulting services are not mutually exclusive and may be performed during the same engagement.

1.2.2 INCLUDING CONSULTING ENGAGEMENTS IN THE INTERNAL AUDIT PLAN

Consulting services provided by the UAIG usually originate from:

- a) requests from senior management or the board if any;
- b) situations that were identified during the UAIG's risk assessment process either when developing the Internal Audit Plan or planning during single assurance engagements;
- c) New or changing conditions within the Audited Entity that warrant the UAIG's attention.

The following factors must be considered when including consulting engagements in the Internal Audit Plan:

- a) when the organization demands a consulting engagement, the request must originate from senior management or the board if any, or from an inter-ministerial committee or collegiate body responsible for assessing and monitoring policies and government programs or strengthening governance, risk management, and internal control processes within the Federal Executive Branch administrative units;

- b) when the consulting engagement originates from the UAIG, the organization's senior management must agree with the proposal before the engagement is included in the Internal Audit Plan. In these situations, the UAIG should raise the awareness of senior management about the relevance of the proposed consulting engagement;
- c) the selection of consulting engagements for inclusion in the Internal Audit Plan must consider the magnitude of the associated risks or opportunities;
- d) the propensity of the consulting engagement's potential results in contributing to the improvement of the organization's governance, risk management, and control processes;
- e) the government internal auditors' knowledge, skills, and other qualifications required to perform the consulting engagement;
- f) the consulting engagement's potential effect to impair the technical independence of the UAIG or the objectivity of the government internal auditors;
- g) The consulting engagement's cost in relation to its potential benefits;
- h) the UAIG's operational capacity.

1.2.3 CONSULTING PHASES

Overall, the process for conducting consulting engagements, in particular advisory engagements, most closely resembles assurance engagements workflows. Accordingly, the guidelines provided in section 4.3. and in chapters 5, 6, and 7 of this Practice Guide must be applied whenever appropriate. Despite that, specific aspects regarding the conduct of consulting engagements are presented as follows:

1.2.3.1 Planning

Prior to starting the consulting engagement, the UAIG must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. This understanding must be documented and address the following aspects:

- a) objectives (regarding governance, risk management, and control processes);
- b) nature of the consulting services (advisory, training, or facilitative consulting engagements);
- c) scope (adequate to address the previously agreed objectives);
- d) deadline;
- e) expectations of the parties;
- f) responsibilities of the parties;
- g) the process of communicating progress and results;
- h) the process of monitoring recommendations if any;
- i) other essential aspects.

It is imperative to consider the following requirements when planning for consulting engagements:

- a) the objectives of consulting engagements are required to address governance, risk management, and control processes as previously agreed with the organization and consistent with its values, strategies, and objectives;
- b) internal auditors must ensure that the consulting engagement scope is adequate to accomplish the previously agreed objectives. Likewise, scope changes or limitations must be appropriately discussed and agreed with the organization;
- c) Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

1.2.3.2 Performing

When performing consulting engagements, government internal auditors must analyze governance, risk management, and internal control processes, in a manner consistent with the consulting objectives, with the purpose of identifying significant matters that should be reported to senior management and the board if any;

On the other hand, if those significant matters involve supposedly irregular or illegal facts, practiced by public or private agents within the organization, the audit team must bring them to the engagement supervisor's attention. Interrupting the consulting engagement to address the situation through other types of inquiries is among the applicable actions if that is what the audit team and engagement supervisor has together decided.

1.2.3.3 Communicating Results

Communication on the progress and results of consulting engagements may vary in form and content depending upon their objectives, scope, and purpose. Especially regarding training and facilitative consulting engagements, communication tends not to follow predetermined patterns. The formal agreement between the UAIG and the organization must establish the process of communication before the consulting engagement starts.

Final communication of consulting engagement results must be presented to the organization's senior management, who is responsible for forwarding it to other stakeholders. During consulting engagements, communication on the work progress may be presented to senior management as well.

The UAIGs must provide the publication of consulting engagements results on the Internet as an accountability instrument of public management and in compliance with the Federal Constitution publicity principle. The mandates of articles 5 and 6 of Executive Order No. 7,724, of May 16th, 2012, must be observed as well. Since consulting engagement results used to support the decision-making process or administrative acts hold a preparatory nature, they are disclosed after the decision or act is issued, in accordance with article no. 20 of that executive order.

1.2.3.4 Monitoring Progress

How recommended management actions are monitored must be agreed between the UAIG and the organization before the consulting engagement starts. Monitoring process The form of monitoring recommendations, in cases where they are issued, must be agreed between UAIG and the Audited Unit before the start of work and will depend on different factors, such as the interest of the public manager in the monitoring to be carried out by UAIG, the risks of non-implementation or the value of the recommendation to the organization.

Final communication must indicate that the implementation of recommended management actions will be monitored and how if applicable.

1.2.4 CONSULTING AND ASSURANCE SERVICES: SIMILARITIES AND DIFFERENCES

The main difference between assurance and consulting services is the origin of their demand: the former is demanded by the UAIG itself while the latter is requested by the organization's senior management. Consulting engagements benefit from that distinctive aspect since it enables an agreeable attitude on the part of managers, which, in general, favors consensus between auditors and auditees.⁵

The origin of the engagement demand also influences the work approach. In most situations, assurance services first identify the issues and then address their solutions while consulting services focus primarily on the solutions since their related issues have already been identified by the management.

Keeping in mind that most consulting engagements are related to structuring/reviewing processes, policies and procedures, the involvement of the internal audit function in those activities can contribute to the establishment of effective and efficient processes. The provision of consulting engagements from the beginning of the implementation stage assures a strongly preventive character to those initiatives.

There are situations in which the two types of internal audit services present a definitive contour. Examples include, on one hand, an assurance engagement that aims to issue an opinion on the organization's financial statements; on the other hand, a consulting engagement provided by internal auditors regarding a policy that will be implemented. In the first case, the engagement's scope is previously defined by the UAIG, which performs the assurance work to inform the external control body whether the management of the public resources entrusted to the organization is adequate. In the second case, internal auditors assist the management in finding the best alternatives to implement the policy under consulting. In this case, the audit function has no compliance matters to address.

However, in many situations, both services get to be mistaken. As an example, we can mention the issuing of structuring recommendations in response to weaknesses in the internal controls of the Audited Entity identified during an assurance engagement. In this case, the auditors may be required to provide additional information and even perform training consulting engagements regarding the subject of the recommendation.

⁵ Despite the consensual nature of consulting services, auditors must not renounce objectivity and due professional care.

In essence, assurance and consulting services are not opposed: both activities aim to add value to management and may use similar strategies and audit techniques.

For didactical purposes, on the other hand, some distinct aspects of assurance and consulting services are summarized in the following table.

TABLE 1 – Differences between Assurance and Consulting Engagements

	Assurance	Consulting
Origin of the Demand	In general, the demand for assurance engagements arises from the UAIG's risk-based planning.	In general, the demand for consulting services arises from a specific request from the Audited Entity.
Purpose of the Engagement	To provide independent assurance services.	To provide advisory, counseling, and related client service activities.
Engagement Planning	The UAIG establishes the objectives and scope.	The UAIG establishes the objectives and scope together with the Audited Entity.
Communicating Engagement Results	Results communication format is relatively standardized.	Results communication format may vary regarding its form and content as a function of the engagement's nature and the Audited Entity's needs.
Monitoring Progress	Monitoring the progress of the recommendations issued by the UAIG.	Monitoring activities are established together with the Audited Entity in the engagement's planning phase.

Source: CGU.

2 INVESTIGATION

Investigation consists of performing specific procedures in order to ascertain the illegal or irregular misuse of federal public funds by public or private agents. Such an investigative competence is in line with the essence of the SCI's rules and regulations because its primary purpose is to ensure the correct use of public resources. Yet in some cases, investigations require a special performance, differentiated from the typical services delivered within the government internal audit function.

The bodies and units within the SCI hold an investigative competence due to the mandates of Law No. 10,180, of February 6th, 2001. On the other hand, such investigative competence may be granted to singular internal auditing units by virtue of regulations or under a senior management decision. Moreover, although not explicit with regard to the Audins, the professional practice of government internal auditing, by definition, establishes that government internal auditors should:

- a) stay alert to situations or transactions that may characterize signs of fraud or other illegalities whether having a specific investigation framework or not;
- b) have sufficient knowledge of the main risks of fraud, as well as predisposition to adequately identify them, and even verify if the organization has controls to address those fraud risks;
- c) communicate properly and timely to the competent authorities whenever sufficient signs of fraud are identified.

In the provision of assurance and consulting services, however, government internal auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.⁶

2.1 FRAUD AND ERRORS

The illegal or irregular misuse of federal public funds referred to in Law No. 10,180, of 2001, may constitute fraud or errors. According to Normative Instruction No. 3, of 2017, fraud is any illegal act characterized by deceit, concealment, or violation of trust. Following NBC TA 240, fraud is “an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.” As for errors, they constitute non-voluntary, unintentional acts, resulting from omission, ignorance, malpractice, imprudence, inattention or misinterpretation of facts in preparing documents, records or statements. In such cases, there is no intention to cause damage or losses.

Therefore, the distinguishing factor between the two situations is the agent's intention. In light of these concepts, investigative procedures within the SCI are subdivided into error investigation and fraud investigation.

⁶ THE INSTITUTE OF INTERNAL AUDITORS (IIA). International Standards for the Professional Practice of Internal Auditing, Practice Advisory 1210.A2, 2015.

An error investigation is appropriate in front of elements and information which indicate that an illegal or irregular misuse of federal public funds was unintentionally performed by public or private agents. Considering the professional practice of government internal auditing, an error investigation may be addressed as an individual assurance engagement, thus following the guidelines regarding the planning, execution, communication of results, and monitoring phases. Meanwhile, auditors should be attentive to the following specificities:

- a) the engagement planning must consider the accomplishment of the objectives of the demand that gave rise to the investigation;
- b) the government internal auditor must formally confirm with the engagement client whether there are any restrictions on secrecy. Any confidential information may be subject to restrictions during the entire conduct of the engagement, mainly on disseminating results, either in dialogue with the Audited Entity or communicating and publishing reports.

A fraud investigation is applicable when there is suspicion that an illegal or irregular misuse of federal public funds was intentionally performed by public or private agents. In other words, in view of any act characterized by deceit, concealment, or violation of trust.

Fraud may involve sophisticated and carefully organized schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation.⁷

Therefore, a fraud investigation engagement basically distinguishes from an error investigation engagement or an assurance engagement because its planning is based on a (reasoned) suspicion of fraud. In addition, fraud investigation engagements concentrate on the provision of support material for legal or administrative proceedings and target possible illegalities or irregularities resulting from intentional acts.⁸ In contrast, an error investigation engagement planning is based on elements that indicate the occurrence of error. In its turn, error investigation engagements aim to provide corrective actions through appropriate recommendations and target possible illegalities or irregularities resulting from unintentional acts. At the same time, an assurance engagement planning is commonly based on risks, covers broad aspects of management, and is based on a presumption of legality on the acts.

2.2 ENGAGEMENT SOURCES

An investigation engagement may be originated from either internal or external sources to the UAIG. Examples of internal sources include alerts from continuous auditing, information gathered during the performance of other audit engagements or preliminary analyses based on news. External sources may involve formal complaints and requests from other bodies and entities entitled to this prerogative.

As will be explored in the chapter on the government internal auditing planning, the acceptance of an exceptional request, such as an investigation engagement to be performed during the current Internal Auditing Plan period, demands the revision of the planned activities. Facing a lack of available technical provisions, a previously planned engagement is to be excluded.

⁷ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 200 (ISA 200), 2007.

⁸ KINCAID, James K. et al. Profesional Certificado en Auditoria Gubernamental: Guia de Estudio para el Examen, 2008.

2.3 FRAUD INVESTIGATION

Every employee has a role to play in maintaining a workplace of integrity and hence fighting fraud.⁹ Nevertheless, senior management is primarily responsible for preventing fraud since it is liable for recognizing the risks involved and establishing suitable management internal controls. Furthermore, senior management is responsible for establishing policies and internal regulations on the matter. In short, senior management is responsible for ensuring that fraud does not happen.¹⁰

Senior management is also responsible for ensuring that all actual or suspected frauds are investigated and resolved by means of the designation of a responsible area for performing investigations and providing it with the necessary resources. As a result of investigation engagements, senior management is likewise responsible for implementing preventive and corrective actions, due to the recommendations and resolutions received from other government investigative bodies.

If the government internal auditor has identified or suspects fraud in the course of the audit work, the auditor must discuss the matter with the engagement supervisor to assess whether there are sufficient indicative elements to start a fraud investigation or whether further analyses are prior necessary. Once there are sufficient elements to start a fraud investigation, the supervisor must submit the case to the competent authorities, according to the UAIG's established internal regulations and procedures.

Whether of internal or external origin, when indicative elements of wrongdoing are identified, the UAIG should start an investigation as long as the competent authorities decide accordingly. In such cases, the UAIG is responsible for developing controls over the fraud investigation process to avoid leakage of confidential information. These controls include developing policies and procedures for effective investigations, preserving evidence, handling the results of investigations, reporting, and communications. Such standards are to be developed, whenever appropriate, following the guidelines established in this Practice Guide.

The confirmation of fraud schemes sometimes requires the application of means that surpass common knowledge and the legal prerogatives of the professional practice of government internal auditing. To maintain proficiency, fraud investigation teams have a responsibility to obtain sufficient knowledge of fraudulent schemes, investigation techniques, and applicable laws,¹¹ as well as to seek specialized support and strive for good relations with other government investigative bodies.

Thereby, collaborative operations with partner government investigative bodies are usually carried out to promote information exchange and to establish integrated or complementary actions aiming to provide greater effectiveness to fraud investigations.

⁹ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 12.

¹⁰ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 552.

¹¹ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 23.

2.3.1 TYPES OF FRAUD

The misconducts defined in the legal provisions related to administrative, civil and criminal sanctions illustrate the types of fraud that can be perpetrated against the Public Administration. Notice that qualifying or judging misconducts are not within the role of the government internal auditor. Examples of misconducts are: the crimes defined in the Bidding Law,¹² especially fraud on the public bidding competitive nature; crimes specified in the Criminal Code,¹³ such as extortion and bribery; improbity acts under the Administrative Improbity Law,¹⁴ including the abuse of entrusted power for private gain by public agents whether by actions or omissions regarding their duties, and other harmful acts against the Public Administration following the Anti-corruption Law.¹⁵

Fraud may also occur in conjunction with other crimes, such as conspiracy, as defined in the Law Against Criminal Organizations,¹⁶ and money laundering or concealment of assets, rights and other values, as typified in the Money Laundering Law.¹⁷

2.3.2 PHASES OF FRAUD INVESTIGATIONS

The performance of fraud investigations, as well as other activities within the government internal audit function, consists of planning, execution, communication of results, and monitoring phases. However, due to its specificities, fraud investigation generally has a preliminary phase. The peculiarities and relevant considerations about fraud investigation phases are presented as follows.

2.3.2.1 Preliminary investigation

The investigation normally starts on the basis of an “allegation of fraud”. The allegation of fraud must present the known information about the alleged fraud case. In general, the allegation of fraud arises from a complaint by a member of the organization or from the society, a suspicious case shared by other government institutions responsible for the defense of public assets, or a suspicious situation identified during the performance of auditing services within the professional practice of internal auditing.¹⁸

A fraud investigation should only begin as a result of sufficient information that would lead a reasonable, professionally trained, and prudent individual to believe that a fraud has occurred, is occurring, and/or will occur.^{19 20}

As a consequence, the government internal auditor must conduct a preliminary investigation on the allegation of fraud to form an opinion on the real possibility of fraud occurrence. In the course of the preliminary analysis, the auditor should carry out some background research. It involves reviewing previous audit files and documents, information systems, open sources, and other available means of information that relate to the allegations.

¹² Brazilian Law 8,666, of June 21st, 1993. Procurement Act.

¹³ Brazilian Executive Order 2,848, of December 7th, 1940. Criminal Code.

¹⁴ Brazilian Law 8,429, of June 2nd, 1992. Administrative Improbity Act.

¹⁵ Brazilian Law 12,846, of August 1st, 2013. National and Transnational Corporate Accountability Act.

¹⁶ Brazilian Law 12,850, of August 2nd, 2013. Criminal Code Alteration.

¹⁷ Brazilian Law 9,613, of March 3rd, 1998. Money Laundering Act.

¹⁸ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 23.

¹⁹ ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE). Fraud Examiners Manual, 2017, p. 3,105.

²⁰ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 24.

The preliminary investigation must indicate with a reasonable level of assurance whether the alleged facts may be true and should be subject to fraud investigation or, on the other hand, whether the allegations are unfounded or insufficient to continue the investigative work and should be reported to the competent authorities. The preliminary investigation results must be documented and include all newly obtained information, a proposal of a plan of action, and a proposal of communication to other government bodies, if appropriate.²¹

2.3.2.2 Planning

Those responsible for the investigation should develop the investigation plan together with each member of the team to benefit from the team's knowledge, skills, and expertise. The plan must be revised whenever, during the performance of the investigation, new information comes to light and the adopted strategy alters as necessary.^{22 23 24}

Each fraud investigation structure is different due to the examined facts and circumstances. Nevertheless, in every planning process, a standard set of items must be considered: the results of the preliminary investigation on the allegation of fraud; the goals of the investigation; whom to keep informed; the scope; the timeframe; the role and duties of the team members; the need of assistance from other government institutions responsible for the defense of public assets; the course of action; the necessary resources, among others.^{25 26}

The fraud investigation plan must guide the investigative procedures towards concluding whether a fraud has occurred, is occurring, and/or will occur. Additionally, it must address: who was involved, how the fraud was perpetrated, what was the motivation and extent, which were the management internal control weaknesses that allowed the violation occurrence. The plan must also establish the necessary procedures for gathering all pieces of evidence admitted by the Law to support legal actions of compensation and punishment against those involved in the fraud scheme.

In the case of collaborative operations, the investigation plan should clearly present the activities, deadlines estimations, responsible officials, and contact information of each institution, in order to enable the achievement of the expected results.

2.3.2.3 Performing

The specific procedures for obtaining evidence in fraud investigations vary in reason of the particular situations and the goals established by the team.²⁷ The usual investigative procedures include:

- a) individual assurance engagements;²⁸
- b) surveillance;
- c) interviews;
- d) documentation and data analysis.

²¹ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 563.

²² ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE). Fraud Examiners Manual, 2017, p. 3,135-3,136.

²³ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 565.

²⁴ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 567.

²⁵ ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE). Fraud Examiners Manual, 2017, p. 3,135-3,136.

²⁶ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 564.

²⁷ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 23.

²⁸ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 559.

Individual assurance engagements should follow, as appropriate, the phases presented in chapters 5, 6, and 7 of this Practice Guide, and rest on the objectives established in the fraud investigation plan. During this type of work, the government internal auditor seeks evidence of the alleged illegal or irregular acts occurrence. Any restrictions on disseminating results, either in dialogue with the Audited Entity or communicating and publishing reports, must be observed. As a rule, fraud investigations involve confidential information and thus are carried out under judicial secrecy.

Surveillance involves observing the activities of defined individuals without their knowledge.²⁹ Auditors may consider surveillance as a regular and legitimate method to enable fraud evidencing. If appointed to perform surveillance, the government internal auditor must be specially trained since it involves risks, including physical integrity risks. Surveillance is usually performed by police officials and intelligence professionals.

Interview is a useful technique to enable identifying new facts related to the investigation's object and then new paths of examination. Although information obtained through interviews has to be confirmed by other pieces of evidence, it can serve as testimonial proof.³⁰ In spite of the fact that the interview is a commonly used technique in auditing, interviewing witnesses and accused individuals during an investigative procedure is not usually a task performed by the government internal auditor, except within a fraud investigation, when the suspects are not yet aware of it. Police officials and public prosecutors are the authorities who generally conduct interviews within investigative procedures. Government internal auditors may support those authorities while conducting the interviews.

Documentation and data analysis is already used in the professional practice of internal auditing, especially during the planning and performing phases. For that reason, it is included in the set of techniques that government internal auditors commonly use. However, fraud investigation requires additional knowledge and skills when dealing with bank statements, tax data, telephone and electronic communication, and other confidential information shared by partner government investigative bodies under judicial authorization.

2.3.2.4 Communicating results

During investigative engagements, communications may be issued to partner government investigative bodies or other competent authorities, if necessary. A written report or other formal communication should be issued at the conclusion of the investigation performing phase. Once the report is intended for other government investigative bodies, it should enclose the supporting evidence documentation to itself. The content of the report may include the reason for beginning the investigation, scope, time frames, observations, findings, results from management internal controls assessments, conclusions, corrective actions already taken, and recommendations to improve those controls.³¹

The government internal auditor must refrain himself from issuing any technical judgment unrelated to his particular function (e.g. qualification of criminal or improbity acts regarding the conduct of those involved in the fraud scheme). Similarly, he must abstain from manifesting any subjective or personal opinion on the investigated events and circumstances. Consequently,

²⁹ PICKETT, K. S. *The Internal Auditing Handbook*, 2010, p. 565.

³⁰ O'CONNOR, T. F. & Morgan, S. L. *CGAP Certified Government Auditing Professional: Exam Study Guide*, 2012, p. 93.

³¹ THE INSTITUTE OF INTERNAL AUDITORS (IIA). *Supplemental Guidance, Practice Guides, Internal Auditing and Fraud*, 2013, p. 25-26.

communications are limited to evidencing, technically and objectively, the identified wrongdoings, supported by the necessary pieces of evidence.

With that in mind, we highlight that in case other government investigative bodies are interested in using the evidence obtained by the auditor to support their procedures, independently of their branches of law, they are themselves the competent authorities to initiate the appropriate proceedings. In the criminal field, we refer to the Federal Police while in the civil sphere, we mention the Public Attorney. In both criminal and civil realms, the Public Prosecuting Office is also a competent authority to initiate judicial proceedings.

The government internal auditor is not responsible for judging those involved, but only for reporting the investigation results.³² Nonetheless, the report may present recommendations on the adoption of procedures to hold individuals and legal entities accountable and to recover values. The investigation report may also recommend its due referral to other government investigative bodies potentially interested in the matter.

After the fraud has been investigated and communicated to the competent authorities, it is important that the UAIG and senior management consider the lessons learned. They should reflect on issues as, for example, how the fraud has occurred, which controls have failed, how future frauds can be prevented or detected.³³

Secrecy

Government internal auditors must maintain confidentiality and protect data and information related to fraud occurrence. In the course of their duties, either in dialogue with the Audited Entity or communicating and publishing reports, or even after referral to the competent authorities, the auditors must maintain professional secrecy notwithstanding information that is not directly related to the investigation scope. Confidentiality serves to avoid alerting potential perpetrators³⁴ and is protected under the Freedom of Information Law.³⁵

Internal disciplinary actions with the intention of punishing those involved are not dependent on any ongoing criminal or civil prosecution.³⁶ At the same time, the government internal auditor must not disclose information regarding the fraud investigation. Therefore, in cases under judicial secrecy, the auditor must obtain court authorization before communicating the competent authorities of the recommended corrective actions within their scope of action.

2.3.2.5 Monitoring

The UAIG must monitor the progress of the fraud investigations, in order to quantify and record their results and benefits, in accordance with the principles and methodology compatible with the SCI central body regulations.

Examples of prospective resolutions are: recommending management internal controls enhancement, initiating procedures to hold individuals and legal entities accountable, recovering

³² PICKETT, K. S. *The Internal Auditing Handbook*, 2010, p. 569.

³³ THE INSTITUTE OF INTERNAL AUDITORS (IIA). *Supplemental Guidance, Practice Guides, Internal Auditing and Fraud*, 2013, p. 27.

³⁴ O'CONNOR, T. F. & Morgan, S. L. *CGAP Certified Government Auditing Professional: Exam Study Guide*, 2012, p. 98.

³⁵ Brazilian Law 12,527, of November 18th, 2011. *Access to Information Act*. Article 23.

³⁶ PICKETT, K. S. *The Internal Auditing Handbook*, 2010, p. 569.

values, the punishment of the perpetrators by their professional associations, and criminal and civil litigations.³⁷ With regard to the monitoring process on the recommendations, the instructions presented in chapter 7 should also be observed.

2.4 TESTIMONY AS A WITNESS³⁸

The government internal auditor may be required to testify as a witness in administrative, civil or criminal proceedings in respect of any assurance engagement he has participated in. The chance of this occurring as a result of investigative work is greater, as it involves acts and facts that, being illegal or irregular, may result in punishment of the accused party.

The UAIG's chief audit executive must ensure that the auditor is provided with the necessary support from the organization, as well as with prior knowledge on how the witnessing process works, having in mind that the products within the internal audit activity hold an institutional nature.

In case the auditor wishes to be accompanied at the hearings by a government lawyer/attorney, the UAIG must assist him in preparing the request for that to happen. Hence, the UAIG should be able to not only provide support to its employees but also ensure the effectiveness of institutional outputs in civil, criminal and administrative law spheres.

The government internal auditor is advised to refresh his memory, prior testimony, by reading his statements, as well as to refer to his notes when giving evidence. Above all, the auditor acting as a witness must keep to the truth and evidence.

Finally, we emphasize that pleasing any party in the process is not within the role of a witness. The government internal auditor must commit only to present evidence, hence restraining himself to the information resulting from his work, and avoiding pronouncing on any issue unrelated to his specific participation.

³⁷ THE INSTITUTE OF INTERNAL AUDITORS (IIA). Supplemental Guidance, Practice Guides, Internal Auditing and Fraud, 2013, p. 26.

³⁸ PICKETT, K. S. The Internal Auditing Handbook, 2010, p. 574.

3 MANAGING THE INTERNAL AUDIT ACTIVITY

The professional practice of internal auditing must be established to ensure that the UAIGs add value to the Audited Entities and the policies under their responsibility, as well as to foster the improvement of their governance, risk management, and internal control processes.

For this purpose, the UAIG's chief audit executive must effectively manage not only the internal audit activity but also the individual internal auditors. On their turn, internal auditors are expected to assume their responsibilities in the course of the audit process.

3.1 THE DUTIES OF THE UAIG'S CHIEF AUDIT EXECUTIVE

In addition to managing the UAIG, so that the Government Internal Auditing Unit achieves its purpose, complies with the rules and procedures, and the internal auditors perform in accordance with the ethical principles and requirements, the duties of the UAIG's chief audit executive are (notwithstanding those duties cited in SFC Normative Instruction no. 3, of 2017).

General duties:

- a) to share information and coordinate the unit's activities with other audit service providers;
- b) to evaluate whether the results of a consulting engagement may contribute to the improvement of the Audited Entity's governance, risk management, and internal control processes when considering accepting it;
- c) to lead quality management;
- d) to communicate with senior management and the board (if any):
 - the performance of the government internal audit activity;
 - the results of the PGMQ;
 - the cases of non-compliance with SFC Normative Instruction no. 3/2017 that impact the general scope or the operations of the internal audit activity (such cases also must be reported to the unit responsible for technical supervision);
- e) to establish policies and procedures concerning the structure, organization, and storage of working papers, preferably in digital media;
- f) to communicate the correct information to all parties who received a final communication containing significant error or omission, issued by the UAIG, as well as to update its previously published version;
- g) to discuss with senior management or the board, if any, the cases when the UAIG concludes that the Audited Entity has accepted a level of risk that may be unacceptable to the organization;
- h) to manage threats to **objectivity and technical independence**.

Supervision duties:

- a) to ensure engagement supervision. The UAIG's chief audit executive may delegate the authority for supervision, but he/she maintains responsibility and accountability;

b) to establish policies and procedures ensuring that supervision is performed and documented throughout the engagement so that objectives are achieved, quality is assured, and issued opinions are consistent.

3.1.1 RESOURCE MANAGEMENT DUTIES

The UAIG's chief audit executive is responsible for establishing a risk-based plan to determine audit priorities and for ensuring that the audit resources (human, financial and technological) are appropriate, sufficient, and effectively deployed to achieve the Internal Auditing Plan. To this end, his/her responsibilities are:

a) to assign, for each engagement, an audit team consisting of government internal auditors who collectively have the necessary proficiency to successfully perform the work.

b) to identify deficiencies and gaps and seek to fill them through actions such as:

- enabling on-the-job training;
- encouraging participation in conferences and seminars, with a view to the auditors' professional development and up-to-date knowledge;
- requesting, whenever necessary, specialized technical opinion through service providers external to the UAIG, according to section 3.3.2.

In addition to assigning audit teams based on the proficiency of auditors, the UAIG's chief audit executive (or a delegate) must develop a schedule for internal audit engagements to ensure that the audit resources are effectively deployed. The engagement schedule has to indicate the timing required to perform each activity, the start and end dates, as well as an overview of the resources and information that are necessary to perform the engagement.

This planning process must consider the following elements, among others:

- a) the engagement's objective and scope;
- b) the number of productive work hours available to implement the plan (productive work hours exclude factors such as paid time off, time spent on training, etc.);
- c) the estimated period for completion of each work stage;
- d) the complexity of the tasks to be performed;
- e) the knowledge, skills, and other competencies of the auditors available to perform the engagement;
- f) the situations that may undermine the auditors' objectivity;
- g) the place where the audit activities are to be performed;
- h) the available and sufficient technological resources;
- i) the available budget.

3.2 THE DUTIES OF TEAM MEMBERS

The UAIG must establish policies and procedures to define the roles and duties of team members in the course of audit engagements to ensure that their responsibilities are clearly stated. Such definitions support human resources management, especially the assignment of auditors to a team.

The roles and duties of team members vary according to each UAIG's specificities. Despite that, the following roles, activities, and responsibilities are typically assigned to team supervisors, team coordinators, and individual government internal auditors.

3.2.1 ENGAGEMENT SUPERVISOR

Engagement supervision is intended to ensure that objectives are achieved and quality is assured. The UAIG's chief audit executive has overall responsibility for supervising the engagement, but may designate appropriately knowledgeable and experienced members of the UAIG to perform the review.

Supervision must be performed through a continuous process of monitoring activities, which covers all phases of the audit engagement, to ensure that objectives are achieved, quality is assured, and staff is developed.

The extent of supervision required will depend on the proficiency and experience of the auditors assigned to the team and the complexity of the engagement.

The duties relating to the engagement supervision function generally include:

- a) assigning auditors to the audit team to ensure collective proficiency;
- b) appointing the team coordinator;
- c) ensuring that the engagement is conducted according to applicable auditing standards and practices;
- d) instructing and interacting with the audit team, throughout the engagement, including the planning phase, which provides opportunities for staff development;
- e) establishing the engagement schedule and ensuring its fulfillment collectively with the team members and coordinator;
- f) conducting the engagement work program preparation and promoting the participation of the audit team in that process;
- g) approving the engagement work program and authorizing any changes to it;
- h) ensuring the engagement work program is fulfilled and objectives are achieved;
- i) confirming that adequate evidence has been provided to support the findings, conclusions, and recommendations made by the team;
- j) reviewing the engagement workpapers and ensuring that they are properly prepared as well as the findings and conclusions reached by the team are adequately supported;
- k) ensuring the engagement-level quality of products and communications and pursuing additional inquiry or research from the auditors, if necessary;
- l) conducting the engagement opening meeting, as well as the meetings aimed to discuss, with the Audited Entity's representatives, the engagement findings and possible solutions, whenever possible;
- m) maintaining confidentiality and protecting data, information, documents, and records;
- n) ensuring evidence of conformance with engagement supervision.

3.2.2 TEAM COORDINATOR

The team coordinator is an experienced auditor, who is appropriately competent to support the engagement performance in conformance with established standards and quality requirements. Additionally, he operates as a facilitator for the interactions between the UAIG and the Audited Entity in the course of the engagement.

The duties relating to the engagement coordination function generally include, along with government internal auditors' responsibilities:

- a) assisting in the preparation of the engagement schedule and ensuring its fulfillment;
- b) leading the engagement performance to ensure that the work program is implemented;
- c) supporting the engagement work program preparation and presenting any change suggestions, if necessary, to the team supervisor;
- d) keeping conversations with the Audited Entity's employees and managers, mainly to address the content of documents issued during the performance of the engagement;
- e) ensuring the conformance of communication documents between the UAIG and the Audited Entity with the requirements of this Implementation Guide and other applicable norms;
- f) following the performance of audit tests that require interactions with the Audited Entity's managers or employees, such as surveys and interviews;
- g) requesting that the supervisor intervenes whenever imperative to assure norm compliance, team safety, and dispute resolution.

3.2.3 GOVERNMENT INTERNAL AUDITORS

Typical duties relating to government internal auditors' roles and responsibilities include:

- a) performing the engagement consistent with applicable auditing standards and practices;
- b) following the guidelines provided by the team coordinator and supervisor;
- c) preparing the engagement schedule collectively with the team coordinator and supervisor;
- d) participating in the process of preparing the engagement work program;
- e) performing the assigned activities according to the engagement work program;
- f) collecting and analyzing relevant data and information by use of proper audit techniques and procedures;
- g) preparing communication documents between the UAIG and the Audited Entity and submitting them to the team coordinator for prior review;
- h) ensuring adequate and sufficient evidence to support the engagement findings, conclusions, and recommendations;

- i) documenting the performed activities by use of engagement workpapers consistent with the UAIG's policies and guidelines;
- j) maintaining confidentiality and protecting data, information, documents, and records;
- k) communicating any sensitive or potentially significant engagement findings to the team coordinator or supervisor in a timely;
- l) communicating immediately any engagement restrictions or limitations to the team coordinator or supervisor.

3.3 PARTICIPATION OF AUDIT PROFESSIONALS EXTERNAL TO THE UAIG

Government internal audit engagements are performed by the UAIG's auditors. However, the UAIG's chief audit executive may involve audit professionals external to the Government Internal Auditing Unit in order to: ensure the collective competencies of the audit team to perform the engagement; promote learning and experience exchange to enable reciprocal strengthening among bodies and entities within the Public Administration; and to avoid duplicated efforts.

The involvement of external audit professionals may occur as follows:

- a) audit team consisting of auditors from other UAIG;
- b) audit team consisting of auditors from internal or external control bodies within other government branches;
- c) cooperation between the UAIG and other government institutions responsible for the defense of public assets (such as the Public Prosecuting Office and the Federal Police);
- d) technical opinions provided by audit professionals external to the UAIG.

Executive Order No. 3,591, of September 6th, 2000, allows hiring private audit companies, pursuant to Article 16:

“Hiring private audit companies by the government bodies and entities of the indirect administration within the federal executive branch shall only be permitted when demonstrated, to the supervising Minister and the Central Body of the Internal Control System of the Federal Executive Branch, the impossibility of The Federal Secretary of Internal Control or the sector bodies of the Internal Control System of the Federal Executive Branch directly perform the engagement.”

In all cases, adequate engagement supervision is required in compliance with SFC Normative Instruction no. 03/2017 and section 3.2.1 of this Implementation Guide.

The following sections present the requirements to be followed throughout the performance of an engagement.

3.3.1 ENGAGEMENTS WITH PARTIES OUTSIDE THE UAIG

These are the engagements performed together with auditors from outside the UAIG, as per paragraphs “a” and “b” of the previous section. To perform those engagements, the audit team must prepare the engagement work program under the leadership of the team supervisor(s). It is also imperative that team members maintain an attitude of collaboration and integration throughout the engagement.

Concerning planning, execution, communication of results, and monitoring recommendations, the same requirements usually followed in individual engagements performed by the UAIG apply, in a general manner, as well as the standards from SFC Normative Instruction no. 3/2017 and the guidelines of this Implementation Guide.

Besides the usual documents arising from the engagement performance stages (planning, execution, communication of results, and monitoring), which are addressed in other sections of this Guide, a specific written agreement must be established. The agreement must be signed by the involved audit units’ chief audit executives and include, at least, the following terms agreed upon for the engagement:

- a) objective and scope;
- b) responsibilities of the parties, including those related to the engagement supervision, considering that it may be shared among the chief audit executives of the involved auditing units;
- c) any restrictions related to the distribution of engagement results and the access to engagement records;
- d) other expectations on the engagement.

Regarding those “expectations”, the following aspects may be addressed, especially in situations when the auditing units are not subject to the same audit standards and practices:

- a) confidentiality;
- b) issuance of communication documents to the Audited Entity (templates, signatories, recipients, among other requirements);
- c) ownership and access to engagement workpapers during the execution of the engagement and after it;
- d) communication of results (templates, signatories, issuance process, among other requirements);
- e) restrictions on disseminating engagement results, either in dialogue with the Audited Entity or communicating results, especially regarding engagements under judicial secrecy or involving confidential information.
- f) monitoring recommendations (responsible parties and monitoring process, for example).

The involved auditing units must consider issuing, in a complementary manner, a specific statement with internal auditors' signatures acknowledging their understanding of confidentiality and objectivity concerning the engagement.

By means of this statement, the auditors acknowledge having a complete understanding of the engagement requirements established by the parties and declare their commitment to:

- a) performing the engagement consistent with the specific agreed guidelines;
- b) performing the engagement consistent with the SFC Normative Instruction no. 3/2017 standards and practices, as well as the applicable ethical requirements, including those related to potential conflicts of interest and impairments to objectivity;
- c) maintaining the confidentiality of information they receive as a consequence of the engagement performance.

The guidelines presented in this section also apply, whenever possible, to the engagements collectively performed with public agents from other government institutions responsible for the defense of public assets. Since these engagements are often conducted under judicial secrecy, their negotiation and stage development are granted greater flexibility.

3.3.2 COLLABORATION OF SPECIALISTS EXTERNAL TO THE UAIG

External service providers are audit professionals or companies outside the UAIG endowed with special knowledge, skills, and experience related to specific subject matters required to perform the engagement, such as:

- a) asset valuations, as for example, real estate, complex investment, jewelry/gemstone, artwork;
- b) actuarial analysis on employee benefits obligations;
- c) mergers and acquisitions;
- d) fraud and safety investigations;
- e) interpretation of legal, regulatory, and technical requirements;
- f) measurement of physical conditions and/or quantities of assets, such as oil or other types of mineral reserves;
- g) measurement of employed labor and labor to be employed in contracts in progress;
- h) information technology evaluation.

Examples of external collaborators as service providers are: lawyers; actuaries; engineers; environmental specialists; security specialists; statisticians; geologists; fraud investigators; information technology professionals, and companies providing services in these areas.

Regarding the professional practice of government internal auditing within the Federal Executive Branch, those experts may come from:

-
- a) the organization to which the UAIG belongs. For example, bringing in guest auditors with expertise in information technology to support an engagement;
 - b) other bodies and entities within the public administration. The use of external service providers from other bodies and entities within the public administration should be preferred to promote the rational use of public resources. In this case, the UAIG is responsible for contacting the external service provider and formally establishing the service partnership;
 - c) private companies. In situations when establishing service partnerships within the public administration is not possible, external collaborators from private companies may be used as service providers. In such cases, the UAIG must observe its procurement and bidding rules and regulations.

In order to use and rely on the work of an external service provider, the UAIG's chief audit executive needs to consider the external service provider's competencies, as it relates to the particular assignment to be performed, by considering:

- a) professional certification, license, or other recognition of the external service provider's competence in the relevant discipline;
- b) the extent of education and training received by the external service provider in disciplines that pertain to the particular engagement;
- c) the external service provider's experience in the type of work being considered;
- d) membership of the external service provider in an appropriate professional organization and adherence to that organization's code of ethics;
- e) the reputation of the external service provider. This may include contacting others familiar with the external service provider's work.

Another fundamental element is the guarantee of the external service provider's objectivity throughout the engagement. Therefore, the following situations conceived as a conflict of interest must be considered, among others:

- a) compensation or other incentives, as well as sanctions, that the external service provider may undergo;
- b) financial interests;
- c) the personal or professional relationship the external service provider may have with the audited entity's departments or the activities being reviewed,³⁹ as well as the extent of other ongoing services incompatible with the engagement he or she may be performing for the organization.

The responsibility of the UAIG's auditors is not reduced by the use of the work of external service providers. For that reason, the greater the risk or significance of the engagement object, the greater the necessary precautions before accepting the expert's conclusions or opinions. Nonetheless, if the government internal auditors conclude that the work of an expert is adequate

³⁹ For this reason, any assistance from the organization's experts should always be carefully reasoned.

either as support during the engagement phases or as appropriate audit evidence, the UAIG is required to:

- a) ensure that the work of the external service provider is planned, documented, and supervised;
- b) evaluate the adequacy of the external service provider's work according to predefined criteria and the PGMQ requirements;
- c) verify the adequacy and sufficiency of the evidence obtained to afford a reasonable basis for the conclusions reached;
- d) decide whether additional tests are required or not.

The UAIG must issue a specific confidentiality and objectivity agreement to ensure that the work of the experts effectively contributes to the engagement's purposes. The agreement must be signed by the expert, who declares his/her commitment to:

- a) the fulfillment of the specific requirements agreed upon for the work performance;
- b) the fulfillment of the principles, concepts, and guidelines established by the Normative Instruction no. 3, of June 9th, 2017, and by other applicable rules and regulations, including ethical codes. Moreover, any conflict of interest or circumstances that may threaten an impartial and objective performance must be addressed;
- c) the confidentiality requirements, especially regarding the information acquired as a result of the work.

Before starting the work, it is also important for the UAIG to obtain a written authorization from the external service provider to use and disclose his/her opinion.

Should it be necessary to hire a private audit company, according to Article 16 of the Executive Order No. 3591, of September 6th, 2000, the same principles and guides regarding the use of experts, as presented in this section, must be adopted, whenever the case.

3.4 MANAGING SITUATIONS THAT MAY POSE IMPAIRMENT TO OBJECTIVITY

Situations that may pose impairment to objectivity must be managed at the individual and organizational levels. Therefore, the UAIG's chief audit executive and the government internal auditors must discuss how they should handle potential impairments.

Typically, if the UAIG's chief audit executive identifies situations that truly pose impairment to objectivity, he or she needs to replace the government internal auditor initially assigned to the audit team or to supervise the engagement. At the same time, before accepting the engagement, government internal auditors are to report any situations in which an actual or potential impairment to objectivity may reasonably be inferred even if the UAIG's chief audit executive is not aware of them.

Operational procedures on reassigning auditors, by the UAIG's chief audit executive, as well as on impairment reports, by the auditors themselves, must be also adopted in cases when threats to objectivity arise during the engagement performance.

3.4.1 COMMON THREATS TO OBJECTIVITY

The most common situations threatening the objectivity of the audit work are the following:

External pressure: external pressure threats may arise when an auditor perceives that he or she is exposed to excessive expectations relating to the audit work either to achieve great findings or to avoid suspicious items. Another form of exerting external pressure is the expectation that the auditor performs the tasks exactly the same way as they were always performed before, without any innovations. Those expectations may originate from external auditors, regulators, the Audited Entity, or even from the other auditors within the audit team.

Economic interest relating to the organization's performance: this threat arises when government internal auditors fear that significant findings, such as the detection of illegal activities, may directly harm the future of the Audited Entity. In other words, they are concerned that their interests as public servants or employees, as well as financial interests such as stock options from audited semi-public corporations, may be threatened by negative audit findings.

Previous involvement with the engagement's object: before joining the UAIG's staff, government internal auditors may have worked for the Audited Entity's management areas, thus having been possibly responsible for or participated in the activities that are to be audited. They may also have had other professional relations regarding those activities, such as commercial or service provision businesses, which pose threats to objectivity as well.

Personal relationship: government internal auditors should not have friendship or kinship ties with managers or employees directly involved in the activities that are to be audited. Kinship ties are defined as direct, indirect, and affinity relationships with relatives up to the third level of kinship. Personal relationship threats arise because auditors may be tempted to overlook, soften, or delay reporting negative audit findings to avoid embarrassing the friend or relative.

Familiarity: This threat may arise as a result of a long-term relationship between the government internal auditor and the audit customer. Familiarity may lead to loss of objectivity, causing the auditor to prejudge an audit customer based on previous problems or non-problems and thus to assume a posture consistent with the prejudgment rather than taking a fresh, objective look.

Cultural, Racial, and Gender Biases: This threat may arise from cultural, racial, or gender biases that government internal auditors may have toward practices or customs different from their own. In those situations, as a consequence of objectivity impairment, auditors may unduly assume excessively critical postures that are not consistent with reality, compromising the engagement's results.

Cognitive Biases: This threat may arise from an unconscious and unintentional psychological bias in interpreting information. To illustrate, if the auditor assumes a severe critical audit perspective, he or she may overlook positive information. Conversely, if the auditor takes a positive facilitative perspective, he or she may discount negative information. In those situations, auditors may come in with certain preconceived notions and may then tend to see evidence confirming such notions.

Self-review: Self-review threats may arise when government internal auditors review their own work. In those circumstances, the auditor could, conceivably, become less critical or observant of errors or deficiencies due to the difficulty of maintaining objectivity when reviewing his or her

previous work. For example, an auditor may audit a department or policy repeatedly, reviewing operations in one year that were previously reviewed in a prior year. In another case, an auditor may provide consulting services in connection with a system implementation that he or she must subsequently audit.

3.4.2 MITIGATING FACTORS THAT MAY REDUCE THREATS TO OBJECTIVITY

According to SFC Normative Instruction no. 3, of 2017, in order to avoid threats from previous involvement with the engagement's object, personal relationship, and familiarity, auditors must refrain from auditing operations in which they have been involved in the last 24 months.

Furthermore, other mitigating factors may reduce or eliminate threats to objectivity, as follows:

- a) supportive environment that rewards objective thinking and penalizes bias or prejudice, resulting in a possible impact on staff evaluations and promotions;
- b) assigning another team member given that it may bring an additional perspective to the engagement;
- c) rotating audit assignments in relation to engagement objects, auditors, and supervisors. Speaking of which, the concept of engagement objects is important to highlight. Simply put, Audited Entities usually have a wide range of objects to be audited and they do not confuse with the Audited Entities themselves. Overall, staff rotations should consider the UAIG's personnel availability, maximum period on the engagement (auditing the same object), and minimum period off the engagement;
- d) training in methods and approaches regarding threats to objectivity;
- e) close supervision;
- f) careful review and monitoring;
- g) quality assessment.

Lastly, not only UAIG's chief audit executives but also government internal auditors as team members should be able to identify threats to objectivity, as described here, in engagements of any nature. Moreover, they are expected to apply a set of mitigating factors to reduce threats to objectivity.

3.5 QUALITY ASSURANCE AND IMPROVEMENT

The UAIG must develop and maintain a Quality Assurance and Improvement Program (PGMQ) to enable quality assurance and **continuous improvement** of its activities, processes and procedures, product deliveries, as well as the effectiveness and efficiency of the Professional Practice of Government Internal Auditing.

The PGMQ should consider specific aspects of the UAIG regarding its size, structure, and needs, along with the requirements of this Implementation Guide.

The quality program must be applied at the level of individual engagements and the broad level of the internal audit activity. Evaluations must cover all work phases of the government internal audit activity: planning, execution, communication of results, and monitoring, along with:

- a) the achievement of the internal audit activity's purpose;
- b) the conformance with the requirements pursuant to SFC Normative Instruction no. 3, of 2017, other internal auditing standards and frameworks, national and international good practices, and operational guidelines or procedures established by the UAIG;
- c) the auditors' ethical conduct and due professional care.

Besides enabling quality evaluations, the PGMQ is designed to establish:

- a) the duties and responsibilities of the UAIG's management agents and audit teams regarding the quality assurance process;
- b) the frequency of quality assurance activities and communication of results.

3.5.1 ASSESSMENTS

The PGMQ must include both internal and external assessments. Appropriate documentation is required.

Quality assessment results must be periodically communicated in order to provide management information. The resulting action plan should include training needs and other improvement opportunities relating to the government internal audit activity.

3.5.1.1 Internal Assessments

Internal assessments include a set of procedures carried out by the UAIG to assess the quality of engagements either internally or from stakeholders' feedback.

Internal quality assessments are comprised of ongoing monitoring and periodic reviews.

3.5.1.1.1 Ongoing monitoring

Ongoing monitoring is achieved primarily through continuous activities including processes, standardized work practices, tools, perception surveys, and management indicators. Ongoing monitoring provides assurance that the UAIG's activities are carried out in conformance with professional standards and practices, code of conduct, as well as processes efficiency.

Additional mechanisms include:

- a) engagement planning and supervision, review, and measurement of the UAIG's activities;
- b) review of working papers, reports, and other documents issued by the auditors;
- c) using performance measures;
- d) identifying any weaknesses or areas for improvement and establishing action plans to address them;
- e) post-engagement self-assessment;

- f) acquiring feedback from audit clients and other stakeholders;
- g) using checklists to give assurance on whether policies and procedures manuals are being followed.

When establishing performance indicators, the following approaches should be considered, among others:

- a) the UAIG's performance in relation to the Annual Internal Auditing Plan;
- b) the degree of compliance with engagement recommendations issued by the UAIG;
- c) the efficiency of the UAIG's workforce regarding the quantity and relevance of the engagements and their resulting benefits.

The auditors post-engagement self-assessments aim to assess the perception of the audit team members regarding:

- a) the auditor's performance, ethical conduct, and due professional care;
- b) the engagement's planning, execution, supervision, resource allocation (staff, materials, technologies, time), and objective achievement.

Feedback from audit clients and other stakeholders should preferably be acquired through surveys or structured interviews to gather their perception of the relevance, quality, and value-added by the UAIG's activities. The following approaches are to be considered:

- a) perception survey with the Audited Entity's senior management and stakeholders, preferably on an annual basis, to gather their general perception on the UAIG's performance and the value added by the governmental internal audit activity;
- b) assessment survey with managers responsible for the audited areas, carried out after the engagement and communication of results, focusing on quality assurance of the engagement process, issued reports (or other forms of communicating results) as well as the auditors due professional care.

3.5.1.1.2 Periodic reviews

Periodic reviews are performed through self-assessment or by other professionals within the organization to which the UAIG belongs, with sufficient experience and knowledge of internal audit practices and quality assurance processes.

When compared to ongoing monitoring, periodic reviews constitute broader evaluations that are intended to assess whether the UAIG operates in conformance with legal and operational standards.

Periodic reviews must be systematically carried out and include assessing the quality of the engagements in all their phases. These quality assessments must identify the quality of ongoing performance and opportunities for improvement.

Periodic reviews must be conducted based on an objective assessment of the quality, adequacy, and sufficiency of the engagements' planning process, evidence, working papers, conclusions, communication of results, supervision process, and monitoring process.

3.5.1.2 External assessments

External assessments must be conducted at least once every five years. The purpose of external assessments is to obtain an independent opinion on whether the UAIG's overall audit engagements are in conformance with the principles and requirements established by SFC Normative Instruction no. 3, of 2017, and other applicable norms.

External assessments must be conducted by a qualified, independent assessor or assessment team from outside the UAIG. External assessments also may be conducted by other UAIG or the SCI unit responsible for the UAIG technical supervision. In all cases, reciprocal evaluations are prohibited within a current quality assurance cycle.

Private sector assessors and assessment teams may be used as long as they hold education, technical knowledge, and experience of internal audit practices and quality assurance processes, and fit to the UAIG's size and complexity.

Alternatively, external assessments may take the form of self-assessment with independent external validation by a qualified, independent assessor or assessment team from outside the UAIG.

3.5.2 ASSESSMENT CRITERIA

The UAIG's chief audit executive is required to establish the mechanisms through which the internal assessments are conducted, such as guides, *questionnaires*, checklists, and indicators.

Internal assessments may be carried out on a census or sample basis, at the discretion of the UAIG. Whenever necessary, safeguards to protect the identities of the respondents are required.

Considering the development of the PGMQ activities and their incorporation into the culture of the organization, the UAIG's chief audit executive must define a classification scale to categorize the UAIG's level of compliance, as well as establish the objectives and goals to be achieved according to that scale.

When defining a classification scale to measure the UAIG's level of compliance, the UAIG's chief audit executive should preferably use frameworks or methodologies, nationally or internationally consolidated, whose purpose is gauging the general maturity level of the internal audit activity.

Those instruments must contribute to continuous improvement processes, enabling the UAIG to develop an adequate level of capacity.

3.5.3 COMMUNICATION OF RESULTS

The UAIG's chief audit executive is required to periodically communicate the results of the PGMQ to senior management and the board if any. Communications are to promote and reinforce senior management and the board's support to the internal audit activity and must include:

- a) the scope, frequency, and results of both the internal and external assessments;
- b) the UAIG's level of compliance, according to the adopted classification scale;
- c) the identified opportunities for improvement;
- d) the vulnerabilities that may compromise the quality of the internal audit activity;
- e) corrective action plans, whenever the case;
- f) the progress of actions to improve the internal audit activity;
- g) the qualifications and independence of the assessors or assessment team, whenever the case.

The UAIG is required to formally establish the periodicity for reporting results of the PGMQ, which must occur at least at the time of the annual report on the UAIG's results.

When nonconformance with IN SFC no. 3, of 2017, impacts the overall scope or operation of the internal audit activity (for example, in situations that imply permanent damage to technical autonomy or objectivity, or restrictions on the scope of engagements, or limitations of resources, or other conditions that jeopardize the capacity of the internal audit activity to fulfill its purpose or responsibilities to stakeholders), the UAIG's chief audit executive must disclose the nonconformance to senior management and the board, if any, and to the SCI unit responsible for the UAIG technical supervision.

As of the nonconformance communication, the SCI unit responsible for the UAIG technical supervision is required to support the UAIG by means of guidance, training, and the development of a corrective action plan to address the reported vulnerabilities.

3.5.4 CONFORMANCE STATEMENTS

The UAIG should state conformance with the IN SFC no. 3, of 2017, and with the International Standards for the Professional Practice of Internal Auditing only if the results of the PGMQ, considering the adopted classification scale, support that statement.

4 THE GOVERNMENT INTERNAL AUDITING UNIT'S PLANNING

Planning, a vital phase of any endeavor, intends to establish an orderly arrangement, that is, to organize the necessary parts or steps to achieve an established objective.⁴⁰

Audit planning fulfills the following roles, which directly contribute to the engagements' quality and effectiveness:⁴¹

- a) helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner;
- b) helping the auditor identify the necessary resources and ensure their efficient use;
- c) promoting the elaboration of realistic work schedules;
- d) helping the auditor to devote appropriate attention to important areas of the audit;
- e) assisting in the selection of engagement team members;
- f) facilitating the direction and supervision of engagement team members and the review of their work;
- g) helping the auditor identify and resolve potential problems on a timely basis;
- h) supporting the auditor in the decision-making regarding changes that might happen during the engagement.

Therefore, adequate planning is a dynamic and continuous process that requires a reasonable knowledge of the Audited Entity and the object under verification. For that reason, during the engagement planning, the auditors shall employ tools such as interviews, surveys, and meetings, to gather accurate inputs from management at various levels throughout the organization, as well as from senior management.

For all these reasons, audit planning should also be flexible. In other words, as long as the chief audit executive approves, the audit plan can be reviewed and adjusted in response to significant changes in the work context, or as new information and conclusions require useful and timely adjustments during the course of the engagement.

According to SFC Normative Instruction No. 3, of 2017, internal audit planning consists of two stages:

- a) establishing the risk-based Internal Auditing Plan (identifying the audit engagements to be primarily performed by the UAIG in a specific period of time); and
- b) planning individual engagements.

4.1 RISK-BASED INTERNAL AUDIT PLAN

The documentation of the Internal Audit Plan is a record of the UAIG's planned activities to be performed over a specific period, usually during one year. It should be risk-based, meaning that its main purpose is to ensure that the Government Internal Auditing Unit concentrates on the audit objects with the greatest exposure to the key risks that could affect the organization's ability to achieve its objectives, i.e. the highest risk areas.

The UAIG must develop the Internal Audit Plan consistent with the strategies and objectives of the organizations. Therefore, the UAIG must consider:

- a) the strategic planning of the Audited Entity;
- b) the expectations of senior management and other stakeholders;

⁴⁰ BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 247.

⁴¹ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 300 (ISA 300), 2006.

c) the results of any risk assessment that the Audited Entity may have performed, including its risk management processes, if any.

If a risk management framework does not exist, or its risk register is unreliable, the UAIG must communicate with senior management to obtain an understanding of the key processes and the associated risks.

When developing the audit plan, the UAIG must define the best strategy to attain a systemic assessment of the governance, risk management, and control processes, whether from an overall assessment or a compilation of the results of a sufficient set of individual engagements performed in a given period.

In developing a risk-based plan, the UAIG should take the following steps, documenting the implementation of each work phase properly:

- a) understanding of the Audited Entity;
- b) determining the audit universe;
- c) assessing the risk management maturity;
- d) establishing risk-based individual audit engagements.

4.1.1 UNDERSTANDING OF THE AUDITED ENTITY

An overall understanding of the Audited Entity and its environment allows the UAIG to acquire sufficient knowledge about the Audited Entity's strategies, objectives, performance measurement instruments, and governance, risk management, and control processes. As a consequence, the UAIG is able to ensure that the most relevant areas, as well as the key risks, were identified, thereby providing a basis for recommending measures that can effectively contribute to management improvement.

There are two commonly used approaches to support this work phase: the top-down approach and the bottom-up approach.

The top-down approach starts at the top organizational level. First, the organizational objectives are identified. Then, the main processes related to each of these objectives are identified and the associated risks are assessed, i.e. the key risks that could affect the organization's ability to achieve its objectives. For the analysis purpose, those processes may be segregated into sub-processes levels until they reach the individual activity level.

The bottom-up approach starts at the level of the activities. During the analysis, the activities are aggregated into the main processes identified throughout the organization. Then, the organizational objectives related to those main processes are identified.

The required understanding of the Audited Entity and its environment involves information on the organization's business framework, including its mission, vision, values, objectives, strategies, processes, and management systems. In addition, information regarding the organization's risk management, the way that its processes are structured and how their performance is monitored, which products and services the organization provides, who the clients are, who the beneficiaries of interest are, among other necessary information.

The most commonly used sources of related relevant information are:

- a) the board, senior management, managers responsible for the audited processes, and other stakeholders, particularly on their expectations related to the internal audit activity;
- b) the Audited Entity's units responsible for receiving whistleblowing reports, as well as other public bodies that hold this responsibility, as to support the audit plan development;
- c) documentation on the organizational planning (mission, vision, objectives, values, operational goals, measurement indicators, etc.);
- d) governance and organizational structure;
- e) personnel management systems;
- f) legal and regulatory framework (laws, decrees, rules and regulations internal or external to the Audited Entity and its activities, as well as relevant policies, procedures, guidelines, etc.);
- g) results from previous audit engagements.

4.1.2 DETERMINING THE AUDIT UNIVERSE

Determining the audit universe requires a major and broad knowledge of the Audited Entity's business areas. For this reason, the required understanding of the Audited Entity and its environment should precede the definition of the audit universe. In short, the selection of the audit objects depends on the overall understanding of the organization's objectives and key processes.

An audit universe constitutes the set of auditable "components" (engagement objects) entitled to prioritization by the UAIG. They include business areas or units, products, service lines, processes, programs, systems, controls, operations, accounts, departments, functions, procedures, and policies.

Since engagements objects (auditable components) may vary greatly from one UAIG to another, each UAIG should define its approach for creating an audit universe in support of the development of the internal audit plan. Ideally, the approach to developing the audit universe must be validated by the same responsible body that approves the internal audit plan.

Additionally, information concerning the auditable components, required for providing an understanding of the UAIG's audit universe, needs to be diligently documented. Relevant information includes a description of the auditable components, responsible business areas, legal and regulatory framework, risk assessments performed by the UAIG or the organization, results as well as timeframes of prior engagements, either performed by the UAIG, other government audit bodies, or private audit companies, if applicable.

Preferably, the auditors should register the auditable components in a hierarchical fashion, such as tree structures, to enable aggregation in multiple levels. Auditable components (engagement objects) are comparable as long as they are at the same hierarchical level. We cannot compare, for instance, a process with a section of another process.

4.1.3 ASSESSING THE RISK MANAGEMENT MATURITY

The risk management maturity reflects the degree to which the risk management approach is effectively implemented in the organization. In other words, if there is a risk management framework, meaning principles, structure, and processes related to risk management integrated into the management processes. The maturity level may vary from the lack of a risk management framework up to effective risk management fully embedded in all operations.

The purpose of assessing the level of risk management maturity is to obtain an overview of the extent to which the board (if any) and management determine, assess, manage, and monitor risks consistent with the organization’s legal and regulatory framework.⁴² This helps the UAIG by providing an indication of the reliability of the risk register for audit planning purposes as well as supporting the audit strategy definition.⁴³

To enable a proper risk management maturity assessment, the UAIG should establish a framework that indicates the evolution stages of the risk management process, in terms of maturity levels, so that the improvements from the risk management implementation are demonstrated.

The definition of the audit strategy, whether using the organization's risk register or not, depends on the Audited Entity’s risk management maturity level. The potential strategies consistent with the various risk management maturity levels are shown in table 2. Those strategies can be expanded depending on the UAIG's judgment.

TABLE 2 – Relationship between Risk Management Maturity and Audit Planning

Risk Management Maturity	Risk Register	Strategy
Risk management and internal controls are integrated into the Audited Entity’s operations.	The UAIG uses the Audited Entity’s risk register if it deems it reliable.	Assessment of the risk management process effectiveness and the actions taken by management in response to risks.
There is no formal risk management approach or risk management processes are incipient.	The UAIG adopts an alternative planning method based on risk factors or considering the identified risks.	Assessment of the control processes to verify whether they are working according to the established standards and contributing to the achievement of objectives. Awareness-raising actions and/or consulting services to promote and impel risk management and internal control practices.

Source: CGU

After conducting the assessment of the Audited Entity's risk management maturity, the UAIG must report the conclusions on risk maturity to senior management and the board, so they can take actions as a result of that assessment.

⁴² The most commonly used technical frameworks are ISO 31000 and COSO ERM.

⁴³ CHARTERED INSTITUTE OF INTERNAL AUDITORS. Risk-Based Internal Auditing, 2014.

4.1.4 ESTABLISHING RISK-BASED INDIVIDUAL AUDIT ENGAGEMENTS

Although SFC Normative Instruction No. 3, of 2017, demands the development of risk-based internal audit plans, there is no “one-size-fits-all” approach. In view of the specificities, the UAIG is responsible for defining the most appropriate methodology. In turn, this Implementation Guide presents three commonly used approaches for developing a risk-based internal audit plan:

- a) prioritizing engagements based on the risk assessment conducted by the Audited Entity;
- b) prioritizing engagements based on the risk assessment conducted by the UAIG;
- c) prioritizing engagements based on risk factors.

4.1.4.1 Prioritizing engagements based on the risk assessment conducted by the Audited Entity

The risk assessment conducted by the Audited Entity may serve as input for the development of the Internal Audit Plan as long as the UAIG is provided with reasonable assurance that the organization has a high maturity level risk management process as well as a reliable risk register.

It means that reliable risk management registers support the UAIG in understanding the (strategic and operational) objectives, the associated inherent risks and measurement, and the management internal controls in place to mitigate those risks. The next step is linking risks to the engagement objects included in the audit universe.

4.1.4.1.1 Linking risks to engagement objects

This approach is based on the Audited Entity's risk register. For that reason, the lack of a direct correspondence between the risks and the audit universe is often the actual situation. To link the audit universe components to the risks, we may group the risks as the audit universe is structured: by category (for example, financial risks, compliance risks, systematic risks, etc.), or administrative department, or function, or macro-process, or policy, and so on. As a result, the organizational objectives, inherent risks, and audit objects are associated. The next step is to classify the engagement objects based on the associated risks. When an engagement object has more than one associated risk, we may add up those risks. Alternatively, we may pick out the risk with the greatest magnitude.

The basic principle of this procedure is to address the highest risks.⁴⁴ A usual method for ranking the risks is to add up the scores of each engagement object associated risk and then classify the engagement objects based on the computed result.

4.1.4.2 Prioritizing engagements based on the risk assessment conducted by the UAIG

If the Audited Entity has not implemented a risk management process or the risk management framework is fragile, the UAIG can prioritize engagements based on the risk assessment conducted by the UAIG itself.

A realistic and useful risk assessment requires the UAIG to interact with senior management and managers throughout the process. At the same time, it is important to highlight that the purpose of the risk assessment conducted by the UAIG is to support the engagements prioritization. Even though the risk assessment conducted by the UAIG can contribute to the organization's risk management process, senior management, the board (if any), and managers are responsible for the organization's risk management and control processes.

⁴⁴ Magnitude (risk level) quantified upon the Audited Entity's risk management.

This approach usually includes the following steps:

- a) knowledge about the organizational objectives (strategic and operational objectives), following the requirements presented in section 4.1.1 of this Implementation Guide;
- b) identification of the risks that present significant threats to the achievement of organizational objectives;
- c) risk assessment;
- d) association of the risks to the audit universe, as detailed in section 4.1.4.1.1 of this Implementation Guide (linking risks to engagement objects).

4.1.4.2.1 Identifying Risks

Based on the audit universe, the organizational objectives, and other information acquired as a result of the understanding of the Audited Entity, the UAIG must develop a register of the risks identified to possibly affect the organization's ability to achieve its objectives. For that, the UAIG should benefit from the use of risk assessment techniques.

The risk assessment techniques the UAIG may apply include:⁴⁵

- a) Brainstorming;
- b) Structured or semi-structured interviews;
- c) Delphi method;
- d) Checklist;
- e) Preliminary hazard analysis;
- f) Hazard and operability study;
- g) Cause-and-effect analysis;
- h) Structured What If Technique;
- i) SWOT analysis;
- j) Failure mode and effects analysis.

The register of the identified risks is a record of the inherent risks, i.e. the natural risk level in a process that has not been controlled or mitigated in risk management.

⁴⁵ ABNT NBR ISO 31010 Standard provides guidance on risk assessment techniques.

4.1.4.2.2 Assessing Risks

After identifying the risks, the UAIG must assess the risks, so that they can be ranked and compared. To this end, the UAIG evaluates the magnitude of the risks (risk level), based, for example, on the impact and likelihood of possible mishaps. The results of this process may be expressed in a quantitative or qualitative fashion. Depending on the degree of knowledge about the Audited Entity and its risk management process, the UAIG may apply other criteria in support of the risk assessment, such as vulnerability or potential consequences, or even lower-level criteria.

In order to rank risks in terms of their impact and likelihood, the use of related measurement scales is strongly recommended. Impact and likelihood scales allow consistent application and interpretation by different parties. The more descriptive the scales, the better the interpretation by users. The development of ideal measurement scales results from the proper balance between simplicity and coverage.

The Appendixes A and B display examples of impact and likelihood measurement scales.

The risk measurement scales should account for a significant differentiation regarding the risks ranking so that a hierarchical representation of the risks as a function of their level is provided. For graphic visualization, a Risk Map may be adopted. The Risk Map is often presented as a two-dimensional matrix (impact vs. likelihood), whose plotted areas represent the different risk levels. Therefore, the Risk Map provides a risk criticality visualization according to the area plotted on the map.

The Appendix C displays an example of a Risk Map.

4.1.4.3 Prioritizing engagements based on risk factors

Another, more indirect, approach for developing a risk-based internal audit plan is to prioritize engagements based on risk factors. This approach includes two work phases: defining the risk factors and prioritizing the engagement objects.

4.1.4.3.1 Defining the risk factors

This step consists of defining the risk factors, which are the prioritization criteria that are to be used to identify the relative importance of conditions and events that could adversely affect the organization.

There is no “one-size-fits-all” model for defining the risk factors. However, the UAIG must establish the most reasonable risk factors regarding the Audited Entity’s environment and nature. Available data related to the established risk factors is required as well as a measurement scale (scores, levels, categories, etc.) to the engagement objects. When establishing the risk factors, the UAIG should consider the Audited Entity’s governance, risk management, and control processes, as well as the likelihood of fraud, errors, and significant nonconformities occurrence.

There are quantitative and qualitative risk factors. Quantitative risk factors can be measured through a numerical scale, such as the total of whistleblowing reports, materiality (meaning, for instance, the number of resources related to an engagement object), the time elapsed since the last engagement, the total of audit recommendations pending fulfillment, the total of reports on internal controls assessment, the amount of economic impact, among others.

On the other hand, qualitative risk factors are characterized by a level of subjectivity, precisely because there are no objective criteria to quantify them. For example, the social and environmental impact associated with the engagement object, the quality and the adherence of the internal controls, the magnitude of the latest engagements findings, the relevance of the engagement object towards the accomplishment of the Audited Entity's strategic objectives, the consistency of the engagement object, the likelihood of occurrence of issues related to the engagement object, the level of maturity of the engagement object or the business units involved.⁴⁶

Concerning the qualitative risk factors, a measurement scale to assess each factor may be set. Therefore, the UAIG can attribute scores to the prioritized engagement objects (1 – very low; 2 – low; 3 – moderate; 4 – high; and 5 – very high, for example). Other techniques may also be applied to have the measurement units standardized.

Nothing prevents the simultaneous use of quantitative and qualitative criteria. However, a method for normalizing the data is required, so that both criteria can form the same scoring formula.

The use of criteria that cannot be associated with all engagement objects should be avoided. When this is not applicable (for instance, the established criterion is materiality, and not every engagement object has an assigned monetary value), the audit universe should be subdivided to have the assessments made separately. Subsequently, the assessment results should be consolidated into one or more matrices. Standardization techniques should be used to allow data comparability based on established assumptions.

The next decision pertains to the relative importance (or weight) of one factor to another. The methodology section should describe the established weighting model.

Once the risk factors are defined, the body responsible for approving the Internal Audit Plan is required to validate them. As a consequence, all parties involved are aware of the internal audit activities planning. At the same time, the engagement objects can be compared over the years.

After the engagement objects have been scored, they should be sorted so that the prioritized engagement objects are those that received the highest “scores”.

4.1.5 THE INTERNAL AUDIT PLAN CONTENT

The engagements prioritized as a result of risk assessment constitute the fundamental part of the Internal Audit Plan (see details in section 4.1.4). Nevertheless, the UAIG should consider including audit engagements requested by senior management and other stakeholders. In addition, the UAIG should consider including or excluding engagement items due to other UAIGs planning or emphasis rotation on engagement objects.

In view of the UAIG's duties, the Internal Audit Plan must include:

⁴⁶ Other examples of qualitative risk factors include changes in the external environment (new laws and regulations, increased public control); pressure on management and staff to meet complex or ambiguous objectives; the size of responsible business areas; the complexity of activities, laws, or regulations; the extent to which operations are decentralized; revenue or payments in-cash; fast growth; new programs and services; recent changes in operational, technological, or accounting systems; reliance on obsolete technology; recent changes in key personnel; high turnover in management or key positions; relevant functions controlled by one person; loss of credibility; consequences for not meeting objectives (CGAP, p.107).

TABLE 3 – Internal Audit Plan Minimum Content

Item	Description
1	A list of the engagements to be performed by the UAIG due to regulatory obligations, at the request of senior management, or due to other reasons (like court decisions, for example). A reasonable justification should be provided when including engagements requested by senior management or other demands.
2	A list of the engagements included as a function of risk assessment.
3	Provision of at least 40 hours of training for each government internal auditor, including the UAIG's chief audit executive.
4	Provision of activities to monitoring the progress of the recommendations issued as a result of prior engagements which the Audited Entity has not yet implemented.
5	A list of the activities to be performed to improve the quality of the professional practice of government internal auditing, according to section 3.5 of this Implementation Guide.
6	Provision of activities to address exceptional requests received by the UAIG during the Internal Audit Plan period.
7	A list of the activities required to prepare the Internal Audit Plan for the following year.
8	A list of the activities required to evaluate the current Internal Audit Plan as well as to prepare the UAIG's results report.
9	Explanation of the assumptions, restrictions, and risks associated with the activities included in the Internal Audit Plan, whenever possible.
10	An appendix presenting the description of the methodology used for prioritizing engagements based on risk assessment, as per section 4.1.4 of this Implementation Guide.

Source: CGU

For each engagement, a description of the audit work (assurance services, consulting services, intensive investigation, or a non-typical internal audit activity) is required. The internal audit plan should also present the overall objective and information on resource allocation for each engagement.

4.1.5.1 Inventory of mandatory engagements

Several governmental organizations have less autonomy when prioritizing audit engagements, either due to legal obligations or requests from government authorities. All mandatory assessments must be included in the internal audit plan, but these engagement objects are not subjected to the risk assessment conducted at the planning phase. In those situations, as long as legal regulations allow, the risk assessment can be performed at the individual engagement planning phase, as detailed in section 4.3.2.1 of this Implementation Guide. Mandatory engagements must be considered a priority so that available resources are guaranteed.

4.1.5.2 Inventory of prioritized engagements as a function of emphasis rotation on engagement objects

Emphasis rotation is a rotation among the auditable components (engagement objects) that constitute the audit universe during a period. Its purpose is to avoid the accumulation of engagements on the same object, on the one hand, and to allow that lower risk objects may also be periodically assessed, on the other hand.

To establish the emphasis rotation, a methodology is required so that the period (or cycle) within which the engagements related to the lower risk audit objects is defined (every three, or four, or five years, for example).

The emphasis rotation methodology must consider the risks associated with the engagement objects to establish the frequency of the engagements. For example, due to higher associated risks, some engagements should be performed once a year, while other engagements may be performed every two years or more, as a consequence of lower associated risks.

Exceptionally, depending on the risk level and cost-benefit ratio, the UAIG's chief audit executive may decide that certain engagement objects can be assessed in longer intervals.

The emphasis rotation methodology must be approved by the same responsible authority who approves the Internal Audit Plan since the engagements prioritized as a function of the emphasis rotation do impact the development of the Plan.

4.1.5.3 Inventory of prioritized engagements based on risk assessment

The methodology for prioritizing engagements based on risk assessment must be documented. The methods and criteria for prioritization, the risk factors weighting, and the approaches to establish how many and which engagements are to be prioritized must be demonstrated.

If engagements established as essential by senior management or the board (if any) are included in the UAIG's planning to the detriment of the prioritized engagements based on risk assessment, the motivating elements must be included in the methodology documentation.

In case the engagement objects prioritization cannot be accomplished, the reasons for failure must be documented. Whenever possible, the UAIG should assess those reasons, during the subsequent fiscal year, for the sake of the planning process's continuous improvement.

4.1.5.4 Government internal auditors training

An annually 40 hour-minimum training requirement aims to enhance the government internal auditors' knowledge, skills, and other competencies, as part of their continuing professional development. Training should preferably be part of a human resources development program and may include conferences, seminars, workshops, meetings, technical visiting, postgraduate programs, online-learning courses, in-house training programs, among others.

We emphasize that the UAIG's chief audit executive is responsible for identifying any deficiencies or gaps and thus proving training and mentorship so that the auditors meet proficiency and due professional care standards. The UAIG's chief audit executive is also responsible for providing training opportunities that exceed the minimum of 40 hours per year. Indeed, this is highly recommended, especially considering the frequent changes in the professional practice of internal auditing, the emergence of new technologies, the greater demands of society concerning transparency and accountability, among other demands.

4.1.5.5 Monitoring of recommendations pending fulfillment

The UAIG must establish the approach and frequency for monitoring the recommendations issued as a result of prior engagements based on the risks and complexity of the subjects. Depending on the criticality, engagements specially designed to assess the implementation of recommendations may be required.

4.1.5.6 Addressing exceptional requests received by the UAIG

Exceptional requests generate audit engagements to be performed in the course of the Internal Audit Plan. As long as these exceptional requests are approved by the UAIG and the body responsible for approving the initial Plan, those demands can be incorporated into it.

The commonly used strategies to address exceptional requests include the establishment of staff allocation contingency actions based on a percentage of the UAIG's operational capacity. For this purpose, the UAIG may rely on historical data from exceptional requests to calculate the mean of resource allocation in a given period. Accordingly, when developing the Internal Audit Plan, the UAIG should avoid allocating all staff resources since part of its operational capacity needs to be available for performing exceptional engagements.

Alternatively, the UAIG may establish that all staff resources are initially allocated and the Internal Audit Plan is subject to a review process whenever exceptional engagements are required.

4.1.5.7 Activities related to the development of the subsequent fiscal year Internal Audit Plan

The Internal Audit Plan should provide the necessary activities and resource allocation to enable the development of the subsequent fiscal year Plan.

4.1.5.8 Activities related to the monitoring of the ongoing Internal Audit Plan

The Internal Audit Plan must consider:

- a) the monitoring activities during the ongoing fiscal year;
- b) the monitoring frequency (whether every two-month, or three-month, or four-month, or six-month period). The monitoring periodicity may vary according to the number of engagements and the cost of obtaining information;
- c) the validation of the monitoring activities by the body responsible for approving the Internal Audit Plan.

Ongoing monitoring should support any changes in the Internal Audit Plan as well as enable the development of a performance report. The development of the UAIG's performance report regarding the results of the previous fiscal year must be considered among the activities pertaining to the ongoing Internal Audit Plan.

The requirements concerning the content and deadline for the preparation of the performance report⁴⁷ are presented in a specific legal norm to be issued by the SCI central body.

⁴⁷ Results communications regarding the engagements performed by the single internal auditing units (Audin) constitute the Annual Report of Internal Audit Activities (RAINT), as provided in Normative Instruction No. 24, of December 17, 2015.

4.1.5.9 Communicating, whenever possible, the premisses, restrictions, and risks associated with the implementation of the Internal Audit Plan

The Internal Audit Plan includes all the activities to be carried out by the UAIG throughout the subsequent fiscal year. In light of this, the premisses upon which the Plan was developed as well as the identified restrictions and/or risks⁴⁸ associated with its implementation should be presented, whenever possible.

4.1.6 PERIODICITY OF THE INTERNAL AUDIT PLAN

The Internal Audit Plan must be developed for a one-year period. The bodies and units that constitute the SCI may establish a fiscal year different from the calendar year to coincide their planning process with other UAIGs timeframes.

4.1.7 RESOURCES

The UAIG must ensure that the skills, capabilities, and technical knowledge of the internal audit staff are appropriate to achieve the Internal Audit Plan. Furthermore, the UAIG must consider the staff workforce and the schedule for each engagement, including the starting and ending dates. Whenever possible, the estimated costs should be considered as well.

In defining the level of effort and time required, the UAIG's measurement approach should be consistent with its human resources management systems. The common approach, however, is based on the working hours required to accomplish an engagement.

This approach allows the UAIG's chief audit executive to assess the adequacy and availability of the human, financial, and technological resources required to perform the activities of the Internal Audit Plan. Those resources may also be considered to determine the sequence of engagement execution.

In case the government internal auditors do not collectively have the necessary proficiency to successfully perform the engagement, the UAIG's chief audit executive must address the resourcing needs. Approaches to address resourcing needs include: training the auditors prior to the engagement, performing the engagement together with auditors from outside the UAIG, hiring specialists external to the UAIG. Concerning the last two approaches, section 3.3 of this Implementation Guideline must be observed.

4.1.8 COMMUNICATION AND APPROVAL OF THE INTERNAL AUDIT PLAN

The SCI sector units and the Audins must send their Internal Audit Plan proposal, and any modifications, to their respective SCI technical supervisory body (CGU, Ciset, or SCI sector unit, as appropriate). The SCI supervisory body is required to acknowledge the proposal and suggest the inclusion or exclusion of specific engagements in a timely fashion. This requirement aims to harmonize planning, rationalize resource use, and avoid work overlapping.

The absence of a timely response from the supervisory body does not prevent the SCI sector units and the Audins from taking the necessary steps towards the approval of the internal audit planning by the board or equivalent (if any), or by senior management.

⁴⁸ Premises are the factors associated with the plan which are assumed to be truthful, genuine, or definitive and thus do not need proof. On the other hand, constraints are the state, quality, or sense of being restricted to particular actions or inactions that may negatively affect the plan's performance.

After the approval of the Internal Audit Plan, the Audins must communicate the final version to their respective SCI technical supervisory body (CGU, Ciset, or SCI sector unit, as appropriate). Similarly, sector bodies and SCI sector units must annually send the final version of their Internal Audit Plan to the SCI central body or Ciset, as appropriate, for supervision purposes.

Moreover, the bodies and entities that constitute the SCI must communicate the Internal Audit Plan to their respective Audited Entities and to the Audins under supervision to determine a harmonious and cooperative environment among them.

To guide the communication and approval flow, the terms defined in a specific legal norm to be issued by the SCI central body must be observed.

4.1.9 MODIFYING THE INTERNAL AUDIT PLAN

When monitoring the Internal Audit Plan, the UAIG may decide to modify initially planned engagements. Accordingly, exceptional requests may be included in the planning.

If the proper staff allocation contingency actions are not established, or the operational capacity is used up, the UAIG evaluates whether the inclusion of such engagements in the Internal Audit Plan is considered a convenient and opportune resolution.

The evaluation on whether or not to modify the plan depends on the priority level of the new engagements as well as the risk assessment conducted by the UAIG. The following decisions may apply:

- a) including the new engagements without any planning modification as long as operational capacity is available;
- b) reducing the scope of the planned engagements;
- c) excluding less priority engagements, freeing up resources to be used in new projects.

The revision process must be documented. Besides, the revision methodology must be discussed and approved by the responsible body. The modified Internal Audit Plan must be communicated to the same parties that were aware of the initial version. Depending on the size of the UAIG, the volume and type of the modifications, and the importance of the included or excluded engagements, the modified Internal Audit Plan must be submitted to the body responsible for approving the initial version.

The development of indicators to measure how much the planning was modified during its implementation is also important. Consequently, it becomes easier to identify the possible causes of those changes as well as to assess the methodology performance, thus promoting the improvement of the planning process.

Particularly concerning the Audins, the modifications submitted to the board or senior management for approval should be previously available to manifestation from the CGU or the appropriate SCI body or sector unit responsible for technical supervision.

4.2 FORMALIZING THE ENGAGEMENT

Before the execution phase, the UAIG's chief audit executive or a delegate must formalize the engagement by means of a specific document. The formalization document should summarize the overall information regarding the engagement including its main guidelines. The engagement formalization may occur prior to the development of the engagement work program since it contains complete and detailed information about the activities to be performed.

Denomination, framework, content, issuing manner (if paper or digital) should be established by each UAIG's internal standards. Regarding the denomination, the terminology Service Request is the most commonly used.

As for the content, the following information is usually included:

- a) type of engagement;
- b) Audited Entity;
- c) engagement object;
- d) objective as established in the Internal Audit Plan;
- e) estimated timeframe for the execution of activities;
- f) auditors assigned to the audit team, engagement supervisor, team coordinator.

Formalizing the engagement concerns the UAIG's internal organization and directly addresses the auditors. Nonetheless, the UAIG must communicate the engagement to the Audited Entity as soon as the related guidelines are established and the interaction with the business areas is required.

4.3 PLANNING INDIVIDUAL ENGAGEMENTS

Each engagement included in the Internal Audit Plan should have a specific planning process. Planning individual engagements means establishing the main parameters for the analyses, including information on the engagement's objectives, scope, procedures and techniques, timing, and resource allocations.

All team members are required to actively participate in the planning phase, so that they can contribute with their knowledge and professional experience to establish the objectives and how to achieve them. Likewise, the team members can understand the activities they are responsible for as well as the importance of those activities for a successful outcome.

The SFC Normative Instruction no. 3, of 2017, requires the development of the following activities concerning the engagement planning:

- a) preliminary analysis of the engagement object;
- b) definition of the engagement objectives and scope, considering the main risks and the adequacy and sufficiency of the established control mechanisms;
- c) preparation of the engagement work program.

The steps described below are designed to provide auditors with reasonable assurance when planning individual risk-based audit engagements and, consequently, to add value to the Audited Entity by means of identifying opportunities to improve its governance, risk management, and control processes.

4.3.1 PRELIMINARY ANALYSIS ON THE ENGAGEMENT OBJECT

The preliminary analysis on the engagement object constitutes an essential audit work phase. It is required to support the government internal auditors in obtaining an understanding of the engagement object, so that the engagement's objectives, scope, procedures and techniques, timing, and resource allocations are clearly established.

This phase usually starts with a review of the Internal Audit Plan, in the interest of enabling the audit team to obtain an understanding of the engagement's context and purpose. Relevant information gathered during the process of understanding the Audited Entity must also be considered, especially:

- a) the Audited Entity's strategies, objectives, and performance measurement instruments;
- b) the significant risks to which the Audited Entity is exposed and the related controls to address those risks (consistent with the organization's risk management policies);
- c) the Audited Entity's governance, risk management, and internal control processes.

Subsequently, the audit team conducts a review of other information, such as the following:

- a) objectives and the engagement object's associated risks (consistent with the organization's risk management policies) and the related internal controls to address those risks;
- b) the organization's risk appetite related to the engagement object's associated risks (consistent with the organization's risk management policies);
- c) relationship of the engagement object with the Audited Entity's mission, vision, and strategic objectives;
- d) governance, risk management, and controls objectives and structure regarding the engagement object;
- e) performance measures regarding the engagement object;
- f) flowcharts (process maps) related to the engagement object;
- g) parties responsible for the engagement object;
- h) organizational structure of the areas of interest;
- i) rules and regulations, policies, guidelines, internal procedures, ruling from regulatory bodies related to the engagement object;
- j) case law of interest (Federal Court of Accounts, Supreme Court, Superior Court of Justice, etc);
- k) studies on the engagement object;
- l) workforce quantity/location/profile (including third-party collaborators);

- m) main inputs utilized (energy, equipment, raw material, etc.);
- n) utilized computerized systems;
- o) stakeholders;
- p) related budgetary programs/plans;
- q) materiality (in R\$);
- r) historical data from audit findings;
- s) internal control bodies recommendations pending fulfillment;
- t) information derived from corporate systems, from the press, from the internet;
- u) previous engagements outcomes.

Some of that information may be obtained from the UAIG's working papers permanent files. Other information can be gathered through interviews and meetings with the Audited Entity's managers and employees as well as through on-site visits to observe ongoing operations related to the engagement object.

4.3.1.1 Mapping/validating the engagement object

The engagement object is usually a process. A process is a set of sequenced interrelated activities to transform inputs into outputs. Although it is not mandatory, illustrating the flow of the process under review is recommended. The reason behind this is that mapping the process flow enables auditors to obtain an understanding of the area or process, its key controls, as well as points in the process where effective controls may be missing or designed inadequately, or where there may be opportunities for process improvements. Furthermore, process maps primarily enable auditors to identify the risks that could affect the achievement of business objectives.

Mapping the process flow is to illustrate the sequence of activities, decisions, and documents proceeding from the most macro perspective to the level of detail required to identify their relationship and opportunities for improvement. It constitutes a structured analysis of the engagement object, its components (agents, responsible parties, activities, processes, subprocesses, products, etc), and the relationship among them. The result is a better understanding of the engagement object.

When management has already mapped out the processes, auditors should gather information (for instance, during interviews with personnel at all levels of the process, as well as with management) to verify whether the documented process map is accurate, current, and adequate for the audit work.

If management has not mapped out the processes, or auditors disregard the process maps adequate for the audit work, the audit team may map the process flow or at least document the activities, sequence, and responsible parties during all stages of the process. This requires auditors to communicate and interact with the Audited Entity's management and personnel at all levels of the process. For the proper conclusion of this work phase, the performance of audit procedures, such as observation and inspection of documents, may also be required.

Close attention to possible inconsistencies between the documented process (laws, policies, procedures, and regulations) and the actual process flow as it happens during the Audited Entity's routine operations is required. In case the auditor detects relevant differences between a process operation design and how it actually works, he or she must enhance the analysis. Auditors should keep in mind that these differences may represent non-compliance and/or inadequacy of internal controls or even indicate that the established rules are inappropriate. Thus, inconsistencies and their identified sources are required to be documented.

4.3.1.1.1 Management validation

Process mapping/activities documentation should be assisted by managers responsible for the area or processes under review and personnel who perform the steps in such processes since they can provide the best overview of the organizational context and the way the processes are designed to operate. For this reason, when mapping a process, the audit team is required to confirm with those managers if the design of the process truly reflects the actual process flow.

4.3.1.2 Documenting the understanding of the engagement object

Auditors must prepare working papers to document the understanding of the engagement object in such a way as to enable that another person with sufficient knowledge of the professional practice of government internal auditing understands the engagement object even if he or she has not had contact with it before.

Considering that the information gathered during this work phase contributes to an overall understanding of the Audited Entity and constitutes relevant insight for other engagements, the organization and filing as permanent working papers is recommended.

4.3.2 ENGAGEMENT OBJECTIVES AND SCOPE

Once auditors have completed the preliminary analysis on the engagement object, the audit team should be capable of forming the engagement objectives and scope, which can be later improved as a result of the risk assessment and the evaluation of the associated controls.

The engagement objectives articulate the audit questions that the engagement is intended to address. Therefore, the objectives should have a clear purpose, be concise, realistic, and free of ambiguous or abstract wording. For each engagement, specific objectives should be carefully formulated because they:

- a) define what the engagement is specifically attempting to accomplish;
- b) conduct the scope, procedures, timing, resources, methodology, and nature of the engagement as well as the required skills of the audit team;
- c) guide the composition of the audit findings.

When developing the engagement objectives, government internal auditors must:

- a) regard that the engagement objectives proceed and align to the general objective initially established in the Internal Audit Plan. For unplanned engagements, the objectives are designed to address the specific issue that prompted the engagement;

b) consider the main risks and the adequacy and sufficiency of the established control mechanisms;

c) consider the expectations of stakeholders;

d) consider the probability of significant errors, fraud, noncompliance, and other risk exposures related to the engagement object.

Because an engagement generally cannot cover everything, internal auditors must determine what will and will not be included. When internal auditors establish the engagement scope, they generally consider factors such as the boundaries of the area or process, in-scope versus out-of-scope locations, subprocesses, components of the area or process, and time frame.

This allows them to achieve a thorough understanding of how best to link the engagement scope to the objectives and to pose a clear statement on the focus, extent, and limits of the audit work. Internal auditors must carefully consider the breadth of the scope to ensure it enables the accomplishment of the engagement objectives.

Besides the engagement objectives, other elements contribute to defining the engagement scope. These elements are: the type of engagement; the requirements of the engagement's potential clients; the nature and extent of the findings from previous engagements; engagements performed by another UAIG or by external control bodies or audit firms; the levels of materiality and identified risks; the adequacy of control mechanisms, among others.

4.3.2.1 Assessing risks and controls

The audit team may apply risk assessment techniques to assess the main risks and the adequacy and sufficiency of the established control mechanisms, especially when auditing organizations lacking a consistent approach to risk management. Risk assessment aims to identify the risks that could affect the achievement of the objectives of the activity under review; to verify the causes and consequences of those risks; to classify them; and also to evaluate the adequacy of management internal controls design. As a result, the risks and controls that must be assessed as a priority can be established.

4.3.2.1.1 Identifying inherent risks

When management provides the processes maps and information on the objectives of the activities under review and the identified risks, the audit team must review and evaluate these documents in order to verify their sufficiency and adequacy for the engagement's purposes.

At the same time, when management is unclear about the objectives and risks related to the engagement object, auditors must communicate and interact with managers to confirm the understanding of the objectives of the activities under review as obtained from the preliminary analysis on the engagement object.

Following that, the audit team must create a list of known or expected risks associated with the engagement object that could compromise the achievement of the objectives. The identified objectives, other relevant information gathered during the preliminary analysis on the engagement object, and the use of risk identification techniques constitute the basis for that analysis.

The same techniques mentioned in section 4.1.4.2.1⁴⁹ may be applied when identifying inherent risks. The risks included in that list are the risks inherent to the nature of a process or activity.

Once the risks are identified, auditors should have an understanding of the risks, their causes, and consequences, meaning the outcome of an event that could affect the achievement of the objectives.

The sources of risks and vulnerabilities identify where risks can originate. Therefore, auditors verify the sources of risks and vulnerabilities to identify the causes of potential risks. On the other hand, an overall understanding of the process under review and logical deduction are usually sufficient to identify the consequences of those risks.

Although Table 4 does not present an exhaustive list, it can help to map out possible causes of risks.

TABLE 4 – Causes of Potential Risks

CAUSE = SOURCES + VULNERABILITIES	
SOURCES OF RISK	VULNERABILITIES
Individuals	Insufficient personnel, lack of training, inadequate professional skills, unmotivated staff, high turnover, employees prone to commit fraud or ethical deviations.
Processes	Poorly designed processes, lack of standardized procedures or guidelines, lack of segregation of duties, lack of transparency.
Systems	Obsolete systems, lack of operational procedures, lack of integration with other systems, lack of access controls, lack of data backups, low level of automation.
Infrastructure	Inappropriate location, inadequate facilities, lack of physical access controls.
Tecnology	Outdated techniques, lack of investment in information technologies, lack of patent protection, production processes lacking protection against spying, insufficient controls over data traffic.
External Events	<p><i>Environmental:</i> sudden climate change, fire, flood, epidemic.</p> <p><i>Economic:</i> interest and exchange rate fluctuations, price changes, contingencies, revenue shortfalls, credibility crisis, tax increases or reductions.</p> <p><i>Political:</i> new laws and regulations, restricted access to foreign markets, decisions under the responsibility of other managers, “fiscal war” among state governments, military conflicts, diplomatic divergencies.</p> <p><i>Social:</i> changes in social and demographic conditions, changes in social customs, changes in social demands, business shutdown, increasing unemployment.</p> <p><i>Technological:</i> new forms of electronic commerce, changes in data availability, increasing infrastructure costs, reductions on available infrastructure, increasing demand for technology-based services, cyber attacks.</p> <p><i>Infrastructure:</i> road maintenance, distance to ports and airports, water and electricity supply shortage, interruptions in telephone services, increasing tariffs on water and electricity supply, increasing tariffs on telephone services.</p> <p><i>Legal:</i> new laws and regulations, changes in court jurisprudence, lawsuits.</p>
Governance	Unidentified or disregarded responsibilities, excessive centralization or decentralization of responsibilities, exorbitant delegations, lack of control strategies to monitor and evaluate management’s performance, deficient information and communication flows, incomplete, inaccurate, or unclear information supporting decision making, competitive tension, lack of turnover, lack of standardized procedures or guidelines.
Planning	Lack of planning, planning lacking a technical basis or non-compliant with rules and regulations, inadequate or unrealistic strategies and objectives.

Source: COSO ERM; Brazilian Federal Court of Accounts (2017), *Course on Internal Controls* (adapted).

⁴⁹ ABNT NBR ISO 31010 Standard provides guidance on risk identification techniques.

4.3.2.1.2 Assessing inherent risks

After the risks inherent to the process under review are analyzed, the magnitude of those risks is evaluated regarding the principles detailed in section 4.1.4.2.2. At the same time, it is important to highlight that section 4.1.4.2.2 addresses the risks that present significant threats to the achievement of organizational objectives, whereas this section deals with risks related to the achievement of the engagement's specific objectives.

4.3.2.1.3 Identifying and preliminarily assessing internal controls

Based on the information gathered during the preliminary analysis, and on the relevant risks associated with the objectives of the engagement, auditors must identify and preliminarily assess the controls that management has established to address those risks.

Therefore, auditors' purpose in this engagement phase is to identify the internal controls established to manage the relevant risks and assess whether the design of these controls is appropriate to address such risks.

In fact, identifying internal controls is part of the preliminary analysis on the engagement object and risk assessment previously performed. Thus, auditors should have an overall understanding of:

- a) the objectives of the engagement object and the associated risks;
- b) the rules and regulations related to the engagement object;
- c) the information systems supporting the engagement object;
- d) the different control activities: authorization and approval procedures; segregation of duties (approving, performing, recording, controlling); physical access control activities over records and resources; independent verifications and reconciliations; performance reviews and follow-up activities; evaluation of operations, processes, and activities; supervision, among others.

When preliminarily assessing internal controls, auditors identify and evaluate the design of controls, in order to verify if they are able of providing reasonable assurance that the risks associated with the engagement object are managed to an acceptable level. As a result, auditors are capable of estimating the control risk and the residual risk levels as well as establishing the audit procedures.

In this engagement phase, auditors should consider:

- a) the compatibility among the engagement object's objectives, associated risks, and related controls;
- b) the cost-benefit ratio;
- c) the segregation of duties and rotating the personnel off the audit team;
- d) the definition of responsibilities;

- e) the design of controls consistent with the principles of management internal controls as established in Joint Normative Instruction MP/CGU no. 1, of May 10th, 2016;
- f) the attributes of controls, especially with respect to the designed function (preventive, detective, corrective, directive, compensatory, or complementary function) and the form of implementation (manual or automated controls);
- g) whether the control is designed as a single or main control that serve to mitigate a certain risk;
- h) the frequency of the control (permanent, annual, quarterly, monthly, weekly, daily, or every transaction control).

Additionally, auditors should identify best practices using benchmarking, for instance, of controls that mitigate relevant risks, to support gauging whether management control activities may be improved.

Government internal auditors must document the results of the preliminary assessment of internal controls. Based on professional judgment, quantitative or qualitative measurement scales may apply. For example, quantitative ratings ranging from 1 to 10, or qualitative ordinal categories like non-existent, weak, average, acceptable, strong.

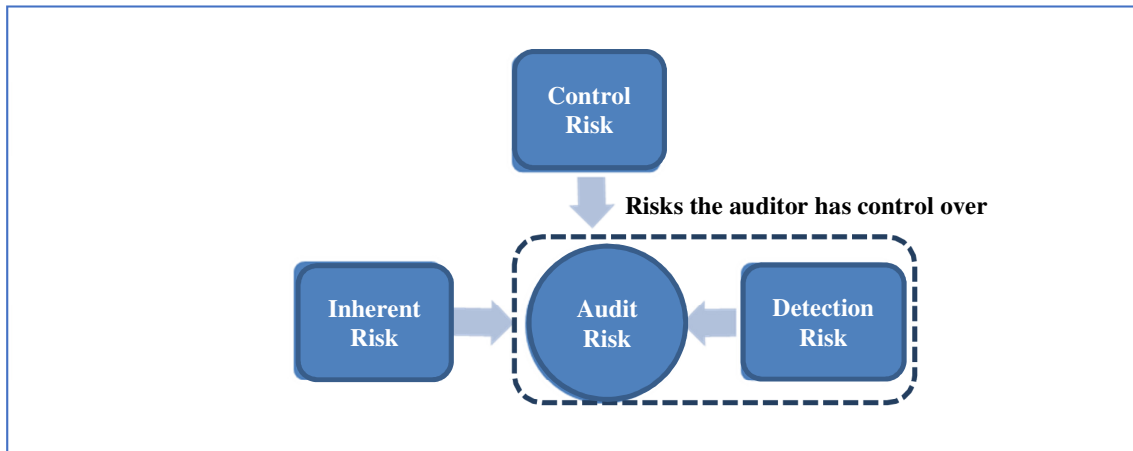
Appendix A presents an example of a risk and control matrix for recording the results of the preliminary risk and control assessment processes.

After identifying the inherent risks and the levels of control, the auditor is able to determine the residual risks, meaning the risks remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to risks. For example, an inherent risk is assigned a score of 10 (very high), and the controls to mitigate that risk are assigned a score of 2 (very weak). Then the residual risk score is 8, which is also considered very high risk.

Furthermore, when planning engagements, government internal auditors must consider the audit risk. That is “the risk that the auditor expresses an inappropriate audit opinion as a function of the risks of material misstatement and detection risk”. To reduce audit risk to an acceptably low level, auditors determine the nature, timing, and extent of audit procedures necessary to obtain sufficient appropriate audit evidence.

The purpose of the audit work is not to obtain absolute, but reasonable assurance regarding the accuracy of the information under review. As a consequence, auditors face the risk that the procedures performed to reduce audit risk to an acceptably low level will not detect a material misstatement. Audit risk interrelates to inherent risks, control risks, and detection risks, as shown in figure 1.

FIGURE 1 – Interrelation among Audit Risk and Inherent, Control, and Detection Risks



Source: CGU

After identifying inherent risks and control risks, the auditor is able to determine the nature, timing, and extent of audit procedures, to reduce the detection risk level and hence the audit risk to an acceptable low level.

4.3.2.2 Defining engagement objectives and scope

After identifying the relevant risks and assessing the associated controls, the audit team is capable of defining the engagement objectives and scope, as well as other significant areas of concern.

The engagement scope needs to include all the controls required to provide reasonable assurance that the risks are effectively managed. These controls are referred to as key controls – those necessary to manage risk associated with a critical business objective. When obtaining an understanding of relevant controls, the auditor must evaluate the design of those controls and determine whether they have been implemented.

For example, suppose that a certain inherent risk has been assigned the maximum level and that this level is 10. When assessing the related control, the audit team concludes that the level assigned to that control should be 8. The result of the equation $(10-8)$ indicates that the residual risk is 2, i.e., very low. Therefore, the audit team should select the key control for assessment.

In addition to key controls, the auditor may choose to include in the engagement scope an assessment of non-key controls designed to mitigate a large number of risks.⁵⁰ Test of controls enables the evaluation of the operating effectiveness of key controls and non-key controls.

In situations when there are high inherent risks with weak or non-existent related controls, the audit team should perform the assessment using substantive procedures. Therefore, the impact resulting from the absence or inadequacy of controls can be evaluated.

⁵⁰ THE INSTITUTE OF INTERNAL AUDITORS (IIA). International Standards for the Professional Practice of Internal Auditing, Practice Advisory 2010.2, 2009.

For example, consider two relevant risks of equal magnitude (“R1” and “R2”). Risk “R1” has several related controls to mitigate it. Risk “R2” only has one related control. In that situation, the assessment of the set of controls associated with risk “R1” may be considered of a less priority.

The number of risks and controls included in the engagement scope, as well as the extent of audit procedures, are a function of available time and resources, along with the importance of critical business objectives.

Any scope limitation should be documented and discussed with the engagement supervisor. When scope limitations impact the capacity of the UAIG to independently and objectively perform its activities, the UAIG’s chief audit executive should discuss the issue with senior management and the board (if any), asking for support to resolve it.

4.3.3 DEVELOPING THE WORK PROGRAM

When developing the work program, auditors must consider the engagement objectives and scope. The work program is based on accumulated knowledge (on the risks in the area or process under review and the preliminary assessment of related controls). Additionally, auditors are required to determine which tests or audit procedures (tests of controls or substantive procedures) are necessary to obtain evidence to support an opinion.

The format of work programs may vary by engagement or organization. Commonly used formats include standard templates shown in Appendix B.

Assurance engagements work programs must include:

a) audit questions (and sub-questions) that should be answered through the analyzes and reviews in the execution phase. These questions should clearly define the objectives and scope of the individual engagement and contribute to report writing at a later phase;⁵¹

b) audit criteria in the form of requirements used as a reference against which audit evidence is compared. Suitable audit criteria are reasonable and attainable standards to be used during the performance of audit procedures to assess the adequacy of controls, systems, processes, practices, and other engagement objects. Audit criteria may also be used to assess economy, efficiency, and effectiveness. An audit criterion is one of the components of the audit findings, as presented in section 5.4.2.

c) the nature, extent, and timing of the audit procedures required to identify, analyze, evaluate, and document the information obtained during the execution phase, in order to enable the audit team to form an opinion. Particularly, to assess the management internal controls, the audit team should develop instruments such as:

- Internal Controls Assessment Questionnaire (ICAQ);
- audit procedures, as detailed in section 4.3.4;
- checklists;
- specific checklists for document analysis;
- interview scripts, among others.

⁵¹ European Court of Auditors. Performance Audit Manual, 2015.

The work program must be approved by the engagement supervisor. As a result of additional information obtained during the course of the engagement, the work program may be modified and reapproved by the supervisor.

4.3.4 AUDIT PROCEDURES

Audit procedures are the processes, techniques, and methods that auditors perform to obtain sufficient, reliable, relevant, and useful evidence, enabling them to answer an audit question established in the auditing plan.

The audit procedures to perform in order to accomplish the engagement objectives are determined during the planning phase. To this end, auditors must consider:

- a) the nature, timing and extent of audit procedures;
- b) the suitability of audit procedures to contribute to the achievement of the engagement objectives;
- c) the cost vs. benefit ratio of performing audit procedures.⁵²

4.3.4.1 Extent⁵³

Government internal auditors are required to determine, concerning each specific situation, the extent to which transactions and operations are examined. Therefore, auditors must consider:

- a) the complexity and volume of transactions and operations;
- b) the nature of items under examination;
- c) the main risks and the preliminary assessment of the associated controls;
- d) the nature and confidence level of evidence necessary to support the auditor's opinion.

Furthermore, auditors should decide whether or not all selected items require an equal extent of examination.

4.3.4.2 Timing

Timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies. In fact, an audit procedure is as effective as the timing of its performance is appropriate.

4.3.4.3 Nature

According to the Brazilian Accounting Standards and the International Auditing and Assurance Standards, the nature of an audit procedure refers to its purpose and its type.⁵⁴

⁵² BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 209.

⁵³ ATTIE, William. Auditoria Interna, 2012, p. 158.

⁵⁴ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 300 (ISA 330), 2006.

Depending on the purpose, an audit procedure consists of a test of controls or a substantive procedure. Substantive procedures comprise tests of details and substantive analytical procedures.

Depending on the type, an audit procedure consists of inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure. Audit procedures classified by “type” are also known as “audit techniques”.

4.3.4.4 Tests of Controls

Test of controls is an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. The objective of a test of controls is to evaluate whether control activities:

- a) are documented (due to a required condition) by means, for instance, of policies and procedures;
- b) are up to date;
- c) are often communicated and reinforced in practice;
- d) are suitable for responding to significant assessed risks of material misstatement;
- e) have been effectively and uniformly applied.

The audit techniques usually required to evaluate the design of internal controls and to obtain audit evidence about whether the controls are effectively operating are observation, inquiry, document analysis, individually or in combination, and reperformance, among others.

In designing and performing tests of controls, government internal auditors should:⁵⁵

- a) obtain audit evidence about the operating effectiveness of the controls at an appropriately detailed level, including:
 - how the controls were applied at relevant times during the period under audit;
 - the consistency with which they were applied;
 - by whom or by what means they were applied.
- b) determine if the controls to be tested depend upon other controls (indirect controls). If that is the case, auditors should consider whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.

4.3.4.5 Substantive Procedures

Substantive procedures are designed to evaluate the sufficiency, accuracy, and validity of the information obtained from the Audited Entity. The use of audit evidence from substantive procedures is required to support the auditor’s opinion on a transaction.

⁵⁵ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 300 (ISA 330), 2006.

Substantive procedures comprise:

- a) tests of details (of classes of transactions, account balances, and disclosures). Tests of details include examination of accounting records and their related operations/documents, as well as of administrative acts conformity;
- b) substantive analytical procedures (analytical procedures) consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

Examples of substantive procedures are observation of inventory counting, inspection of individual inventory items, examination of paid invoices (from suppliers), among others.⁵⁶

Substantive procedures, individually or in combination with tests of controls, are essential to evaluate the reliability of the Audited Entity's transactions and records.

4.3.4.6 Audit Techniques

According to Normative Instruction no. 3, of June 9th, 2017, government internal auditors must collectively possess the knowledge, skills, and other competencies needed to perform the engagement. They must also have appropriate knowledge of audit techniques.

Auditors must discern the specific purpose of each audit technique to avoid inappropriate audit procedures, unnecessary examinations, and wastage of time and human resources. Auditors must also keep in mind that audit techniques are not mutually exclusive, but of a complementary nature.

There are several valuable audit techniques. This Implementation Guide is not intended to present all existent audit techniques, but rather to address those most commonly used in the audit work.

4.3.4.6.1 Inspection

Inspection involves examining records or documents, or a physical examination of an asset to provide audit evidence of the existence of an object or item. When performing a physical examination, auditors must have direct personal knowledge of the tangible resources' existence and physical condition. However, taking into account their level of expertise, auditors should rely on the assistance of experts to formulate valid conclusions about particular tangible resources.⁵⁷

In addition to providing audit evidence of the existence of tangible resources, inspection of assets provides direct evidence with respect to their physical attributes, for example, content, condition, quantity, and location. Above all, inspection is a complementary technique that enables auditors to assure that the Audited Entity's accounting records constitute reliable audit evidence.^{58 59}

⁵⁶ BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 437.

⁵⁷ ATTIE, William. Auditoria Interna, 2012, p. 159.

⁵⁸ ATTIE, William. Auditoria Interna, 2012, p. 159.

⁵⁹ ATTIE, William. Auditoria Interna, 2012, p. 160.

4.3.4.6.2 Observation

Observation consists⁶⁰ of looking at a process or procedure being performed by others, usually by public servants and employees of the Audited Entity. It provides audit evidence of whether the performance of a process or procedure complies with the established standards. Observation is a valuable audit technique commonly used during almost all phases of the professional practice of internal auditing.

Observation requires that auditors have:

- a) judgment and visual ascertainment skills;
- b) specialized knowledge;⁶¹
- c) ability to perceive behaviors that deviate from the standards.

Observation also requires keen perception on the part of auditors since it is limited by the fact that the act of being observed may affect how the process or procedure is performed. This is especially true given the propensity of people to behave differently when they know they are being watched. For example, the auditor's direct personal observation of the performance of control activities by the Audited Entity's personnel may affect how they perform those activities. This condition along with the fact that observation provides audit evidence about the performance of a process or procedure limited to the point in time at which it takes place may influence the reliability of the obtained audit evidence. For this reason, audit evidence obtained as a result of observation should be corroborated by information from other sources.

The components of observation are:

- a) identifying the specific activity to be observed;
- b) observing its performance;
- c) comparing the observed performance with the standards;
- d) evaluating and concluding.

Observation should not be confused with a physical examination. For instance, the auditor's attendance at physical inventory counting once a year serves as a test of controls or substantive procedure over inventory. In case of a test of controls, the auditor performs observation to verify compliance with the operation of management's procedures for recording and controlling the results of the count and to provide audit evidence as to the reliability of management's procedures. In the case of substantive procedure over inventory, the auditor performs a physical examination to inspect the existence and condition of selected inventory items.

4.3.4.6.3 Document Analysis

Document analysis involves examining documents to provide direct audit evidence of the occurrence and reliability of a transaction. Those documents are legal requirements such as invoices, certificates, policies, ordinances, declarations, etc.⁶² The purpose of document analysis is also to assure the legitimacy of the transactions and supporting documents.⁶³

⁶⁰ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 500 (ISA 500), 2013.

⁶¹ Specialized knowledge is not synonymous with specific training but rather with personal skills to perceive changes in the environment. There are several attributes required for a keen observer: concentration, patience, sensitivity, etc. Besides professional experience, intellectual, physical, and emotional traits also favor the performance of this technique.

⁶² PETER, Maria da Glória Arrais; MACHADO, Marcus Vinícius Veras. Manual de Auditoria Governamental, 2014, p. 169.

⁶³ CREPALDI, Sílvio Aparecido. Auditoria Contábil, 2012, p. 444.

Document analysis comprises the examination of two types of documents: internal documents of the Audited Entity and external documents from third parties.

When performing a document analysis, government internal auditors must examine:⁶⁴

- a) if documents are reliable (authenticity);
- b) if transactions relate to typical operations in the context of the Audited Entity's objectives and legal framework (normalcy);
- c) if transactions and documents are authorized by the responsible person (approval);
- d) if documents are correctly filled out (dates, recipients...). In the case of official documents, if they are registered with the responsible body (formality).⁶⁵

Document analysis provides audit evidence of varying degrees of reliability, depending on the nature and source of records and, in the case of internal records and documents, on the effectiveness of the controls over their production.⁶⁶

4.3.4.6.4 External Confirmation

An external confirmation represents audit evidence obtained by the auditor as a direct written response from a third party (the confirming party, for example, individuals, companies, regulatory bodies, etc.). External confirmation procedures also are used to obtain audit evidence from sources external to the Audited Entity about the reliability of its information.

External confirmation procedures are frequently relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an Audited Entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are.

Audit evidence obtained from a third party (the confirming party) must be in the form of a direct written response to the auditor (in paper form, or by electronic or another medium). Depending on circumstances, corroborating information obtained from a source independent of the Audited Entity, such as external confirmations, may provide more reliable audit evidence than only from information existing within the accounting records or from representations made by management.

4.3.4.6.5 Inquiry

Inquiry consists of seeking information from knowledgeable persons, both financial and non-financial, within the Audited Entity or outside the Audited Entity. That is, audit evidence relevant to the engagement. Inquiry is used extensively throughout the engagement in addition to other audit procedures. Inquiries (interviews or surveys) may range from formal written inquiries to informal oral inquiries.

⁶⁴ PETER, Maria da Glória Arrais; MACHADO, Marcus Vinícius Veras. Manual de Auditoria Governamental, 2014, p. 169.

⁶⁵ CREPALDI, Sílvio Aparecido. Auditoria Contábil, 2012, p. 444.

⁶⁶ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 500 (ISA 500), 2013.

Notwithstanding the fact that both formal written inquiries and informal oral inquiries are valuable audit techniques, informal oral inquiries (interviews) may be preferable in situations when a rapport to foster a positive working relationship is required.

There are different types of interviews:⁶⁷

- a) unstructured interview: based on a set of unstandardized questions. These non-directive interviews tend to be informal and free-flowing, allowing for questions to develop during the course of the conversation. In general, unstructured interviews are used in exploratory studies;
- b) semi-structured interview: based on a semi-structured set of questions consisting of open-ended questions and closed-ended questions;
- c) structured interview: based on a structured set of closed-ended questions.

Critical success factors of informal oral inquiries arise from planning that considers the following requirements:

- a) obtaining an overall understanding of the Audited Entity and the area under review, as well as mastering the inquiry technique;
- b) setting the information to be obtained;
- c) creating the right set of objective questions;
- d) identifying the appropriate interviewee (gathering background information about the interviewee and his/her relationship with the area under review is recommended);
- e) establishing the number of interviewees;
- f) scheduling time and place of the interview in advance.

Factors related to personal and professional attributes may influence the results of informal oral inquiries. Thus, auditors should:

- a) be courteous, helpful, discreet, and objective;
- b) have outstanding interpersonal and oral communication skills, including listening skills, as well as remain impartial and refrain from interjecting personal opinions;
- c) be attentive to information that may be implicit;
- d) avoid unconstructive discussions and controversies that may divert the focus of the interview or cause the interviewee not to cooperate;
- e) avoid using accusatory tone, statements not supported by evidence, questions not related to the engagement object, unnecessary questioning, or excessive technical jargon.

⁶⁷ The Brazilian Office of The Comptroller-General. Course on Auditing Data Collection and Analysis Instruments and Techniques, 2016.

Additionally, government internal auditors should observe the following requirements to conduct effective interviews:⁶⁸

- a) asking prior permission from the interviewee if using audio or video recording of the interviews;
- b) ensuring that interviewing constitutes teamwork, especially if there is no audio or video recording of the interview. Therefore, a team member is responsible for taking notes whereas another auditor is asking questions;
- c) finding an appropriate place to conduct the interview, free of noises, distractions, or interruptions;
- d) explaining the objective of the interview;
- e) summarizing the answers from the interviewee at the end of the interview and getting confirmation that the information has been properly understood. The auditor may send the interview documentation by email and set a deadline for response.

Evaluating responses to inquiries is an integral part of the inquiry process. Responses might provide information that differs significantly from other information that the auditor has obtained. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

Although responses from inquiry may provide consistent information, auditors are required to perform additional procedures to corroborate the evidence obtained through inquiry. This is due to the fact that inquiries are directed to the Audited Entity's personnel from whom the auditor cannot count on receiving unbiased responses.⁶⁹

4.3.4.6.6 Recalculation

Recalculation, the checking of calculations, is a simple but indeed a complete technique. It is used extensively throughout the engagement, considering that the majority of operations of any Audited Entity involve values, numbers, quantities⁷⁰ and are subject, thus, to error or fraud.

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.⁷¹

Auditors must acknowledge that recalculation only provides evidence of the mathematical accuracy of operations. Other types of audit procedures are required to determine the reliability and legitimacy of the quantitative data from documents or records.⁷²

⁶⁸ The Brazilian Office of The Comptroller-General. Course on Auditing Data Collection and Analysis Instruments and Techniques, 2016.

⁶⁹ BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 210.

⁷⁰ PETER, Maria da Glória Arrais; MACHADO, Marcus Vinícius Veras. Manual de Auditoria Governamental, 2014, p. 169.

⁷¹ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 500 (ISA 500), 2013.

⁷² CREPALDI, Sílvia Aparecido. Auditoria Contábil, 2012, p. 443.

4.3.4.6.7 Analytical Procedures

According to the Brazilian Accounting Standards and the International Standards on Auditing 520, analytical procedures consist of “evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.”

Analytical procedures provide the internal auditor with an efficient and effective means of obtaining evidence. Analytical procedures involve studying and comparing relationships among both financial and nonfinancial information. Internal auditors may perform analytical procedures using monetary amounts, physical quantities, ratios, or percentages. The assessment results from comparing the information with expectations identified or developed by the internal auditor.⁷³

The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist and continue. “Examples of contrary conditions include unusual or nonrecurring transactions or events; accounting, organizational, operational, environmental, and technological changes; inefficiencies; ineffectiveness; errors; fraud; or illegal acts.”⁷⁴

Analytical procedures are useful in identifying:

- a) unexpected differences;
- b) the absence of differences when they are expected;
- c) potential errors;
- d) potential fraud or illegal acts;
- e) other unusual or nonrecurring transactions or events.⁷⁵

Analytical audit procedures include:

- a) comparing current period information with expectations based on similar information for prior periods;
- b) studying relationships between financial and appropriate nonfinancial information (e.g., recorded payroll expense compared to changes in the average number of employees).
- c) comparing the information with expectations based on similar information for other organizational units.⁷⁶

When performing analytical procedures, auditors are required to evaluate the reliability of the information used as a basis for establishing parameters. As a result, auditors should consider:

- a) the source of information;
- b) the opportunity for comparing the information with other sources;
- c) the nature and relevance of information available;
- d) the existence and reliability of controls related to the production of information.⁷⁷

⁷³ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 179.

⁷⁴ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 178.

⁷⁵ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 178.

⁷⁶ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 179.

⁷⁷ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 500 (ISA 520), 2013.

When analytical audit procedures identify unexpected results or relationships, the auditor must perform additional procedures. For example, using inquiry, auditors may obtain corroborating evidence to support their opinion about the engagement object.

4.3.4.6.8 Reperformance

According to the Brazilian Accounting Standards and the International Standards on Auditing 500, “reperformance involves the auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control.”

Using reperformance, the auditor reperforms procedures, calculations, and control activities to evaluate the systems, processes, and internal controls, thus confirming the records’ authenticity, accuracy, and legitimacy. Different from observation, reperformance allows auditors themselves to perform the procedures again, in order to obtain direct audit evidence about the authenticity, accuracy, and legitimacy of the information.

4.3.4.6.9 Tracing and Vouching

Both tracing and vouching notably pertain to audits of financial statements. However, the logic behind these techniques may be useful in other audit contexts.

Tracing and vouching test, respectively, the completeness and the validity of documented or recorded information. On the one hand, tracing entails tracking information forward from one document, record, or tangible resource to a subsequently prepared document or record. On the other hand, vouching entails tracking information backward from one document or record to a previously prepared document or record, or to a tangible resource.

Within the context of financial audits, tracing is used to test for understatements in recorded amounts. Therefore, tracing provides evidence for the integrity of accounting records, ensuring that transactions were properly recorded. In its turn, vouching is used to test for overstatements in recorded amounts. Therefore, vouching provides evidence for the occurrence of transactions, ensuring that transactions actually occurred.⁷⁸

4.3.4.6.10 Benchmarking

Although benchmarking is not originally an audit procedure, it is a valuable technique for performance evaluation and risk assessment in the context of Audited Entities.

Benchmarking basically consists of comparing performance information for the organization with like information of other individual organizations, as well as comparing performance information of one organizational unit with like information for other organizational units. Here is a typical benchmarking methodology. First, the performance information of the compared units is quantitatively and qualitatively analyzed. Then, the difference between the compared units’ performance is measured. Next, the main actions that contribute to the performance difference, which usually consist of good management practices, are identified. Finally, the opportunities for improvement are highlighted.⁷⁹

⁷⁸ BOYTON, William C. et al. Auditoria. São Paulo: Atlas, 2002, p. 211.

⁷⁹ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 182.

Specialized literature considers four types of benchmarking:⁸⁰

- a) competitive benchmarking: involves studying the leading competitor or the organization that best performs within the same industry or sector;
- b) process benchmarking: involves studying a single function, disaggregated into processes, to improve the operation of that particular function and its component processes. Complex functions such as human resources management is an example of a process benchmarkable function;
- c) strategic benchmarking: involves observing how organizations from other industries or sectors compete, in order to identify successful competitive strategies;
- d) internal benchmarking: involves comparing performance between different groups or teams within an organization to identify best practices.⁸¹

4.3.4.6.11 Computer-Assisted Audit Techniques

Computer-Assisted Audit Techniques (CAATs) are part of Technology-Based Audit Techniques (TBATs). CAATs include generalized auditing software programs, utility software, test data, application software tracing and mapping, audit expert systems, continuous auditing, and programs that specialize in testing the processing logic and controls of other software and systems.⁸² These techniques involve data analysis using technology to support the assessment of internal controls.

CAATs can significantly improve audit effectiveness and efficiency during the planning, execution, communication of results, and monitoring phases. CAATs enable auditors to investigate data and other information interactively and thus immediately react to the audit findings, modifying and enhancing the initial audit approach.

The main benefits of using CAATs are:

- a) improvement of audit planning and managing;
- b) robust analysis on datasets;
- c) larger coverage of audit procedures (the auditor can deftly analyze very large quantities of data);
- d) larger coverage of audit sampling (facilitate 100 percent examination of data populations, reducing audit risk, that is, the risk that the auditor expresses an inappropriate opinion);
- e) assertiveness when performing substantive and control procedures;
- f) decrease in the use of manual procedures;
- g) automation of the data analysis process;
- h) increase in the effectiveness of the audit procedures.

Audit evidence obtained from data processed by means of CAATs, as a rule, should undergo reliability examinations. Such examinations may involve assessing the consistency of the organization's controls regarding data integrity and security.

⁸⁰ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 183.

⁸¹ There are also other types of classification, such as differentiating benchmarking into internal or external benchmarking and financial or non-financial benchmarking. Internal benchmarking compares the performance of business units within the organization, while external benchmarking compares performance with business units of other organizations.

⁸² ANDERSON, URTON L. et al. Internal Auditing: Assurance & Advisory Services (adapted), 2017, p. 515.

In exercising due professional care, government internal auditors must consider the use of technology-based audit and other data analysis techniques to accomplish the engagement objectives. Naturally, auditors are required to master the main technology-based audit techniques in order to perform the engagements assigned to them.

CAATs tools may be classified as follows:⁸³

a) generalized: software programs for processing, simulating, analyzing, generating statistical data, summarizing, and other useful functions;

b) specialized: software programs for addressing specific and specialized tasks. Auditors may develop specialized automated audit tools;

c) utility: software programs that have not been specifically developed for auditing, but support the audit process, such as spreadsheets, database management systems, *Business Intelligence* tools, statistical packages, etc.

4.3.4.7 Sampling

Sampling is a technique of obtaining information about a population by investigating only part of it. The purpose of using sampling is to obtain information about a part of the population in order to form a conclusion concerning the characteristics of the population from which the sample is drawn. It is very useful in situations when the investigation of 100 percent of items is unfeasible or uneconomical, and the information obtained from the sample is sufficient to accomplish the intended objectives.

Understanding the concept of population is a requirement to master the subject of sampling. Population is understood as the set of all the elements under investigation. According to Cochran:⁸⁴

(...) the population to be sampled (the *sampled* population) should coincide with the population about which information is wanted (the *target* population). Sometimes, for reasons of practicability or convenience, the sampled population is more restricted than the target population. If so, it should be remembered that conclusions drawn from the sample apply to the sampled population.

The target population should not be confused with the reference population nor the sampled population. The **target population** is understood as the population about which information is wanted. The **reference population** is defined as a population used to establish norms for reference ranges and does not necessarily coincide with the target population. On the other hand, the **study population** (sampled population) is the population actually covered by the research. The study population may include unexpected units or exclude missed units that were expected though.

Audit sampling is defined as the application of audit procedures to less than 100 percent of items within a relevant population regarding the auditing purposes such that all sampling units have a chance of selection.⁸⁵

⁸³ ALVES, Paula Melo de Andrade; FREITAS, Arlindo de Oliveira. Ferramentas Informatizadas Utilizadas na Auditoria. Revista Brasileira de Contabilidade – RBC, 2017, (225).

⁸⁴ COCHRAN, W. G. Sampling Techniques, 1977, p. 5.

⁸⁵ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 530 (ISA 530), 2016.

Audit sampling is used to provide the auditor with factual evidence and a reasonable basis to draw conclusions about a population from which a sample is selected. To accomplish the objectives, the selected sample must be representative of the population of interest. Without ensuring that the sample represents the population, the ability to draw conclusions based on the review of the sample is limited, if not erroneous. The auditor should validate the completeness of the population to ensure that the sample is selected from an appropriate data set.

The error rate can be expressed through the sampling risk, which is the possibility that the auditor's conclusion from the sample may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure. There are two types of sampling risk:

- a) Incorrect acceptance — the risk that the attribute or assertion tested is assessed as unlikely when, in fact, it is likely.
- b) Incorrect rejection — the risk that the attribute or assertion tested is assessed as likely when, in fact, it is not likely.

Sampling risk, as part of the audit risk, should be managed and reduced to acceptably low levels in accordance with the level of assurance required for the audit engagement.

Sampling risk is a function of the sample design and the sample size. In general, given the same sample design, the larger the sample size, the lower the sampling risk.

The types of sampling are defined consistent with their overall characteristics and applicability in the audit work:

- a) statistical sampling: sample items are randomly selected and this probability can be accurately determined as well as the sampling risk. Statistical sampling allows the auditor to draw conclusions supported by arithmetic confidence levels regarding the population from which the sample was selected.
- b) nonstatistical sampling: sample items are not randomly selected, but rather selected by subjective criteria. Thus, the probability of sample items' selection is unknown and sampling risk is not objectively calculated. Because the sample is not representative of the population, the results from the sample analysis are not mathematically supportable when extrapolated over the population.

Choosing the type of sampling is based on the purpose of the audit procedure^{86 87} and the requirements for obtaining sufficient, reliable, relevant, and useful audit evidence. In addition, the risk of drawing inappropriate conclusions must also be considered. The types of sampling are defined consistent with their overall characteristics and applicability in the audit work:

- a) statistical sampling must be used when the purpose of the audit procedure is to obtain evidence that supports engagement observations, conclusions, evaluations, or recommendations based on generalizations about the total population from the results of the sample;

⁸⁶ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 530 (ISA 530), 2016.

⁸⁷ International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing 530 (ISA 530), 2016.

b) nonstatistical sampling must not be used in audit procedures that aim to obtain evidence that supports engagement observations, conclusions, evaluations, or recommendations based on generalizations about the total population from the results of the sample. Nonstatistical sampling may be used as long as the audit procedure intends to obtain evidence that supports engagement observations, conclusions, evaluations, or recommendations only applicable to the sample items.

In general, statistical sampling is always recommended, whereas nonstatistical sampling is limited to specific analyses.

When designing the size and structure of an audit sample, auditors should consider the specific audit objectives, the nature, and characteristics of the population, and the sampling and selection methods, so that sampling risk is reduced to an acceptable low level.^{88 89} Different engagement objects and procedures require a specific sampling design.

Therefore, auditors should design and select an audit sample, perform audit procedures, and evaluate sample results in order to support the achievement of the objectives of each engagement, attentive to its specificities. Due to sampling particular methodology, auditors should possess the knowledge, skills, and resources required to design the appropriate sampling strategy, always observing the principles of proficiency and due professional care.

Projecting the results of the sample to the population requires a method of projection consistent with the method of selection of the sample. When auditors report testing results and conclusions, sufficient information is required to enable an understanding of the projection of sample results. In other words, with the support of confidence levels, statistical sampling allows auditors to draw conclusions about the population from which the sample was selected. Thus, sampling risk is expressed in terms of the accuracy of estimates, confidence intervals, and inferences.

The audit workpapers should include sufficient detail to describe clearly the sampling objective and the sampling process used. The working papers should include information about the population, sampling design,⁹⁰ sampling parameters, sample selection criteria, items selected, data analysis, treatment to non-response bias, and methodology for projecting sample results. Such workpapers provide evidence to support the auditors' conclusions as well as enable transparency and engagement supervision.

4.3.5 ALLOCATING RESOURCES

At the end of the planning phase, the engagement supervisor should reevaluate whether the initial estimation of resources, costs, and time for conducting the engagement is compatible with the activities to be performed.

Moreover, the supervisor should verify whether the initially assigned team members are proficient enough to perform the engagement. If the internal audit activity does not have appropriate and sufficient resources on staff, the engagement supervisor must obtain assistance to fill any gaps, so that the audit team has the necessary knowledge, skills, experience, and additional competencies to perform the engagement.

Any staff changes must be documented. Working papers on the engagement planning are required to be updated with regard to those changes.

⁸⁸ International Standard on Auditing 530 (ISA 530), 2016.

⁸⁹ Idem footnote no. 88.

⁹⁰ In statistical sampling, the sample design must detail the sampling process, including information on the sampled population, sampling parameters, stratified sample selection criteria, sampling units, likelihood estimators, and error rates.

5 PERFORMING THE ENGAGEMENT

Evolving from engagement planning to engagement execution should be a smooth transition since both phases involve some degree of data analysis and evaluation. The assessment of the engagement object starts with preliminary analyzes and audit procedures that are performed throughout the engagement until the end of the execution phase.

During the execution phase, auditors identify, analyze, evaluate, and document sufficient information to report the audit findings. Audit findings must be endorsed by sufficient, reliable, relevant, and useful evidence to support the UAIG's opinion on the engagement object and thus to enable the achievement of the engagement's objectives as initially established.

At this point, as a function of the selected audit techniques, the audit team is required to work on-site, i.e., to perform the engagement in the facilities of the Audited Entity. For that reason, we usually refer to the engagement execution phase as "fieldwork" or "engagement performance phase". A successful engagement performance depends on adequate communication between auditors and auditees.

Similar to other engagement phases, activities performed during the execution phase must be properly documented in working papers.

5.1 COMMUNICATING WITH THE AUDITED ENTITY DURING THE ENGAGEMENT

Establishing effective communication with the Audited Entity throughout the auditing process is an essential good practice regarding engagement development. Adequate communication enables a better understanding of the engagement object, access to data, and other sources of information. These sources of information include clarification statements from the Audited Entity on the audit findings or any aspect that may influence the UAIG's opinion.

Therefore, government internal auditors must keep cordial working relationships with all parties involved in the auditing process. They are also required to promote an open and free information flow, respect confidentiality requirements, and conduct discussions within an atmosphere of mutual respect and understanding of the roles and responsibilities of the parties involved.

The engagement supervisor and the audit team must establish direct communication channels with those responsible for the Audited Entity. Communications should address the engagement's objectives, scope, timing, and dynamics; the timely availability of information and documents; audit findings; immediate and significant risks identified by the audit team; and other issues relevant for the engagement continuity.

The engagement supervisor or the UAIG's chief audit executive must immediately communicate any restrictions on access to information. Such communication must be addressed in writing to senior management and the board, if any, and request the actions needed for the engagement continuity.

Typically, communication between the audit team and the Audited Entity is addressed in writing. At the same time, meetings with senior management and managers responsible for the audited areas provide opportunities to keep each other informed on audit observations, findings, and any other matters of mutual interest.

In this section, we present in detail the formats and guidelines to communicate with the Audited Entity in the course of engagements:

- a) Document formalizing the commencement of the engagement and its directives;
- b) Opening meeting;
- c) Document presenting the audit team and the engagement's objectives and scope;
- d) Audit Request List (SA);
- e) Audit Memo (NA);
- f) Meeting for presenting audit findings and discussing possible solutions.

On the other hand, we clarify that these forms of communication do not exclude other types of documents or meetings that the UAIG has adopted in its work processes.

The form and content of those documents should follow the UAIG's official communication standards. The same standards should apply to the requirements for signing and forwarding communication documents.

Face-to-face interactions between the audit team and the Audited Entity's personnel are also required as a function of audit procedures such as inquiry and direct observation.

5.1.1 DOCUMENT FORMALIZING THE COMMENCEMENT OF THE ENGAGEMENT AND ITS DIRECTIVES

In order to develop a constructive, respectful, and collaborative working relationship, the UAIG should provide the Audited Entity's senior management with an engagement letter or other suitable form of a written agreement that records the agreed terms of the engagement and its directives. The engagement supervisor is responsible for determining the proper time to provide the engagement letter, whether before or after the engagement planning phase, but always before the audit team starts performing the audit procedures.

5.1.2 OPENING MEETING

The purpose of the engagement opening meeting is to communicate to those charged with the Audited Entity's governance the commencement of the engagement and present its main directives.

Opening meetings should be attended, whenever possible, by the Audited Entity's senior management. The engagement supervisor, or a delegated audit team member, is responsible for conducting the opening meeting.

As a minimum agenda for the engagement opening meeting, we suggest:

- a) communicating the type and overall objective of the engagement;
- b) communicating the planned timing of the engagement, including fieldwork and reporting deadlines, as well as the scheduled dates of the meetings with the Audited Entity;

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- c) presenting the audit team members, the engagement supervisor, and the team coordinator;
 - d) acknowledging the Audited Entity's delegate for interacting with the audit team;
 - e) defining the resources required to perform the fieldwork, such as equipment and workspace, when applicable;
 - f) arranging physical access over facilities, records, documents, and information, including confidential data;
 - g) presenting the engagement dynamics whenever auditees are not familiar with auditing processes;
 - h) indicating the form of communicating the results of the engagement;
 - i) indicating the duties of the auditees;
 - j) acknowledging suggestions on the engagement scope or any concerns or questions about the audit work on the part of the Audited Entity.

5.1.3 DOCUMENT PRESENTING THE AUDIT TEAM AND THE ENGAGEMENT'S OBJECTIVES AND SCOPE

We strongly suggest that the document presenting the audit team members assigned to perform the engagement is provided to the Audited Entity's senior management during the engagement opening meeting. That document should include the engagement objectives, scope, timeframe, and the assigned supervisor and audit team coordinator.

Additionally, the document may include the following matters:

- a) legal and or regulatory requirements that support the engagement performance;
- b) the following actions required from the Audited Entity:
 - to provide adequate resources and support, such as a safe office room to which access is restricted, along with computers and access to the internet, when necessary;
 - to provide passwords to access the Audited Entity corporate information systems;
 - to provide a delegate for interacting with the audit team who is knowledgeable of the Audited Entity business areas.

Appendix C provides a sample of an audit team presentation document.

5.1.4 AUDIT REQUEST LIST

The UAIG issues audit request lists to request documents, information, and clarification from the Audited Entity. Audit request lists may be issued before, during, and after the engagement fieldwork.

The Audit Request List (SA) must be addressed to the Audited Entity's senior management or other competent authorities. The UAIG's chief audit executive is responsible for defining the person in charge of signing the audit request list within the UAIG.

Deadlines should consider the type and amount of information requests so that the Audited Entity has sufficient time to provide the required information and auditors can perform the analyzes and procedures on time. Deadlines may be established in agreement with the Audited Entity as long as the planned engagement timeframe is not impaired.

In addition to specific content and reply deadline, the SA may include information to assure that the responses obtained from the Audited Entity are qualified and valuable for the engagement purposes, such as:

- a) legal and or regulatory mandates supporting the request of documents and information;
- b) instructions on the medium and format to provide the requested data whether in paper form or electronic media (e-mail, CD-ROM, USB flash drive, information systems, among others);
- c) instructions on identifying those responsible for providing the requested information and its sources. Instructions on dates and signatures regarding the documents addressed to the audit team;
- d) request for the Audited Entity to communicate with the audit team, within the period established on the SA, any situations in which the requested information or documents are totally or partially unavailable.

Whenever possible, the audit team should have face-to-face interactions with the Audited Entity's employees, who are directly responsible for providing clarifications on the content of the SA.

In case of partial or total non-compliance with information and documents requests, the audit team may take the following actions:

- a) to reiterate the request on the SA, establishing a new deadline for a reply;
- b) to request that the engagement supervisor or the UAIG chief audit executive contact the Audited Entity's senior management, particularly when delays in responding requests could impair the progress of the engagement.

Auditors must document all relevant information, including clarification statements received from the Audited Entity, to support the conclusions and engagement results. Engagement working papers are discussed in section 5.7 of this Practice Guide.

Appendix D provides a sample of an Audit Request List.

5.1.5 AUDIT MEMO

During the engagement, the UAIG issues audit memos in the following circumstances:

- a) when auditors communicate corrective actions that otherwise immediately implemented by the Audited Entity could result in damage or losses to citizens or public organizations. Audit reports or other documents that communicate engagement results must include such recommendations;

b) when auditors communicate corrective actions as a function of irrelevant or immaterial⁹¹ misstatements that are not included in the audit report.

Audit memos referred to in item “a” must be addressed to the Audited Entity's senior management. On the other hand, audit memos referred to in item “b” may be addressed to the Audited Entity's business area managers. The UAIG’s chief audit executive is responsible for defining the person in charge of signing both types of audit memos within the UAIG.

Deadlines for implementing recommended corrective actions may be established in agreement with the Audited Entity and should be included in the related audit memos (NAs).

Appendix E provides a sample of an Audit Memo.

5.1.6 MEETING FOR PRESENTING AUDIT FINDINGS AND DISCUSSING POSSIBLE SOLUTIONS

Auditors should establish effective two-way communication with the Audited Entity. Meetings held during the engagement execution phase are opportunities for discussing audit findings and clarifying observations regarding the engagement object. We strongly suggest that auditors communicate engagement observations, findings, and conclusions as soon as possible to obtain timely clarification statements from the Audited Entity. These initiatives contribute to support or prevent misunderstanding of the auditor’s conclusions and recommendations.

Notwithstanding these interlocution opportunities, final engagement communication requires at least one meeting with the Audited Entity's delegates, especially with business areas managers, to discuss audit findings, observations, conclusions, and recommendations.

To effectively benefit from the interaction, we strongly suggest that the UAIG communicates the audit findings to the Audited Entity's managers in writing before the meeting.

The engagement supervisor (or a delegate) is responsible for conducting the final meeting. As far as possible, all audit team members should attend the meeting.

As a minimum agenda for the meeting, we suggest:

- a) reporting situations that might impair the reliability of the engagement results;
- b) presenting and discussing the findings and results of the engagement;
- c) discussing recommendations for improvements and their implementation deadlines;
- d) establishing a deadline for the Audited Entity to communicate its views about the auditor’s conclusions, opinions, or recommendations, especially if there are disagreements between the parties on the engagement results and on any necessary plan of action to improve operations.

As a result of new information and knowledge gained during the interactions, audit findings may be adjusted, subject to approval by the engagement supervisor, and must be communicated to the Audited Entity. If necessary, adjusted audit findings are discussed in a specific meeting.

⁹¹ The UAIG’s chief audit executives are responsible for defining within their UAIGs the parameter (value) upon which flaws or failures are of low materiality.

5.2 DATA GATHERING AND ANALYSIS

At this stage, the audit team performs the audit procedures established in the work program, using data gathering and analysis.

Determined by appropriate engagement techniques established during engagement planning,⁹² auditors obtain sufficient audit evidence to support the UAIG's opinion. Therefore, based on the obtained evidence, a prudent, informed person would reach the same conclusions as the audit team. In section 5.3 of this Implementation Guide, we present specific aspects of audit evidence.

Sometimes, additional information is required to support audit observations and conclusions. Thus, the audit team should always be prepared to adjust the work program, subject to approval by the responsible body, and perform additional testing.

Evidence obtained from the performance of audit procedures enables auditors to answer audit questions, form an opinion (conclusion), and issue recommendations. Therefore, a flawed data collection and analysis process may compromise the engagement results.

5.3 AUDIT EVIDENCE

Audit evidence consists of information collected, analyzed, and assessed by the auditor to support the engagement findings and conclusions. Audit evidence constitutes a means of proof to support the UAIG's opinion and reduce audit risk to an acceptable level.

Evidence obtained during the engagement must be documented, organized, and referred to in working papers, according to the policies established by the UAIG's chief audit executive.

The quality of the UAIG's conclusions and recommendations depends on the audit team's ability to collect and assess sufficient, reliable, relevant, and useful evidence. Government internal auditors must have adequate knowledge of auditing procedures⁹³ to obtain sufficient evidence to achieve the engagement's objectives. To assess the nature and sufficiency of the evidence to be obtained, auditors must rely on professional skepticism and professional judgment.

Professional skepticism enables the auditor to perceive circumstances that may cause the information about the engagement object to contain material misstatements. It means that the internal auditor must critically assess the validity of the evidence and acknowledge the existence of any circumstance that impairs the reliability of documents or other information.

Professional judgment enables the auditor to assess whether evidence has the required attributes to reduce audit risk to an acceptable level. In any event, professional judgment must be based on facts and circumstances known to the auditor. Given facts, circumstances, and adequate audit evidence, professional judgment assists internal auditors when evaluating the significance of matters within the context of relevant objectives.

⁹² Other ways of obtaining evidence include information from prior engagements and expert opinions. In all cases, the auditor must carefully verify whether there were changes in circumstances since the last engagements and ensure that experts have the required qualifications and experience. On the subject of hiring specialists external to the UAIG, see section 3.3.2.

⁹³ Section 4.3.4 presents detailed information on the audit procedures that are performed during audit engagements.

5.3.1 ATTRIBUTES OF EVIDENCE

Normative Instruction No. 3, of June 9th, 2017, establishes that information obtained as audit evidence must be sufficient, reliable, relevant, and useful. The sufficiency of audit evidence is the measure of the quantity of audit evidence, while the other attributes of audit evidence are measures of the quality (appropriateness) of audit evidence.

Sufficient evidence is obtained from factual, adequate, and convincing information so that a prudent, informed person would reach the same conclusions as the governmental internal auditor. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

Reliable evidence is obtained from relevant information that is best attainable through the use of appropriate engagement techniques. Reliable evidence supports the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

Although there are no hard and fast rules regarding reliability of evidence, there are useful guidelines government internal auditors may follow, such as:⁹⁴

- a) evidence obtained from independent third parties is more reliable than evidence obtained within the Audited Entity;
- b) evidence produced by a process or system with effective controls is more reliable than evidence produced by a process or system with ineffective controls;
- c) evidence obtained directly by the internal auditor is more reliable than evidence obtained indirectly;
- d) evidence provided by original documents is more reliable than evidence provided by photocopies;
- e) corroborated evidence is more reliable than uncorroborated or contradictory evidence.

Besides those guidelines, auditors must consider other aspects that influence the reliability of evidence like its source and nature, and individual circumstances under which it is obtained. In cases of doubt about the reliability of information or indications of possible fraud, auditors must investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter. At the same time, auditors are required to assess the cost-benefit ratio of applying additional audit procedures.

Relevant evidence is obtained from significant information that supports engagement observations and recommendations and is consistent with the objectives and scope of the engagement. Professional judgment is necessary to evaluate whether relevant audit evidence has been obtained.

⁹⁴ ANDERSON, URTON L. et al. Internal Auditing: Assurance & Advisory Services (adapted), 2017, p. 498-536.

Useful evidence is obtained from information that helps the Audited Entity to meet its organizational goals. In other words, useful evidence should add value and contribute to the improvement of the Audited Entity's business operations. Moreover, useful evidence supports the auditor's observations, conclusions, and opinions.

5.3.2 NATURE OF EVIDENCE

Regarding its nature, audit evidence may be classified into legal evidence and auditing evidence.⁹⁵ Types of legal evidence are:

- a) direct evidence: supports the truth of an assertion directly, i.e., without an intervening inference;
- b) circumstantial evidence: also referred to as indirect evidence, consists of a fact or set of facts which, if proven, supports the creation of an inference that the matter asserted is true;
- c) conclusive evidence: it alone establishes the fact in issue and is so strong that cannot be disputed by any other evidence. Obtaining conclusive evidence involves high costs and long periods of time;
- d) corroborative evidence: strengthens or confirms already existing evidence so that it provides more reliable, relevant, and useful audit evidence. Corroborative evidence must be obtained from sources other than the original source whether internal or external to the Audited Entity. As a function of professional skepticism, government internal auditors seek information from other sources to obtain evidence that corroborates the information collected within the Audited Entity.

Types of auditing evidence are physical, testimonial, analytical, and documentary evidence. Such classifications are associated with the types of audit techniques used to obtain auditing evidence:

- a) physical evidence is obtained through physical inspection or direct observation techniques. Examples of physical evidence are photographs, videos, maps, graphics, tables, and observation of a process or procedure being performed by the Audited Entity's employees. If some information only can be obtained through direct observation, at least two internal auditors are required to assess it;
- b) testimonial evidence is obtained from verbal or written statements gathered through inquiry techniques, whether interviews or surveys. Testimonial evidence is more reliable when confirmed by information obtained from other sources, if possible. Government internal auditors should apply professional skepticism to decide whether or not such evidence is appropriate since that type of information tends to be inconclusive and influenced by personal interests and momentarily issues;
- c) analytical evidence is obtained through analysis of plausible relationships among data sets. It may require specific skills and knowledge from the internal auditor. The most commonly used audit techniques that produce analytical evidence are audit sampling, computer-assisted audit techniques, independent verifications and reconciliations, and analytical procedures;

⁹⁵ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 212.

d) documentary evidence is obtained through examining documents from internal or external sources to the Audited Entity. It is the most common type of auditing evidence. Examples of documents are reports, memos, minutes, contracts, letters, and other supporting documents such as invoices, commitment notes, service notes, agreement terms. Such evidence may be stored in paper or digital media.

5.3.3 INFORMATION SOURCES

Information sources capable of producing audit evidence may be internal or external to the Audited Entity.⁹⁶

Internal information is information produced within the Audited Entity, whether or not later processed by an external party. Information produced by the Audited Entity and processed by external agents tends to be more reliable than purely internal information.

External information is information produced by an external independent organization, whether or not later processed by the. Generally, external information processed by the Audited Entity is considered less reliable than purely external information. In its turn, purely external information tends to be more reliable than purely internal information because it is less exposed to possible alterations by the Audited Entity.

“Information produced by third-party services” does not fit perfectly into neither one of the mentioned criteria. On the one hand, such information is produced externally to the Audited Entity. On the other hand, it does not have the same level of reliability as that of the information produced by external independent organizations.

5.3.4 PERSUASIVENESS LEVEL OF AUDIT EVIDENCE

Persuasive audit evidence is required to support the UAIG’s opinion. Considering that obtaining conclusive evidence is not that usual and relying on evidence that has little or no pertinence to a specific engagement objective significantly increases audit risk, auditors should achieve the desired level of persuasive evidence.

Persuasive audit evidence consists of information capable of supporting the auditor’s observations, conclusions, and recommendations so that it provides reasonable assurance that the auditor’s opinion is appropriate. Sufficient and relevant persuasive evidence can be obtained as a result of consistent and effective audit planning.

In this regard, the following procedures provide government internal auditors with persuasive audit evidence:⁹⁷

- a) physical examination performed by the auditor provides convincing evidence;
- b) direct observation performed by the auditor provides the second-best persuasive evidence;
- c) the information obtained from third parties provides more convincing evidence than information obtained from the Audited Entity;

⁹⁶ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 213-214.

⁹⁷ GLEIM, Irvin N. CIA Review Part 1, 2014, p. 215.

d) documentary information provides more convincing evidence than testimonial statements, the latter constituting the least persuasive evidence of all.

Furthermore, information obtained from reliable sources and corroborated by other information provides more convincing audit evidence.

Government internal auditors must acknowledge the inherent limitations of an engagement, resulting in most of the audit evidence being persuasive rather than conclusive. The inherent limitations of an engagement may arise from: signs of fraud, unreliable information, and lack of legal authorities such as subpoena powers. These limitations influence the level of persuasiveness or convincingness of the audit evidence.

5.4 AUDIT FINDINGS (OR OBSERVATIONS)

Audit findings emerge from comparing criteria established during the engagement planning phase with the actual condition, as evidenced by the application of audit procedures. Audit findings enable auditors to answer the audit questions defined in the planning stage. Audit findings are also known as remarks or observations.

In that regard, audit findings may indicate compliance or non-compliance with the requirements and best practices or opportunities for improvement.

Non-compliances with the criteria may include improper and irregular assertions.⁹⁸

Audit findings must be revised and approved by the engagement supervisor before being communicated to the Audited Entity. In this process, the engagement supervisor assures sufficient and appropriate audit evidence to support those audit findings. For that reason, meetings attended by the engagement supervisor, team members, and coordinator are strongly recommended to level up their understandings.

5.4.1 BASIC REQUIREMENTS

Audit findings constitute a solid foundation on which to build the auditor's opinions and recommendations based on the following requirements:⁹⁹

a) relevance towards the engagement objectives;

– less significant audit findings should be communicated to the Audited Entity by other means than the audit report, such as audit memos. Audit findings that do not contribute to management improvement or misstatements avoidance should only be documented in working papers;

– relevant circumstances identified during the course of the engagement that are unrelated to the objectives established in the planning phase must be presented to the engagement supervisor, who is responsible for deciding on the adequate approach to address them. Depending on the criticality, materiality, and relevance of those circumstances, a specific engagement should be scheduled, subject to inclusion in the Internal Auditing Plan, or document in working papers;

b) evidence-based observations ensuring that transactions actually occurred;

⁹⁸ The Brazilian Federal Court of Accounts. Auditing Standards, 2011, p. 40.

⁹⁹ The Brazilian Federal Court of Accounts. Auditing Standards, 2011, p. 41.

c) consistency concerning its components (listed in section 5.4.2), so that a (prudent and informed) third party would reach the same conclusions even if not participating in the engagement.

Along with the described requirements, all the characteristics expected for audit reports presented in sections 6.2 and 6.3 apply to audit findings.

5.4.2 COMPONENTS

Audit findings must include four main components, namely: criteria, condition, cause, and effect.

Criteria (what should be)

Criteria are standards, measures, or expectations used to evaluate whether the engagement object achieves or fails the required or expected performance. Criteria are defined in the engagement planning phase, as detailed in section 4.3.3 of this Implementation Guide.

Condition or Current State (what is)

Condition is factual evidence obtained and documented in the course of the engagement. As a function of applied audit techniques, conditions are evidenced in several manners.

Cause

The cause is the reason for the difference between expected and actual conditions. Causes explain why actual conditions exist, clarifying the circumstances that configured them as they are.

Thus, the audit team must strive to identify the root cause, i.e., the core issue, the highest-level cause that ultimately leads to the condition. Identifying the root cause requires assumptions on the sources of conditions. Information presented in table 4, section 4.3.2.1.1, may also assist auditors in this process.

Determining the root cause may be a complex task. In some instances, several factors with varying degrees of influence may act in combination to originate the root cause of a condition. In other situations, a broader issue as the organizational culture may produce the root cause. Hence, auditors are only able to identify the intermediate causes of certain conditions.

Final engagement recommendations should preferably address the root causes of the identified conditions. The reason behind this advice is that acting upon the root cause eliminates or reduces the likelihood of mishaps recurrence, as well as collaborates with management improvement.

Effect

The effect is the outcome from the difference between criteria and conditions. Effects can be positive, resulting from benefits, or negative, associated with the risk or exposure that the engagement object is subjected to when the condition is not consistent with the criteria. Otherwise stated, the effect is the impact of the difference between the standards the auditor uses (criteria) and the current state identified during the engagement (condition).

Likewise, there are current effects, resulting from an actual condition, or potential (risk) effects, associated with exposure to an outcome. The most common example of a negative effect is financial damage to the public treasury.

Although it is not a mandatory requirement, we suggest writing headings for audit findings (short headlines) that summarize the content of the reported facts to guide the reader's attention.

5.4.3 AUXILIARY INSTRUMENT FOR DEVELOPING AUDIT FINDINGS

The volume of information and documents collected during an engagement is usually quite significant so that identifying and composing the results of the analyzes, the relationships among audit findings, and supporting evidence may constitute a complex task. Furthermore, integrating several observations from audit team members may become burdensome unless there is an efficient instrument for treating engagement information.

To address these challenges, we suggest developing audit findings by means of a single instrument that synthetically presents the content of engagement observations in a fashion to provide an overview of the reported facts and facilitate internal discussions and supervision.

To this end, audit teams are encouraged to prepare an audit findings matrix¹⁰⁰ indicating audit findings vis-à-vis their components along with other contents that enable a complete understanding of the answers to the audit questions and assist in the preparation of engagement results communication.

Audit findings matrix should be prepared concurrent with the performance of audit procedures and analyzes supporting the answers to the audit questions and include only synthetic information in each component column.

Moreover, using an audit findings matrix provides the audit team with the following advantages:

- a) it facilitates the elaboration of audit findings since their components are logically organized in specific columns;
- b) it contributes to an effectively structured engagement report because it enables audit findings to be communicated in order according to their relevance;
- c) it supports collaboration among audit team members, who tend to feel comfortable with expressing their criticisms and suggestions during the process of developing audit findings;
- d) it avoids rewriting audit findings since the inputs of the audit team members and the reviews from the engagement supervisor and team coordinator may be presented upon the matrix and thus before the report text is written;
- e) it facilitates the review of audit findings since it enables reviewers to quickly identify any gaps or inconsistencies. As a consequence, engagement reports or other results communication instruments can benefit from timeliness and better quality;
- f) it allows the preparation of concise and objective engagement reports or other results communication instruments as it discourages the inclusion of super-detailed information or elements extraneous to the audit findings components.

¹⁰⁰ See Appendix F for a sample.

5.5 MANIFESTATION FROM THE AUDITED ENTITY (OR RESPONSES FROM THE AUDITED ENTITY)

Audit findings that indicate flaws or nonconformance must be communicated to the Audited Entity's senior management to obtain clarification statements or additional information that contribute to a better understanding of the identified conditions and support the development of corrective recommendations.

The UAIG is responsible for defining the format to communicate audit findings. A narrative report with the contents presented in paragraphs is the most commonly used report format. Other used formats include table forms (audit findings matrices) or bullet forms, in which each audit findings component is presented through synthetic texts.

The UAIG decides when to communicate audit findings, whether during the engagement performance, as they are reviewed by the engagement supervisor or in a consolidated manner after they are composed and reviewed.

Responses from the Audited Entity are essential for the audit team to assess whether the obtained evidence fully supports engagement conclusions. Manifestations provide auditors with opportunities to avoid misunderstandings, misinterpretations, and unreliable evidence, so that audit team members are capable of confirming or revising their observations and conclusions. Divergencies must be carefully addressed and material inaccuracies corrected.

Manifestations that require modifications in the audit team's opinion must be discussed with the engagement supervisor, who is responsible for approving adjusted audit findings.

5.6 RECOMMENDATIONS

Recommendations consist of actions that the UAIG communicates to Audited Entities for correcting existing conditions and improving operations. Recommendations are not presented as part of audit findings components but derive from them and are essential towards achieving the purpose of the internal audit function, that is, of adding value to management. To a large extent, the achievement of internal audit objectives is measured by the benefits management obtains from implementing audit recommendations. Therefore, the UAIG must provide relevant recommendations and actively monitor their implementation. Otherwise, the Audited Entity fails to achieve the benefits arising from the engagement.

Recommendations should address "what" needs to be done or which results to accomplish. In some circumstances, however, recommendations may also guide management on how to implement improvement actions, for instance, when new regulations are required. In general, audit teams are not responsible for unilaterally deciding "how" management implements recommended actions. Auditors must discuss recommendations with business areas managers to benefit from their knowledge regarding the engagement object and consider the resources required for implementation.

Recommendations might address audit findings components other than causes, as conditions, effects, and even criteria. However, we strongly suggest that recommendations emerge from identifying the underlying cause of audit findings, which ought to be addressed by management to prevent the reason for similar issues. Addressing the root cause and recommending the appropriate remediation activities helps prevent future recurrences and contributes to management improvement.

Considering the quantity and complexity of recommended corrective actions, the Audited Entity should propose an action plan to guide auditors in the monitoring process. Managers are responsible for developing action plans, whereas internal auditors should evaluate management proposed actions and contribute to their improvement whenever possible.

5.6.1 ADVISABLE ATTRIBUTES OF RECOMMENDATIONS

The following attributes contribute to effective recommendations:

a) monitorability: recommendations should be monitorable, allowing verification of whether management actions have been effectively implemented, as well as defining the type of expected supporting evidence to obtain. To this end, a follow-up process by which auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported recommendations is essential. Monitoring the implementation of recommended actions enables auditors to check whether recommendations resulted in performance improvements to the audited objects;

b) root cause centrality: recommendations should directly address the identified cause of the issues. Acting on the root causes provides effective recommendations since it helps prevent future recurrences and contributes to management improvement. On the other hand, recommendations that only act upon intermediate causes may correct the specific issue at hand but do not prevent it from reoccurrences;

c) feasibility: recommendations should account for legal, financial, personnel, and other restrictions that might affect the implementation of the actions suggested by auditors. In this regard, the discussion of possible solutions with the Audited Entity is of utmost importance so that auditors can understand whether or not recommendations are attainable. Additionally, the audit team should establish a reasonable time frame regarding the implementation of recommendations agreeing with managers on a compatible deadline;

d) cost-benefit justification: recommendations should account for the cost of implementation. For instance, suggesting controls via advanced computerized systems might represent a high cost concerning a specific operation while it may imply a minor expense to other business areas. Thus, the audit team along with the engagement supervisor should assess the expected costs and benefits of implementing recommendations;

e) reasonable alternatives: recommendations should emerge from the best solutions among several options. To this end, the audit team along with the engagement supervisor should assess the actions proposed by the Audited Entity and raise suitable and cost-effective alternatives to support the discussions on the recommendations;

f) assertiveness: recommendations should be directly addressed to the business areas managers who are responsible for their implementation. Recommendations lacking a clear indication of those competent for adopting the recommended actions become ineffective;

g) objectivity: recommendations should be clearly identified in the engagement report (or other documents that communicate engagement results). Therefore, auditors are required to use direct language and avoid vague wording so that there is no doubt about the content of recommendations and the requisites to comply with them;

h) specificity: recommendations should address the actions to be performed and the associated results expected to be accomplished rather than the manner through which they are implemented. Furthermore, recommendations content should not repetitively describe the identified cause and condition;

i) significance: recommendations should derive from relevant audit findings and act upon improvement actions that enhance management through governance, risk management, and control processes;

j) positivity: recommendations should approach corrective and improvement actions in a positive fashion so that auditors use a constructive tone and avoid negative wording. Constructive communications facilitate convincing senior management for positive changes as a result of the implemented recommendations.

5.7 WORKING PAPERS

Working papers (or audit documentation) constitute the record of audit procedures performed, relevant audit evidence obtained, and conclusions government internal auditors reached.

Audit documentation includes work papers prepared by the auditors and documents obtained from the Audited Entity or third parties such as spreadsheets, forms, surveys, photographs, data, audio and video files, memoranda, general correspondence, letters of confirmation and representation, checklists, abstracts or copies of specific contracts and agreements, audit programs and analyzes.

Working papers should be prepared in detail to provide sufficient and appropriate evidence on the nature, timing, and extent of audit procedures performed and the obtained audit evidence. Therefore, government internal auditors must prepare working papers to document the information obtained, the analyses made, and the evidence produced during the engagement.

Audit documentation serves several additional purposes, including the following:

- a) assisting in planning, performing, and reviewing the engagement;
- b) providing support for the engagement results;
- c) documenting whether engagement objectives were achieved;
- d) supporting the accuracy and completeness of the work performed;
- e) providing a basis for the UAIG's PGMQ;
- f) facilitating third-party reviews.

5.7.1 PREPARING WORKING PAPERS

Government internal auditors are responsible for preparing audit documentation that provides evidence supporting the performance of the activities assigned to them.

Working papers include documents evidencing that the activities performed during the engagement were reviewed. Such documents may be prepared by the engagement supervisor, or a delegate, as long as the supervisor has electronically approved and signed them.

Audit documentation should be prepared on a timely basis because documentation prepared after the engagement has been performed tends to be less accurate than documentation prepared during the engagement.

Working papers should enable an experienced auditor, having no previous connection with the engagement, to understand the nature, timing, extent, and results of the audit procedures performed and the audit evidence obtained as well as significant matters arising during the engagement, the conclusions reached thereon, and relevant professional judgments made in reaching those conclusions.

5.7.2 ATTRIBUTES OF WORKING PAPERS

According to Normative Instruction no. 3, of June 9th, 2017, information obtained by government internal auditors as audit evidence must be sufficient, reliable, relevant, and useful, as detailed in section 5.3.1 of this Implementation Guide. Similarly, audit documentation must possess those attributes.

Additionally, attributes such as concision, clarity, and completeness are required when preparing working papers.

Concision demands an objective use of information. For instance, filling forms with irrelevant information distracts team members from the engagement's objectives and leads to inefficient use of time resources. Therefore, auditors should ensure that working papers are appropriately concise by avoiding redundancies and excluding unnecessary or insignificant information or information unrelated to the engagement. In fact, government internal auditors should not confuse audit documentation with simple copies of documents. In order to constitute working papers, documents must imply relevant audit observations and support the evidence obtained throughout the engagement.

To ensure the proper balance in collecting information and preparing working papers, auditors must follow the UAIG's policies and procedures regarding audit documentation as well as exercise their professional skepticism and professional judgment.

Clarity is present when audit documentation is easily understood and logically supports the engagement's supervision and review processes. Clarity is increased, for example, when engagement working papers contain a list of abbreviations and a glossary consistent with the terminology used in the industry and by the Audited Entity.

Completeness requires that audit documentation includes evidence supporting all observations presented in the engagement report or other results communication instruments. Equally, working papers should contain information on the activities performed and even on the matters not considered in the context of the engagement.

Auditors should also regard that even though oral explanations may be used to clarify information included in working papers, they do not constitute adequate support for the observations and conclusions reached during the engagement.

As part of working papers preparation, a good practice is that auditors prepare a summary that describes the significant matters identified during the engagement and how they were addressed. Such a summary may facilitate audit documentation reviews and inspections.

5.7.3 CATEGORIZING WORKING PAPERS

Engagement working papers are categorized as permanent or current engagement files. Classifying working papers enables an efficient organization, retention, and use of audit documentation in future engagements.

Permanent engagement files consist of information of continuing importance and may be used in more than one engagement. Permanent engagement files include information that enables an overall understanding of the Audited Entity or engagement objects. Government internal auditors must update permanent engagement documentation whenever new information arises at the source.

Examples of permanent engagement files are, among others:

- a) legal documents such as statutes and internal regulation;
- b) historical data;
- c) operational procedures flowchart;
- d) organizational chart;
- e) list of senior managers and other authorities;
- f) specific applicable rules and regulations;
- g) norms, statutes, and resolutions;
- h) engagement reports from previous years.

Current engagement files constitute sufficient and appropriate documentation of the information obtained, the analyses made, and the support for the conclusions and engagement results. Contrary to permanent engagement files, current engagement files are directly related to the engagement object and audit procedures performed.

Examples of current engagement files include, but are not limited to:

- a) planning documents;
- b) audit request lists and related responses;
- c) reports of inspections;
- d) information about audit samples, population, and coverage of examinations;
- e) records of the audit procedures and analyses performed as well as conclusions reached;
- f) evidence supporting the audit findings;
- g) minutes of meetings;
- h) engagement report and subsidiary documents (opinion statements, certificates);
- i) other instruments for communicating engagement results, such as notices, memoranda, and letters.

The UAIG's chief audit executive establishes working paper policies and defines the standards through which working papers are classified as permanent engagement files or current engagement files, thus, rationalizing the processes of audit documentation search and retention. In light of efficiency, permanent engagement files should not be duplicated into current engagement files. The use of adequate cross-referencing avoids redundant engagement files.

5.7.4 DESIGNING, ORGANIZING, AND RETAINING WORKING PAPERS

As presented before, government internal auditors are required to prepare audit documentation throughout the engagement. The UAIG's chief audit executive establishes working paper policies addressing how engagement working papers are designed, organized, and retained.

Design

Internal auditors should receive guidance on what information to document in work papers, keeping in mind that the form, content, and extent of audit documentation depend on factors such as:

- a) volume and complexity of the engagement object;
- b) nature of the audit procedures to perform;
- c) risks from the identified material misstatements;
- d) significance of the obtained audit evidence;
- e) nature and extent of the identified exceptions;
- f) methodology and tools to use.

Furthermore, the UAIG's chief audit executive should guide auditors on the requirements for preparing working papers. Engagement files should at least include information on:

- a) engagement objectives;
- b) documentation supporting the engagement planning process, including the preliminary analysis of the engagement object, engagement scope, work program (and any approved adjustments), the audit team members and coordinator, and the engagement supervisor;
- c) agreements from engagements with parties outside the UAIG, if applicable;
- d) agreements within the scope of consulting engagements, if applicable;
- e) results from the performance of audit procedures;
- f) engagement conclusions and supporting evidence;
- g) engagement report or other results communication instruments;
- h) documents addressed to the Audited Entity;
- i) documents obtained from the Audited Entity;
- j) verifications performed during the engagement review process and other quality control instruments.

Additionally, the UAIG's chief audit executive may establish general practices to assist auditors in preparing, organizing, and reviewing working papers such as:

a) using standardized work paper formats or templates, such as questionnaires and audit programs, improves the efficiency and consistency of the engagement process. Matrices and summaries are instruments that can assist auditors when consolidating observations from information obtained and analyses performed;

b) including on workpapers:

- unique identifying number for the engagement;
- page number in sequential order;
- title or heading that identifies the area or process under review;
- identification of the objective or content of the document;
- date or period of preparation (or collection) and review;
- sources of data;
- description of the population evaluated, including sample size and method of selection, if applicable;
- names of the auditors who prepared, collected, supervised, and reviewed working papers.

c) using two-way cross-reference to relevant pieces of information. Good practices include the use of hyperlinks or standardized codes to easily identify and associate working papers.

Organization and retention

Preferably, working papers should be digitally prepared and retained. The UAIG's chief audit executive is responsible for deciding on matters concerning data management such as storage location; backup and retrieval tools; cross-references that facilitate data searching; search automation; standardized formats. It is essential to highlight that digital media involves security issues like requisites for protecting stored information against unauthorized access or modifications.

If physical storage of audit documentation is used, issues related to information searching, standardized document formats, physical integrity, access restrictions, and storage facilities should be addressed.

Since audit documentation provides the basis for the engagement observations and conclusions, storage procedures must ensure the reliability of working papers. Hence, adequate engagement supervision and review, as well as future reference resulting from other engagements or access of information requests are guaranteed.

Further, the traceability of working papers should also be guaranteed. To enable traceable documentation, the UAIG's chief audit executive should employ the organization's particular work paper development procedures, standardized notations, templates, and software. Document management tools as referencing and indexing may be used as well.

Referencing consists of noting working papers according to similar characteristics, for example, engagement phase, type of document, audited business area, addressed matters. Engagement working papers should be prepared and organized in a manner that auditors who did not participate in the engagement are capable of understanding the reference notation system used, the audit procedures performed, and the engagement conclusions reached, among other relevant information.

Indexing consists of identifying and listing working papers to organize engagement files through indexes. An index may be created using numbers, words, or alphanumeric combinations. Again, similar characteristics are used to create working papers indexes as the engagement phase or addressed matters.

5.7.5 POLICIES ON GRANTING ACCESS TO ENGAGEMENT RECORDS

The UAIG is responsible for controlling access to engagement records and establishing policies on granting access to them under the law.

The proposal for establishing policies granting access to engagement records must be approved by senior management and the legal counsel unit of the body or entity to which the UAIG belongs. The content of access to engagement records policies must be consistent with legal mandates and internal access to information rules and include at least:

a) definition on the internal and external parties to the UAIG who may be granted access to engagement records, such as members of the Board of Directors; authorities and their delegates within the organization; government investigative bodies; the SCI central body or sector unit, and the Federal Court of Accounts. Depending on significant circumstances, access to information policies may impose restrictions on access to sensitive information by personnel within the UAIG;

b) how requests of access to engagement records are handled, including definition on the competent authorities for approval, supporting required analyses, and deadlines for attendance;

c) confidentiality of classified information as a function of a legal mandate or judicial secrecy. For example, protection of personal data¹⁰¹ and commercial, banking, and industrial data. Definition on the (internal and external) parties to the organization who may be granted access to such information, as well as the means to formalize their responsibility for maintaining the confidentiality and judicial secrecy;

d) restrictions on access to top-secret, secret, and confidential information under the law.

The UAIG's chief audit executive should ensure that access to information policies does not impair public agents' duties and responsibilities authorized by law.

5.7.6 RETENTION OF ENGAGEMENT RECORDS

The UAIG's chief audit executive should specify how long internal audit records are to be retained and from when to start counting the retention period.

When specifying the length of retention for engagement records, the UAIG's chief audit executive should consider the organization's policies and related legal requirements, such as the term stipulated by the Federal Court of Accounts for retaining audit documentation supporting the annual engagements on performance and compliance of Audited Entities.

¹⁰¹ Name, SSN or other pieces of personal data.

6 COMMUNICATING RESULTS

The UAIG must communicate the results of engagements. Engagement results arise from the analyses performed by the audit team, information and clarification statements obtained from management, and possible solutions discussed with the Audited Entity. The internal audit activity adds value by developing communications that effect positive change in Audited Entities.

The overall goal of the communication process is to “share” knowledge, thoughts, or feelings, ensuring that the receiver understands the message that the sender is delivering. To this purpose, the person who delivers the message to the recipient uses a channel of communication to transmit the message.

With regard to the communication process in the context of communicating engagement results from government internal auditing, the sender is the UAIG. The receivers are the Audited Entity’s senior management, managers responsible for engagement objects, and stakeholders, as external control bodies and the society. The message consists of the observations, conclusions, opinions, and recommendations concerning the engagement object. Opportunities for communicating with the Audited Entity, like meetings between auditors and auditees and exchange of documents, constitute communication channels between the parties.

6.1 COMMUNICATING RESULTS PLANNING

Internal auditors are required to plan on how to communicate observations during the engagement and final engagement results. To that end, they must follow the UAIG’s manual on the policies and procedures for documenting the support of observations and conclusions related to the engagement. Besides other aspects, those guidelines should address the following matters:

- a) criteria for preparing communication documents;
- b) format and content of reports, according to section 6.5.1;
- c) quality standards;
- d) format and type of report to communicate engagement results;
- e) handling of confidential information;
- f) review flow of communication documents within the UAIG;
- g) persons responsible for signing communication documents;
- h) retention of communication documents.

It is also helpful to develop a plan for communicating about the engagement and discuss and agree upon the plan with stakeholders in advance, if possible. The communication plan is prepared by the audit team and typically discussed with relevant stakeholders, such as those responsible for the area under review, in such a fashion to consider the organization’s expectations concerning the communication formats and deadlines. Typically, the plan addresses why, what, to whom, and how internal auditors will communicate. Internal auditors must communicate, at least, the engagement’s objectives, scope, interim results, final results, and recommendations. The plan may be updated periodically if circumstances require a change.

6.2 QUALITY OF COMMUNICATIONS

Communicating results is the primary opportunity for the professional practice of internal auditing to strengthen its value to the organization. It stresses the knowledge of business processes that government internal auditors have and the ability of internal auditing to contribute to the achievement of the organization's objectives.

That requires ensuring that communications are clear, complete, concise, constructive, objective, accurate, and timely.

Communication occurs throughout the engagement. Therefore, communication requirements, detailed as follows, are applicable at all engagement stages, from planning and performing up to monitoring progress.

Clear: Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. The clarity in communications is increased when internal auditors use language that is easily understood by the intended audience and is consistent with the terminology used by the organization. Furthermore, clear communications are a hallmark of the systematic and disciplined approach of internal auditing.

Complete: complete communications include all relevant information and observations to support recommendations and conclusions. To ensure completeness of communications, it is helpful for internal auditors to consider any information essential to the target audience. Complete written communications generally enable the reader to reach the same conclusion as the internal auditor did.

Concise: concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Internal auditors ensure that communications are appropriately concise by avoiding redundancies and excluding information that is unnecessary, insignificant, or unrelated to the engagement.

Constructive: Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Constructive communications enable a collaborative process for determining solutions that facilitate positive change and ultimately helping the organization accomplish its objectives. The use of a constructive tone throughout the communication reflects the severity of the engagement observations.

Objective: objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. To ensure objectivity in communications, internal auditors use unbiased phrasing and focus on relevant matters. Objectivity begins with the unbiased mental attitude that internal auditors should possess when performing engagements. More than just an attribute, objectivity is essential to the Professional Practice of Internal Auditing.

Accurate: accurate communications are free from errors and distortions and are faithful to the underlying facts and supporting evidence. Additionally, internal auditors are required to disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. If an error in communications does occur, the UAIG must promptly communicate the corrected information to the recipients of the previous version.

Timely: timely communications are opportune and expedient, allowing the organization to take appropriate corrective action at the correct time. Timely communications require that the UAIG submits all communications by the deadlines established during the engagement planning phase. Timeliness may be different for each organization. In order to determine what is timely, internal auditors often benchmark and conduct other types of research on the engagement subject. Additionally, the UAIG's chief audit executive may establish key performance indicators that measure the timeliness of communications.

6.3 QUALITY OF WRITING

To ensure the quality and reliability of communications, we strongly recommend that communicating results in writing, either through engagement reports or other instruments that the UAIG has established, is subject to a review process. Typically, reviewers are the audit team coordinator, the engagement supervisor, and other competent authorities, as defined by the UAIG.

Such reviewers must assess whether the work performed is consistent with the engagement's objectives and scope and whether audit findings, conclusions, and recommendations are supported by sufficient evidence, as well as whether the UAIG's formats were employed.

Furthermore, government internal auditors and reviewers must comply with grammatical correctness and attentively consider linguistic aspects such as:

Coherence and logical connection: a manuscript may be correct from a grammatical point of view, but the ideas presented lack logical consistency. Coherence is the quality of ideas being logically integrated throughout the text: dependent clauses are logically connected to the main clauses. Similarly, subsequent paragraphs are logically consistent with prior paragraphs. Employing appropriate connectors (conjunctions and conjunctive adverbs) is essential to ensure coherence in writing. A coherent narrative, thus, is based on a logical interconnection of ideas.

Tone down (Moderation): The wording of the reports must be carefully chosen; it should be moderate, avoiding excesses of any nature. When communicating results, auditors must refrain from denigrating persons or institutions, nor insinuating or generalizing issues unsupported by evidence. Communication should always be addressed in a constructive tone.

Intelligibility: to ensure that the wording is intelligible, we recommend short and objective sentences; consistent verbal tenses; active voice instead of passive voice; sentences preferably in direct order (subject, verb, and complements). Moreover, we recommend avoiding the use of unusual words as well as excessively technical vocabulary.

6.4 INSTRUMENTS FOR COMMUNICATING RESULTS

The UAIG must communicate engagement results through reports or other instruments consistent with official federal communication norms, other applicable norms, and good internal audit practices.

Engagement reports or other instruments established by the UAIG for communicating engagement results must:

- a) comply with the formats defined by the UAIG in order to support their preparation and provide communication documents with institutional identification;

- b) include the engagement's objectives and scope, the extent of audit procedures, as well as applicable conclusions, recommendations, and action plans;¹⁰²
- c) comply with the quality requirements established by the UAIG other than those presented in sections 6.2 and 6.3.

Subsidiary to communicating results by written reports or other instruments, the UAIG may perform oral presentations to recipients such as boards and committees (e.g., Board of Directors, Audit Committee) and people representing interested segments of society.

6.5 ENGAGEMENT REPORT

Within the professional practice of internal auditing, the engagement report is the most commonly used means of communicating results. The engagement report is a technical instrument through which the UAIG communicates the engagement's objectives and scope, the extent of audit procedures, applicable conclusions, recommendations, and action plans.

The engagement report may also communicate overall opinions. Depending on the engagement's characteristics and circumstances, overall opinions are presented in the engagement report or included in a specific communication instrument.

6.5.1 REPORT FORMATS

There is not a single format of engagement report. Engagement report formats may differ depending on the recipients. Therefore, the UAIG may adapt the format and content of engagement communications to meet the recipients' needs. For that reason, it is essential to consider the following matters:

- a) Who are the most important readers of the engagement report?
- b) How much do they know about the engagement object?
- c) How do they plan to use the engagement report?
- d) How do the identified issues impact the readers?

The answers to these questions should help the UAIG to decide which format of engagement report is most appropriate regarding specific situations. Those formats range from extended, condensed, and detailed formats to the executive summary and incremental engagement reports.¹⁰³

The **extended format** is the most recognized format of engagement reports. It is designed to ensure that a reasonable knowledgeable reader would fully understand its contents. For that purpose, the audit team should communicate all necessary information and explanations, providing a complete understanding of the audit findings and observations that uncover the positive and negative situations identified by auditors.

The **condensed format** serves to communicate engagement results that are free of abnormalities (results demonstrating full conformity between criteria and condition) or in circumstances when only nonconformities are expected to be reported. In the latter case, it is assumed that unreported observations were considered compliant with the criteria.

¹⁰² Sometimes, action plans are not prepared in time to be part of the results communication document. In this circumstance, the action plan may be forwarded later to the UAIG for monitoring purposes.

¹⁰³ ATTIE, William. Auditoria Interna, 2012, p. 270-272.

There are circumstances when communicating engagement results involves technical and operational details that are much of interest to business managers and less of interest to senior management and the board. Therefore, in such cases, the UAIG may issue a **detailed report** addressed to those directly responsible for implementing the recommendations and an **executive summary** of the key audit findings to senior management and the board.

While performing lengthy and complex engagements, auditors usually identify relevant issues that require immediate resolution. In such circumstances, a valuable practice is to prepare an **incremental report**, through which auditors communicate the Audited Entity of nonconformities the moment they identify them, thus ensuring timely applicable corrective actions, even before the end of the engagement.

6.5.2 REPORT COMPONENTS

Although the format and content of engagement reports vary by UAIGs, final engagement communications are to contain, at minimum, the following components:

Introduction: provides basic information about the Audited Entity and the activity or process audited, the type of engagement being conducted, specific risks, relevant systems, and/or the departments or functions assessed. The engagement's objectives, scope, background, and methodology, as parts that relate to the report as a whole, can be presented in the introduction.

Objective: describes what the engagement sought to accomplish. Objectives are usually presented by verbs in the infinitive form. Example: To assess, to determine.

Scope: determines the coverage of the engagement, i.e., it describes the processes, transactions and activities evaluated. Scope limitations must be justified.

Audit findings: consist of the observations in response to the engagement's objectives, i.e., the answers to the audit questions, as explained in section 5.4 of this Practice Guide. Audit findings include the condition, criteria, cause, and effect. When reporting audit findings, the audit team should present observations along with relevant data, analyses, tables, charts, and examples. Audit findings should be presented in an organized manner, such as placing observations in chronological order, by significance, or grouping by topic, cause, or effect/risk.

Conclusion: presents the audit team's final opinion on the engagement object and may include engagement ratings. The conclusion typically derives from the audit findings, which may be presented in a summary form, having their interconnections highlighted and the related audit questions specified. The benefits resulting from the engagement, including financial benefits, if any, and the root causes of conditions, if identified, may also be presented in the conclusion of engagement reports. Similarly, relevant good practices may be demonstrated. The conclusion is a component of engagement reports that presents subject matters from a managerial standpoint, addressing issues within the chain of command of the Audited Entity's senior management.

Recommendations and action plans: Recommendations and action plans (actions plans are proposed by the Audited Entity) are part of the primary contents of engagement reports. Recommendations and action plans are opportunities for the UAIG to add value to the Audited Entity's management and operations by means of suggestions for correcting conditions and mitigating risks. In fact, an engagement is only finished after the recommended actions are implemented. Recommendations and action plans should be prepared upon the root causes of the issues to prevent recurrence or the creation of new conditions. Alternatively, recommendations and action plans may provide an interim solution for correcting current conditions in specific circumstances.

Action plans must be consistent with the recommendations issued by the auditors and typically include the following information: overall objective to achieve by implementing the proposed actions; description of the actions and their objectives; timeline and responsible person for implementation.

Manifestation from the Audited Entity (or Responses from the Audited Entity): consist of the responses of the Audited Entity to the audit findings. The Audited Entity's manifestations serve to refute, explain, and argue, especially when audit findings reveal deficiencies, fraud, violations, and nonconformities. Auditors must obtain, analyze and report not only the Audited Entity's responses to the audit findings but also the proposed corrective actions.

Deadlines for responses must be agreed upon between the UAIG and the Audited Entity to prevent impairment to the engagement continuity. When the Audited Entity refuses to respond to the audit findings or is unable to respond within the agreed deadline, the UAIG may issue the engagement report without such manifestations.¹⁰⁴

Engagements under judicial secrecy or involving confidential information may be subject to restrictions in dialogue with the Audited Entity. To prevent impairment to the continuity of such engagements, business area managers may not be offered opportunities for manifesting on audit findings.

In addition to the presented essential components, the UAIG may include in engagement reports other usual items such as:

Title: should be of sufficient length to clearly indicate the main aspects and avoid details.

Identification information (on the header or footer of the report): Audited Entity's name; Audited Entity's location, if applicable; engagement's identification and tracking number; issue date of the engagement report; page numbering.

Executive Summary (or Summary): is a complementary report designed to provide a clear and concise overview of the engagement results and efficiently deliver critical information with a persuasive, well-substantiated key message to stakeholders. An executive summary is a valuable instrument, especially in attending long detailed reports that may be impracticable for senior management and other stakeholders to read thoroughly.

The key components of an executive summary generally include:

- a) good practices observed during the engagement and any significant steps taken by management in improving the governance, risk management, and internal controls of the organization;
- b) objectives;
- c) scope;
- d) engagement's results (observations, conclusions, and recommendations);
- e) summary of significant observations or key messages.

The Executive Summary should not contain technical jargon and internal audit methodologies. Such information could be referenced in the detailed report if needed by the reader to obtain a more in-depth understanding of the information presented.

¹⁰⁴ O'CONNOR, T. F. & Morgan, S. L. CGAP Certified Government Auditing Professional: Exam Study Guide, 2012, p. 10.

Positive aspects of management: consists of acknowledging satisfactory performance and good practices adopted by management within the audited area or activity that are worthy of highlighting by the audit team.

Summary of audit findings: generally contains significant observations or key messages from the engagement report. It is often beneficial to include a dashboard that lists the findings in the form of a table, depicting the number of observations/recommendations per audited activity, according to their importance. The key observations can be summarized in a positive manner (focus toward enhancement) or a negative manner (focus toward weaknesses). The UAIG is encouraged to show the trend (positive or negative) compared to prior engagements of the same activity.

In the summary of audit findings, the UAIG may include ratings based on rating criteria such as the level of risk, materiality, and significance.

The executive summary may also include information on action plans from previous audits that were not completed or implementation dates for recommendations that have expired. In these cases, it may be necessary to add information about the findings that generated the recommendations or action plans.

Distribution list (on the cover of the report): presents the names or positions of the engagement report recipients.

Auditors: presents the audit team members and other persons responsible for the engagement, if the UAIG considers appropriate to disclose their names.

Background: there are engagement objects or audit findings that require a brief synopsis or an explanation in order to be fully understood. Typically, background information is required in attending engagement reports that communicate relevant changes in the engagement object or business area under review, complex or peculiar audited business areas, or audit findings from previous engagements that impact the current engagement's conclusions. Background information may be included in the audit finding summary, the executive summary, or the introduction, depending on the UAIG's preferences.

Methodology: this section describes how the engagement was conducted, i.e., which audit procedures and techniques were used to perform the engagement's activities. Specific methods may be described where the related audit findings are reported.

Appendices: this section includes additional information such as rating criteria definitions, glossary, analytical-level data, and other information regarding the audit findings.

Statement of conformance with the standards: indicating that engagements are conducted in conformance with the standards is appropriate only if supported by the results of the Quality Assurance and Improvement Program.

6.6 FORWARDING COMMUNICATIONS OF RESULTS TO RECIPIENTS

The UAIG should develop operational flows to ensure that communications of engagement results are forwarded to the proper recipients. Hence, the UAIG must decide when and who is responsible for sending those communications and how and to whom they are addressed, besides the Audited Entity's senior management.

In government auditing, the recipients of engagement results communications are defined by legal, statutory, or regulatory requirements. If not otherwise mandated, the UAIG's chief audit executive may build on the organization chart, communication templates and practices, and expectations of senior management and the board, if applicable. The main issue is that engagement results communications are forwarded to those responsible for decision-making concerning the engagement object, addressing recommendations, and developing action plans. In general, the recipients of communications of engagement results are processes owners, business area managers, external auditors, and other stakeholders.

If the engagement results changed after the issue of the final communication, the UAIG must communicate the corrected information to all recipients who had received the previous version of the communication.

6.7 DISSEMINATING RESULTS

The UAIG must ensure that the final communication of engagement results is published on the Internet, specifically on the website of the organization to which the UAIG belongs. Nonetheless, the results of engagements under judicial secrecy or executed by Singular Internal Auditing Units (Audin) of bodies and entities that perform economic, commercial, or regulatory activities are exempted from this obligation.

Previously to publishing, the authority responsible for the Audited Entity must be consulted about any confidential information within the final communication of engagement results, according to Law No. 12,527, of November 18, 2011, and other applicable legal mandates.¹⁰⁵

To address that consultation, the Audited Entity must assess whether the final communication of engagement results contains confidential information. Responses must be timely and directed to the UAIG in writing. Then, after performing a confidentiality checking consistent with applicable rules and regulations, the UAIG must remove any confidential information from the final communication of engagement results.

In front of complex subject matters, the UAIG's legal counsel unit may be required to assist in the analysis of confidentiality of specific cases.

If a final communication of engagement results is subject to alterations, the UAIG must update the previously published version.

¹⁰⁵ Law No. 12,527 of 2011 (The Brazilian Freedom of Information Law) states that 'confidential information is information that is temporarily subject to restricted public access due to its indispensability for the security of society and the State'. It also states that personal information is "information related to an identified or identifiable person". However, it does not exclude other legal hypotheses of data secrecy or hypotheses of industrial secrecy arising from State economic activities or from individuals or private entities that maintain business relations with the government.

7 MONITORING PROGRESS

Audited Entities' managers are primarily responsible for implementing the actions recommended by the UAIGs. At the same time, the UAIG's chief audit executive is responsible for establishing and maintaining a system to monitor¹⁰⁶ the disposition of results communicated to management. Supervision over the monitoring process may be delegated.

Through monitoring progress, the UAIG determines whether the Audited Entity has taken actions on reported observations and recommendations consistent with the agreed action plan and whether the desired results were achieved and inadequacies eliminated.

Consequently, the UAIG is not only responsible for issuing recommendations, but also for evaluating the adequacy, effectiveness, and timeliness of the actions taken by management on reported observations and recommendations. By monitoring progress, the UAIG ensures that the professional practice of government internal auditing effectively adds value and contributes to public management improvement. Indeed, the full achievement of engagement objectives is not a function of issuing engagement reports but rather a result of recommended actions implemented by the Audited Entity.

More than just ensuring norm compliance, monitoring progress must prioritize evaluating whether risk management, internal controls, and governance processes became more effective, efficient, and economic, as well as contribute to effective government policies.

7.1 FOLLOW-UP PROCESS

Usually, effective monitoring involves procedures to include:

- a) the timeframe within which the Audited Entity's response to the engagement observations and recommendations is required;
- b) evaluation of the Audited Entity's response;
- c) verification of the response, if appropriate;
- d) performance of a follow-up engagement;
- e) a communications process that escalates responses and actions to senior management or the board if any.

The performance of those steps must be documented by means of an instrument (preferably a computerized tracking system that enables the development of a database). Monitoring tools should be appropriate to the UAIG's size and the complexity of its operations and contribute to keeping the status of the corrective actions updated and available.

¹⁰⁶ Monitoring activities performed by the UAIG distinguish from the activities presented in paragraphs 6, 12, 73, and 82 of IN SFC No. 3 of 2017, that is to verify whether the organization adopts mechanisms to ensure the existence and functioning of internal controls and whether it communicates deficiencies to those responsible for implementing corrective actions. Moreover, monitoring activities performed by the UAIG also differ from the continuous monitoring of the performance of internal audit function, provided for in paragraph 108 of IN SFC No. 3 of 2017, which is subject of the UAIG's Quality Assurance and Improvement Program (PGMQ).

The UAIG must include monitoring activities in its internal audit planning and thus in the resulting Internal Auditing Plan. Monitoring activities include not only specific procedures to ascertain whether actions taken on observations and recommendations remedy the underlying conditions but also follow-up activities to verify the implementation status of all issued recommendations.

Independence and objectivity are fundamental requirements for the UAIG in performing monitoring activities as indeed they are in conducting the auditing work in general.

7.2 MONITORING CRITERIA AND INSTRUMENTS

The UAIG may adopt one or more of the following strategies to evaluate the Audited Entity's responses to engagement recommendations:

- a) periodic inquiring, such as quarterly, about the status of all corrective actions that were due to be completed in the prior period;
- b) periodic follow-up engagements for audits with significant recommendations, specifically intended for assessing the quality of the corrective actions taken;
- c) follow-up on outstanding actions during a future audit scheduled in the same area of the Audited Entity.

The frequency and approach to monitoring, which is the extent of audit staff work to verify that corrective actions were taken, is determined based on the adjudged level of risk, the complexity of the object of recommendation, and the maturity level of the Audited Entity's risk management. Scheduling of follow-up is a function of the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing the recommended corrective actions. The greater the complexity of the recommended actions and the associated risks, the more the intensity of monitoring activities to perform. The lesser the maturity level of the Audited Entity's risk management, the more the intensity of monitoring actions to perform.

7.2.1 MONITORING PROGRESS ON RECOMMENDATIONS FROM CONSULTING ENGAGEMENTS

The definition of whether and how monitoring progress on observations and recommendations resulting from consulting engagements takes place depends on the agreement between the UAIG and the Audited Entity at the planning phase. The established terms on follow-up activities should be appropriately documented.

7.2.2 STATUS OF RECOMMENDATIONS

The follow-up for monitoring the implementation of recommended actions is a dynamic process regardless of the type of results communication instrument (engagement report, audit memo, etc.). Until "fully implemented", recommendations may be categorized in different "statuses", such as "partially implemented" or "overdue", for example. Significant changes related to the Audited Entity's business context, or the engagement object, may bring about alterations or cancellation of recommendations due to unfeasibility or pointlessness. The UAIG should define the potential circumstances associated with each type of status to provide a comprehensive inventory of recommendations and assist in reporting corrective actions statuses to senior management.

The UAIG must document the activities performed to modify or cancel recommendations as to working papers. Likewise, monitoring tools must keep records of those changes.

7.3 MONITORING PROGRESS ON REPEATEDLY UNACCEPTED RECOMMENDATIONS

The Audited Entity's senior management is responsible for ensuring that recommended corrective actions have been effectively implemented or accepting the risk of not taking action. In situations when the UAIG recognizes that the Audited Entity has accepted a risk at such a high level that the organization would normally not tolerate it, the UAIG's chief audit executive is required to discuss the issue with senior management. If the UAIG's chief audit executive concludes that the risk remains unresolved, then he or she must communicate the matter to the board (or equivalent), if any.

Prior to discussing the issue with senior management, the UAIG's chief audit executive should decide whether to contact management members responsible for the risk area to share concerns, understand management's perspective, and reach an agreed path to resolve the risk.

However, if such an agreement is not reached and relevant/priority corrective actions are repeatedly not implemented, the UAIG's chief audit executive must communicate the issue to government bodies competent to target possible illegal acts, such as the Ministry to which the Audited Entity is hierarchically subordinated, the Office of the Attorney General, the Office of the Inspector General, the Public Prosecuting Office, the Federal Police, the Internal Revenue Service, or the Federal Court of Accounts, as appropriate.

7.4 COMMUNICATING THE IMPLEMENTATION STATUS OF RECOMMENDATIONS

The UAIG's audit executive may agree with senior management or the board, if any, on the instrument, scope, and frequency¹⁰⁷ of presenting an inventory of all recommendations. Some of the options are to report:

- a) the status of all recommendations (implemented, cancelled, under implementation, overdue, etc.);
- b) the percentage of recommendations in each implementation status;
- c) the implementation status of recommendations related to high-risk engagement objects.

7.5 QUANTIFYING AND DOCUMENTING BENEFITS

The UAIGs must quantify and document the results and the financial and non-financial benefits derived from their operations. Recording those benefits allows that effective results from internal audit activities can be appropriated both internally (by the UAIG and by the Audited Entity's senior management) and externally (by society, that is the primary funder and user of public services). Therefore, by means of quantifying benefits, the UAIGs are held accountable to society for the results achieved and the resources employed.

¹⁰⁷ CGU Normative Instruction No. 24 of 2017 establishes that the Audin is responsible for monthly submitting a management report on the status of the issued recommendations to the Board of Directors, or equivalent body, or senior management.

The UAIGs must define principles and methodology and develop a mechanism that enables data consolidation and comparison compatible with this Implementation Guide and the SCI central body regulations.

In order to record the effective¹⁰⁸ benefits derived from the UAIG's activities, the following requirements have to be satisfied: a positive impact on public management; a causal relationship between the UAIG's operations and the impact derived from the recommendations/guidance; and the period of time in which the benefit occurred.

7.5.1 POSITIVE IMPACT ON PUBLIC MANAGEMENT

The UAIGs usually identify positive impacts on public management as a function of improvements in policy implementation or organizational macro processes resulting from implemented recommended actions, including at least one of the following attributes:

- a) efficacy: assuring that the expected public goods and services are delivered to society;
- b) efficiency: delivering the expected public goods and services to society upon with maximized available resources;
- c) lawfulness: assuring that the expected public goods and services are delivered to society in compliance with rules and regulations;
- d) effectiveness: assuring that the objectives of policies or macro processes are accomplished.

7.5.2 CAUSAL RELATIONSHIP BETWEEN THE UAIG'S OPERATIONS AND THE IMPACT DERIVED FROM THE RECOMMENDATIONS

Causal relationships are usually characterized by the following pieces of evidence:

- a) recommendations communicated to managers;
- b) managers' responses on implementing recommended actions that generate positive impact;
- c) effective implementation of recommended actions;
- d) documentation on financial benefits, if applicable.

Evidence of (financial or non-financial) benefits and causal relationships between the identified positive impacts and the UAIG's operations must be documented in working papers.

7.5.3 PERIOD IN WHICH BENEFITS OCCURRED

Another requirement to consider when recording effective benefits from the UAIG's activities is identifying the related period of time, calculated in accordance with the SCI central body regulations on the subject.

¹⁰⁸ Information ensuring that recommended actions were implemented must arise from monitoring activities.

7.5.4 CALCULATING FINANCIAL BENEFITS

Clear and measurable costs from implementing the recommended actions incurred to the Audited Entity must be considered when calculating financial benefits, as follows:

$\text{Economy (-) Implementation Costs} = \text{Financial Benefit}$
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In order to assess financial benefits deriving from recommendations, the UAIG should obtain, from the Audited Entity, the figures of implementation costs and associated savings. Otherwise, the UAIG must calculate costs and savings using appropriate criteria. Calculation memories on financial benefits must be documented.

7.5.5 CATEGORIZING BENEFITS

We strongly suggest that the UAIGs define categories representing the most frequent circumstances that generate positive impacts (financial and non-financial) to the Audited Entity's management and operations. Categories of financial benefits may be *an increase in revenue* and *recovery of undue payments*. Categories of non-financial benefits may be *an improvement in the delivery of public services* and *an incentive to environmental sustainability*.

We also suggest that the UAIGs record financial and non-financial benefits through the same computerized system (or appropriate instrument) in use to monitor progress on implementing all issued recommendations.

7.5.6 VALIDATION

Benefits, in particular financial benefits, must be subject to an appropriate governance process developed by the UAIG's audit executive to mitigate the adverse risk of responsible business areas over-dimensioning benefits.

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GLOSSARY

Accountability: Obligation of persons or entities, including state-owned companies and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

Add Value: The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Assurance Services: An objective examination of evidence for the purpose of providing a technically independent assessment on governance, risk management, and control processes for the bodies and entities within the Federal Public Administration.

Audit Questions: the objectives of the engagement described in the form of questions. Audit questions are required to direct the audit work toward the achievement of the expected results.

Audit Risk: the risk that the assertion or activity under review contains significant errors or irregularities that were not detected during the audit work. Therefore, the audit risk is the risk that the auditor expresses an inappropriate audit opinion as a function of the risks of material misstatement and detection risk.

Auditable Universe: Set of engagement objects entitled to prioritization by the UAIG when developing the Internal Auditing Plan.

Audited Entity: Body of Entity within the Federal Public Administration to which a particular UAIG is responsible for contributing to management through assessment and consulting services. For the purposes of this Framework, the terminology Audited Unit in the context of assessment and consulting engagements, may also be understood as a macro-process, process, management unit, or object on which engagement is performed.

Benchmarking: technique used to identify and implement good practices in management. By means of comparing performance and best practices within the organization and with other similar organizations, benchmarking can support identifying opportunities for management improvement in terms of efficiency and economy.

Board: The highest level governing body charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. It does not relate to any committee or body of consulting or advisory nature. Within the Federal Public Administration, the board is often found at its indirect agencies and state-owned companies. Typically, representatives of shareholders or a board of directors constitute the board. Although governance arrangements vary among jurisdictions and sectors, the denomination of "the board" must be based on its legal and regimental decision-making powers. In organizations where the board does not exist, senior management also performs its functions.

Chief Audit Executive of the Government Internal Auditing Unit (UAIG): Highest senior position responsible for effectively managing the internal audit activity in accordance with this Framework, other mandatory norms, and good practices related to government internal audit activity, regardless the delegation of his/her duties. In SCI, the Chief Audit Executive is: a) at CGU, the Federal Secretary of Internal Control; b) at Ciset, the respective Secretaries of Internal Control; c) at Sector Units, the Officers/Directors; and d) at Audin, the Chief-Auditor.

Compensating Controls: controls that can reduce risk when primary controls are ineffective.

Complementary Controls: Controls that work in conjunction with other controls to reduce risk to an acceptable level.

Conflict of Interest: Any situation in which the government internal auditor has a professional or personal interest that conflicts with the engagement performance and impairs an individual's ability to perform his or her duties and responsibilities objectively. Those situations may arise before or during the engagement and undermine confidence in the auditor, UAIG, Audited Entity, or internal audit activity.

Consulting Services: Advisory activities, the nature and scope of which are agreed with a specific body or entity within the Federal Public Administration, are intended to add value and improve an organization's governance, risk management, and control processes without the government internal auditor assuming management responsibility.

Control Risk: the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Corrective Controls: Controls that correct the negative effects of undesirable events.

COSO: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five professional organizations and is dedicated to helping organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and fraud deterrence.

Detection Risk: the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Detective Controls: controls that detect the occurrence of risk events. Detective controls do not prevent risk events but serve as an alert on the occurrence of issues or deviations from standards to prompt management in adopting corrective actions.

Directive Controls: controls that cause or encourage the occurrence of a desirable event. Examples of directive controls are training and guidance to develop staff skills.

Effective Benefit: confirmed positive impact on public management resulting from the actions implemented as a function of observations and recommendations arising from the government internal auditing activities performed by the UAIG. For the purposes of this Implementation Guide, the concept of a benefit is equivalent to an effective benefit.

Effectiveness: the degree of achievement of established objectives (goods and services) in a given period of time regardless of the costs incurred. Effectiveness refers to management capacity to achieve immediate goals, translated into production or delivery of services, that is, the capacity to provide goods or services according to planning.

Efficiency: the relationship between the products (goods and services) generated and the costs of the inputs used to produce them, in a given time, and maintaining quality standards. Efficiency refers to the effort expended in the process of transforming inputs into outputs. It can be assessed from two perspectives: minimization of the total costs necessary to produce the outcome in the same amount and quality or optimization of the combination of inputs to maximize the outputs given a fixed total expenditure.

Engagement Object: Unit, function, process, system, or similar under the Audited Entity's responsibility on which assessment or consulting services may be performed by the UAIG.

Errors: non-voluntary, unintentional acts, resulting from omission, ignorance, malpractice, imprudence, inattention or misinterpretation of facts in preparing documents, records or statements. In such cases, there is no intention to cause damage or losses.

Financial Benefit: benefit that can be monetarily represented and demonstrated through supporting documentation, preferably provided by the Audited Entity's managers, including benefits resulting from recovery of losses and damages.

Fraud: Any illegal act characterized by deceit, concealment, or violation of trust. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services, or to secure personal or business advantage.

Governance: The combination of processes and structures implemented by senior management to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. In the public sector, governance essentially comprises the leadership, strategy, and control mechanisms practiced to evaluate, direct and monitor management performance to implement policies and provide services of interest to society.

Government Internal Auditing Unit (UAIG): Unit responsible for providing independent and objective assessment and consulting services to add value and improve an organization's operations. It exercises the legal responsibilities of management and operation regarding the government internal audit activities in the Federal Public Administration bodies and entities. They represent the third line of defense within the Federal Executive Branch.

Government Internal Auditor: Public servant or employee, civilian or military, who performs the activities of the government internal audit function in a Government Internal Auditing Unit. Their duties and responsibilities are established by this Framework.

Illegality: act or practice contrary to the legal system, including laws, regulations, and legal principles.

Inappropriateness: failure of a formal nature that does not generate damage or loss to the Treasury. Non-compliances that violate the principles of public administration; infringement of legal and regulatory norms; failures in management internal controls; breaches of clauses; power abuse; imprudence and malpractices.

Independence: the avoidance of facts and circumstances that threaten the ability of the internal audit activity to conduct its professional duties impartially.

Inherent Risk: the level of untreated risk that an organization faces in the absence of any risk controls or mitigants.

Internal Controls: Process that involves a set of rules, procedures, guidelines, protocols, systemic routines, checks, and procedures of documentation and information, among others, operationalized in an integrated manner by senior management, managers, public servants and employees of the bodies and entities within the Federal Public Administration. It is designed to address the risks and provide reasonable assurance about the achievement of an entity's mission and the following general objectives: a) orderly, ethical, economical, efficient and effective execution of operations; b) fulfillment of accountability obligations; c) compliance with applicable laws and regulations; and d) safeguarding of assets to prevent loss, waste, and misuse. The establishment of internal controls within public management essentially aims to increase the likelihood that the objectives and goals will be effectively, efficiently, and economically achieved.

Investigation: consists of performing specific procedures in order to ascertain the illegal or irregular misuse of federal public funds by public or private agents resulting from fraud or errors.

Irregularity: the practice of illegal, illegitimate, uneconomical management acts; violation of legal or regulatory norms of accounting, financial, budgetary, operational, or asset nature; damage or losses to the Treasury resulting from unlawful or uneconomical management acts; embezzlement; fraud, waste, and abuse of public resources, assets, or values; omission in the duty to render accounts; violations of the principles of public administration.

Key Internal Controls: all relevant control activities required to manage risk associated with critical business objectives, that is, actions to mitigate the occurrence of risks and to increase the likelihood of the organization to achieve its key established objectives.

Likelihood: the possibility that a given event may occur. It can be expressed by means of qualitative wording (usual, common, possible, uncommon, rare) or quantitative measures such as frequency or likelihood percentage.

Management: Public servants or employees, civilian or military, either carrier officials or nominees, of the bodies and entities of the Federal Public Administration, who are responsible for coordinating and conducting the organization's processes, especially those related to risk management and controls.

Material Misstatements: misstatements, including omissions, which, individually or in aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the object statements.

Materiality: a criterion used in the selection of engagement objects by the UAIG that refers to the amount of budgetary or financial resources allocated to a particular administrative unit, function, macro process, government action, policy, etc.

Non-Financial Benefit: benefit that reflects a positive impact in management related to essential processes or activities within the public administration, but is not susceptible to monetary representation (such as improvements in management, norms, or internal controls). Non-financial benefits should be measured in non-monetary units, if possible.

Objectivity: essential attribute to the professional practice of government internal auditing. It refers to the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. It requires the avoidance of facts and

circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

Performance Indicators: numbers, percentages, or ratios that measure performance compared with established goals.

Preventive Controls: controls that prevent the occurrence of undesirable events.

Professional Judgment: the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional Skepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Proficiency: the professional proficiency required of government internal auditors to effectively carry out their professional responsibilities. Government internal auditors must possess and maintain the knowledge, skills, and other competencies needed to perform their individual responsibilities.

Residual Risk: the risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to risks.

Risk Appetite: level of risk that an organization is prepared to accept.

Risk Magnitude: level of risk measured in terms of impact and likelihood. Terminologies may vary within each government body or entity.

Risk Management Policy: statement of an organization's intentions and general directives related to risk management.

Risk Management: Process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Risk Register: list of risks that contain similar characteristics, whether those risks are interdependent or not.

Risk: the possibility of an event occurring that will have an impact on the achievement of the Audited Entity's objectives. Typically, risk is measured in terms of impact and likelihood.

Root Cause: primary issue or issues that caused an error, mishap, or nonconformance.

Sector Bodies: internal control bodies that integrate the Ministry of Foreign Affairs, the Ministry of Defense, the Office of the Attorney General, and the President's Executive Office, according to Law No. 10180, of February 6th, 2001.

Sector Units: the units of internal control of the military commands. They are the sector units of the Ministry of Defense's Secretary of Internal Control.

Segregation of Duties: consists of assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities that allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

Senior Management: Senior management represents the highest hierarchical and strategic level in an entity of the Federal Public Administration including its direct and indirect agencies. In Federal Direct Public Administration, senior management is, as a rule, constituted by the Ministers of State and the National Secretaries; in Federal Indirect Public Administration, there are Presidents, Chief Executive Officers, and boards of directors. However, for the purposes of this Framework, persons responsible for decision-making at strategic levels, regardless of the nature or denomination of the Unit, are considered senior management. Therefore, they are responsible for governance, risk management, and internal controls. The UAIG should report to them, as they are capable of developing a consolidated risk view and establish the organization's risk appetite, implement the management improvements to address risks, and effectively address the recommendations from the UAIG. In Audited Entities where the board does not exist, senior management also performs its functions.

Singular Internal Auditing Unit (Audin): Singular internal auditing units of the bodies and entities within the Federal Executive Branch, including the agencies of the direct and indirect administration.

Stakeholder: person or organization that has an interest in a company and can either affect or be affected by the business.

Technical Supervision: Activity exercised by SCI central body and SCI sector bodies, in their respective areas of jurisdiction, within the Federal Executive Branch. It is carried out through regulation, guidance, training, and performance evaluation of SCI units and SCI auxiliary units to harmonize the government internal auditing practice and promote compliance with national and international standards, as well as quality assurance of the engagements. Technical supervision does not imply any hierarchical subordination.

APPENDIX A – Risk and Control Matrix

Risk and Control Matrix													
Key-Objective	Key-Risk	Impact	Likelihood	Inherent Risk (IR)		Preliminary Assessment of Controls and Control Risk (CR)			Residual Risk (RR)		Audit Procedure	Auditor's Conclusion	Audit Question
Objetive 1	Risk 1	2	1	2	Low	Non-existent	Controls do not exist, or have not been implemented, or do not work.	1	2	Low	Audit procedures are to be performed only if the auditor deems it necessary		
Objetive 2	Risk 2	2	5	10	Moderate	Appropriate	Controls are implemented and supported by adequate tools. Yet open to improvement, controls reasonably mitigate the risk.	0.4	4	Low	Further tests of controls are necessary		

Impact	To evaluate the magnitude of the risks based on the impact of possible mishaps.
Likelihood	To evaluate the likelihood of the risks based on the likelihood of possible mishaps.
Inherent Risk (IR)	The level of untreated risk that an organization faces in the absence of any risk controls or mitigants.
	Inherent risk assessment based on the levels of risks.
Preliminary Assessment of Controls and Control Risk (CR)	Assessment of controls designed to address risks.
	Description of control assessment.
	The risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.
Residual Risk (RR)	The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to risks. It is the result of the multiplication IR x CR.
	Residual Risk Assessment based on the Rating Scale of Risk Levels.
Audit Procedure	Types of audit tests that will be required based on the evaluation of controls.
Auditor's Conclusion	Conclusion of the auditor on the risks to be prioritized and the types of audit procedures to be performed.
Audit Question	It addresses the engagement objective and forms the basis for the analyses on the controls, whether they are adequately designed proportionally to the risks, whether they are being implemented, and whether they function continuously and consistently under the risk responses established by management.

APPENDIX B – PLANNING MATRIX

Audited Entity or Object:

Objective:

Audit Team:

Supervisor:

Planning Matrix										
Issue or Risk	Audit Questions	Audit Subquestions	Criterion	Required Information	Sources of Information	Audit Procedures	Possible limitations affecting the engagement performance	Audit team member responsible for the analysis	Period	Possible audit findings
It clearly and concisely describes the engagement motive. For example, a dengue outbreak is seriously compromising the health of Brazilian families.	The objectives of the engagement described in the form of questions. Audit questions are required to direct the audit work toward the achievement of the expected results.	They are unfoldings of each audit question that collectively produce the answer to an audit question.	The standard, measure, or expectation used to evaluate whether the engagement object achieves or fails the required or expected performance.	The information required to answer audit questions and subquestions. Some examples are data obtained from computerized systems, figures resulting from performance indicators.	The locations where the required information is available, e.g., corporate systems, the audited entity's facilities, third-party custodians.	The processes, techniques, and methods that auditors perform to obtain sufficient, reliable, and useful evidence, enabling them to answer an audit question.	Facts that impede the performance of audit procedures or impair the use of audit techniques. For example, collecting information through questionnaires is useless since the target population is mostly illiterate.			Hypotheses or provisional answers to the audit questions. They help the auditor to anticipate possible difficulties or weaknesses in his/her work.

APPENDIX C – Audit Team Presentation Document Sample

[GOVERNMENT INTERNAL AUDITING UNIT'S CORPORATE NAME]

[Full Address – Zip Code]

[Telephone number: (XX) XXXX-XXXX – e-mail]

Letter (or Memorandum) No. [sequential numbering/year]

[City, Date.]

[RECIPIENT'S NAME]

[Position] [Body/Entity]

[Body/Entity's address] [Zip Code – City – State]

Reference: [Description of the engagement's purpose]

Dear [*Audited Entity's senior management position*],

As provided in articles A and B of Law No. X,XXX/YYYY and article C of Normative Instruction No. XX/YYYY, we hereby inform you that we are starting an audit engagement with the purpose of [*detailed engagement objective*] [*In this introductory paragraph, the engagement's scope and criteria may also be presented*].

The audit team is composed of [*Auditor's Name and Position*], [*Auditor's Name and Position*], and [*Auditor's Name and Position*], under the coordination of the latter.

The engagement execution phase is taking place during the period from / / to / / . Previously, we kindly ask you to take the following steps necessary for the development of the engagement:

- a) to provide the audit team with a safe office room to which access is restricted;
- b) to provide the audit team with passwords to access the following corporate information systems [specify];
- c) to provide a delegate for interacting with the audit team who is knowledgeable of the Audited Entity business areas.

The audit team is available to provide clarifications regarding the conduct of the engagement throughout its execution phase. Likewise, we strongly suggest that your delegates maintain a dynamic and agile posture during the interactions with the audit team. In addition, we ask that documents, manifestations, and clarifications in response to Audit Request Lists and Audit Memos are presented in a timely manner.

After the execution phase, we will issue a preliminary engagement report/audit findings matrix [*or another document used by the UAIG to communicate results*] to support the discussions on the audit findings.

In the light of the guidelines of our Quality Assurance and Improvement Program, we inform you that at the end of the engagement you may be invited to participate in a survey to evaluate the conduction of the audit work.

Please, note that the engagement is under the supervision of [*Auditor's Name and Position*].

Lastly, please find the Audit Request List No. XX/YYYY attached.

Sincerely,

SIGNATORY'S NAME

Position

Record of receipt of document by the Audited Entity	
Signature of receiving party	Date received
Full name (or stamp) of receiving party	Identification

APPENDIX D – Audit Request List Sample

[GOVERNMENT INTERNAL AUDITING UNIT'S CORPORATE NAME]
[Full Address – Zip Code]
[Telephone number: (XX) XXXX-XXXX – e-mail]

Audit Request List No.: [Engagement/Audit Request List's sequential numbering]

Recipient: [Audited Entity's senior management]

Audited Entity: [Audited Entity's corporate name]

[City, Date.]

Dear [Audited Entity's senior management position],

As provided in article A of Law No. X,XXX/YYYY, we kindly request you the following information in order to support the execution of the current engagement:

1. the original documents that constitute the processes as follows:
 - a) Process No. XXXX/YYYY: [specify page numbers whenever possible];
 - b) Process No. XXXX/YYYY: [specify page numbers whenever possible];
2. digital versions of the documents as follows:
 - a) Letter No. XX/YYYY;
 - b) Ordinance No. XX/YYYY;
 - c) Process No. XX/YYYY: [specify page numbers whenever possible];
3. the number of [specify the required information];
4. control practices associated with the process [specify the process];
5. calculation memories of the following indicators: [specify the indicators].

Information requested on the processes mentioned in item 1 should be presented to the audit team placed in [specify the office room]. Documents listed in item 2 should be scanned and sent by e-mail. Information requested in items 3, 4, and 5 may be electronically forwarded to [e-mail address].

We kindly ask you to reference your responses to the appropriate item from the list above before sending them to the audit team. In addition, we ask you to identify the source and person responsible for proving the information as well as to date and sign all documents, when applicable.

The requested information should be submitted by / / . Due justifications should be presented to the audit team within the response period in case any required information is unavailable.

The audit team can provide clarifications regarding the requested information either in person or via e-mail and telephone.

SIGNATORY'S NAME
Position

Record of receipt of document by the Audited Entity	
Signature of receiving party	Date received
Full name (or stamp) of receiving party	Identification

APPENDIX E – Audit Memo Sample

[GOVERNMENT INTERNAL AUDITING UNIT'S CORPORATE NAME]
[Full Address – Zip Code]
[Telephone number: (XX) XXXX-XXXX – e-mail]

Audit Memo No.: [Engagement/Audit Memo's sequential numbering]

Recipient: [Audited Entity's senior management]

Audited Entity: [Audited Entity's corporate name]

[City, Date.]

Dear [Audited Entity's senior management position],

In the course of the engagement, we identified conditions that indicate flaws or nonconformance that should be addressed before the end of the engagement execution phase by means of corrective measures. Therefore, the audit team presents below [*or in attachment, depending on the number of observations*] a list of recommendations that should be implemented accordingly.

1. Audit finding (short headline):

- **Condition:**

- **Causes:**

- **Recommendation:**

Deadline for attendance: ____/____/____.

2. Audit finding (short headline):

- **Condition:**

- **Causes:**

- **Recommendation:**

Deadline for attendance: ____/____/____.

The audit team can provide clarifications regarding the audit findings either in person or via e-mail and telephone.

SIGNATORY'S NAME
Position

Record of receipt of document by the Audited Entity	
Signature of receiving party	Date received
Full name (or stamp) of receiving party	Identification

APPENDIX F – AUDIT FINDINGS MATRIX

Audited Object:
Objective:
Audit Team:
Supervisor:
Service Request Number:

Audit Findings Matrix											
Audit Questions	Audit Subquestions	Summary Description	Criterion	Condition or Situation found	Evidence	Information obtained from evidence	Causes	Effects	Good Practices	Recommendations	Expected Benefits

Audit Questions: the objectives of the engagement described in the form of questions. Audit questions are required to direct the audit work toward the achievement of the expected results.

Audit Subquestions: unfoldings of each audit question that collectively produce the answer to an audit question.

Short Headlines: headings for audit findings that summarize the content of the reported facts to guide the reader's attention.

Criterion: the standard, measure, or expectation used to evaluate whether the engagement object achieves or fails the required or expected performance.

Condition or Situation found: factual evidence obtained and documented in the course of the engagement. As a function of applied audit techniques, conditions are evidenced in several manners.

Evidence: information collected, analyzed, and assessed by the auditor to support the engagement findings and conclusions.

Causes: the reasons for the difference between expected and actual conditions.

Effects: the outcome from the difference between criteria and conditions. Effects can be positive, resulting from benefits, or negative, associated with the risk or exposure that engagement objects are subjected to when conditions are not consistent with criteria.

Good Practices: the main management actions that contribute to the improvement of performance. Usually, good practices are identified through comparing performance within the organization and with other similar organizations. We emphasize that compliance with the law does not constitute a good practice since it is management's responsibility, after all.

Recommendations: the actions that the UAIG communicates to Audited Entities for correcting existing conditions and improving operations. We caution that the number of recommendations should not be excessive and focus on the main aspects of the identified conditions.

Expected Benefits: the performance improvements expected to arise from the implementation of recommendations. Benefits are of a quantitative and/or qualitative nature and should be quantified whenever possible.

ANNEX A – Impact Scale

Impact Scale (Inherent Risk Y-Axis)		
Magnitude	Description	
Very Low	Degradation of operations or activities within an organization's processes, projects, or programs, yet causing minimal impacts on objectives related to deadlines, cost, quality, scope, image, standards, or the capability to deliver products/services to stakeholders (internal/external clients and beneficiaries).	1
Low	Degradation of operations or activities within an organization's processes, projects, or programs, causing minor impacts on objectives.	2
Medium	Interruption of operations or activities within an organization's processes, projects, or programs causing significant but recoverable impacts on objectives.	5
High	Interruption of operations or activities within an organization's processes, projects, or programs causing very difficult reversal impacts on objectives.	8
Very High	Shutdown of operations or activities within an organization's processes, projects, or programs causing irreversible/catastrophic impacts on objectives.	10

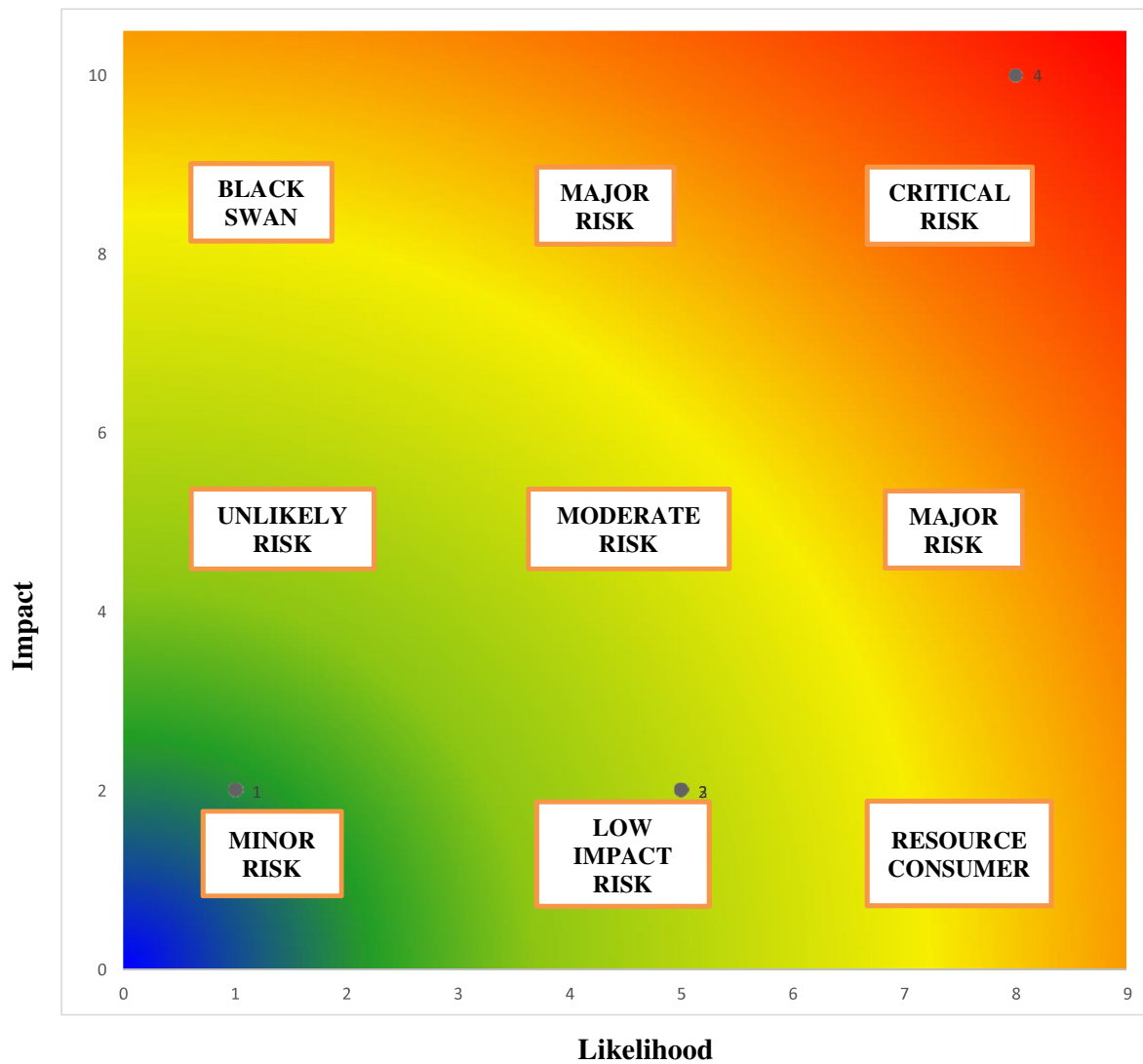
Source: The Brazilian Federal Court of Accounts (2017). *Auditing Risk Management* (adapted).

ANNEX B – Likelihood Scale

Likelihood Scale (Inherent Risk X-Axis)		
Likelihood	Description	
Rare	Event that is rare to occur. The event might exceptionally occur. Yet, there is no evidence indicating that the event will actually occur.	1
Unlikely	Event that is unlikely to occur. The event might unexpectedly occur. Yet, there is little evidence indicating that the event will actually occur.	2
Possible	Event that is possible to occur. The event may occur. There is evidence moderately indicating that the event will actually occur.	5
Likely	Event that is likely to occur. The event is expected to occur. There is evidence consistently indicating that the event will actually occur.	8
Almost Certain	Event that is practically certain to occur. The event is unequivocally expected to occur. There is evidence clearly indicating that the event will actually occur.	10

Source: The Brazilian Federal Court of Accounts (2017). *Auditing Risk Management* (adapted).

ANNEX C – Risk Map



Black Swan is a high impact unlikely risk.

Resource Consumer is a low impact likely risk.