

## *Chapter 3*

### **Implementing a risk-based approach to internal control**

Internal control is a dynamic process that contributes to enhancing integrity by addressing risks and providing a reasonable assurance that public sector organisations achieve their objectives. This chapter examines the drive by the federal government of Brazil to strengthen internal control within Brazil's public administration. This drive has been supported by the automation of back-office management information systems and mandatory centralisation of internal audit within federal ministries. The proposals for action focus on *i*) advancing the implementation of risk management within federal public organisations; *ii*) monitoring the impact and effectiveness of internal audit; and *iii*) strengthening co-ordination between central government authorities to integrate risk management into future management reforms.

## Introduction

Internal control is commonly recognised as the set of means put in place to mitigate risks and to provide reasonable assurance that public organisations: *i*) deliver quality services in an efficient manner, in accordance with planned outcomes; *ii*) safeguard public resources against misconduct and (active and passive) waste; *iii*) maintain, and disclose through timely reporting, reliable financial and management information; and *iv*) comply with applicable legislation and standards of conduct (see *e.g.* INTOSAI, 2004). Reasonable assurance is achieved through management systems and practices that mitigate risk and vulnerabilities (*i.e.* internal control, or sometimes referred to as management control) and an independent and objective assessment of their functioning (*i.e.* internal audit). Public officials' standards of conduct, discussed in Chapter 4 of this publication, are also an important factor in creating a sound environment for internal control. The role of internal control in preventing corruption in public organisations is also recognised in international conventions against corruption.<sup>1</sup> Internal control and internal audit, no matter how well conceived and operated, can provide only reasonable – but not absolute – assurance to decision makers and public managers about the integrity of their organisation's operations.

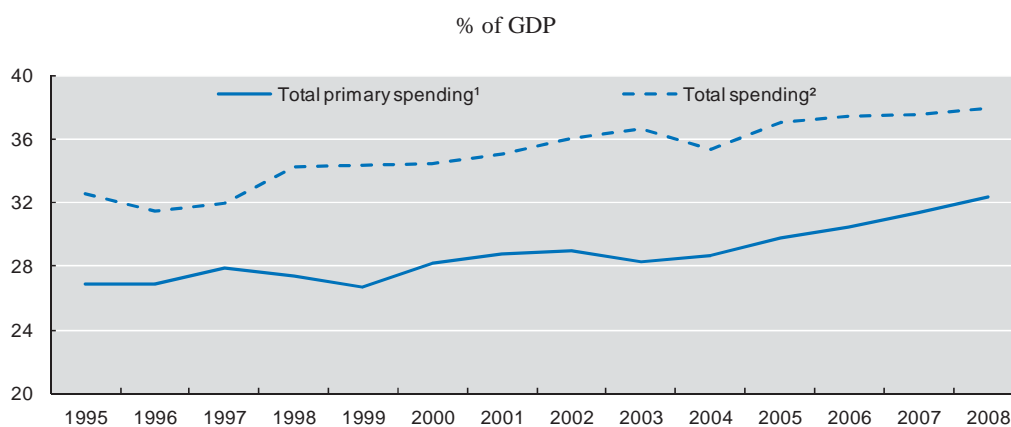
Implementing a risk-based approach to internal control purports to ensure that management is responsive to the potential vulnerabilities facing their respective public organisations and functions. Rather than simply regulating internal practices and procedures, management must put in place a systematic process and adequate capability (*i.e.* knowledge, resources, etc.) to assess and use assessment results to adjust management systems in a cost-effective manner to prevent risks from (re-)occurring. It also necessitates an *ex post* assessment of risk mitigating actions, recognising that earlier diagnosis and actions may not always have the desired effect. This requires leadership to create a culture that encourages risk management as a strategic and continuous action supporting prevention rather than as means of assigning blame to individuals and identify system vulnerabilities. Although internal auditors can play a valuable advisory service on internal control, the internal auditor should not be a substitute for a risk-based approach to internal control. Finally, to be effective, internal control and internal audit need to be integrated with other organisational systems that feed directly into management frameworks and decision-making processes as a means of strengthening public governance.

This chapter describes the main trends and challenges that can be identified in Brazil's drive to modernise its approach and systems for internal control within the federal public administration. Brazil's systems of internal control have historically been characterised by a strong compliance culture reflecting a combination of administrative and historical developments. Civil law countries, such as Brazil, are characterised by a high degree of formalisation of administrative decision-making processes, often spelled out in great procedural detail in primary and secondary legislation. Brazil's rules-based approach also reflects, in part, the historical influence of military leadership and the need to address asymmetric capabilities across the federal public administration. The modernisation of internal control in Brazil has been driven by a number of factors including increased federal spending (see Figure 3.1), innovations in service delivery and a push towards performance and accountability during the 1990s and 2000s. Innovation in service delivery has, in particular, been recognised as a driving force for reinforcing internal control in OECD member countries (see, *e.g.* Blöndal, 2005; Laking, 2005; Ruffner and Sevilla, 2004; Sevilla, 2005).

Table 3.1. **Civil and common law administrative cultures in Brazil and select countries**

Civil law	Common law
Argentina, <b>Brazil</b> , Chile, France, Germany, Italy, Japan, Korea, Mexico, Portugal, Spain	Australia, Canada,* South Africa, United Kingdom, United States

Note: for historical reasons, the Canadian province of Quebec maintains a hybrid civil/common law system.

Figure 3.1. **Evolution of general government spending in Brazil**

Notes:

1. Calculated as tax revenue minus the general government primary budget surplus.
2. Calculated as tax revenue plus the general government overall (nominal) budget balance.

Source: OECD (2009), *OECD Economic Surveys: Brazil 2009*, OECD Publishing, Paris, doi: 10.1787/eco\_surveys-bra-2009-en.

The drive to modernise internal controls has been led by the Office of the Comptroller General of the Union (*Controladoria-Geral da União*); the Federal Ministry of Planning, Budget and Management (*Ministério do Planejamento, Orçamento e Gestão*); and the Federal Ministry of Finance (*Ministério da Fazenda*).

- The Office of the Comptroller General of the Union, as the central internal control authority, establishes policies and rules on internal control and internal audit for the direct and indirect federal public administration. Within its organisational structure, two functional secretariats contribute to this mission. The Secretariat for Federal Internal Control (*Secretaria Federal de Controle Interno*) provides a mandatory, shared internal audit and inspection service for organisations of the direct federal public administration. In addition, it conducts complementary audit and inspection services for organisations of the indirect federal public administration. It also plays an increasingly active advisory role in focusing public managers' attention on their responsibilities to implement effective internal control. Complementing these activities, the Secretariat for Corruption Prevention and Strategic Information (*Secretaria de Prevenção da Corrupção e Informações Estratégicas*) manages the Public Spending Observatory (*Observatório da Despesa Pública*), tracking government spending data as a basis to identify possible irregularities and misconduct. More recently, these secretariats have begun developing general risk management methodologies for federal public

organisations and surveying federal public organisations to identify good practices in internal control.

- The Federal Ministry of Planning, Budget and Management, among other things, establishes policies and rules for general management, human resource management, information management and procurement management for the federal public administration. For example, the Secretariat for Management (*Secretaria de Gestão*) co-ordinates, guides and supervises the modernisation of public management within the federal public administration. Among its other competencies, and as discussed in Chapter 2, the Secretariat for Management co-ordinates the National Programme for Public Management and De-bureaucratisation (*GesPública*) including the simplification of management processes and the development of management performance indicators. The Secretariat for Logistics and Information Technology (*Secretaria de Logística e Tecnologia da Informação*) formulates and promotes the implementation of policies and guidelines regarding financial management, public procurement and administrative contracts, archive and document management. It also manages the Integrated General Services Administration System (*Sistema Integrado de Administração de Serviços Gerais*).
- The Federal Ministry of Finance, through the Secretariat of the National Treasury (*Secretaria Tesouro Nacional*), establishes policies and rules on financial management and the Federal Accounting System (*Sistema de Contabilidade Federal*). The Secretariat of the National Treasury establishes accounting standards and procedures to record transactions and events related to government operations. It also maintains the Federal Government Financial Administration System (*Sistema de Administração Financeira do Governo Federal*) and is developing the Federal Government Cost (Performance) System (*Sistema de Custos do Governo Federal*).

In addition, it is intended that the Office of the Comptroller General of the Union be supported by the Commission for Co-ordination of Internal Control (*Comissão de Coordenação de Controle Interno*). This commission is intended as an advisory body to the internal control system of the federal public administration and tasked with proposing measures: *i*) to consolidate the existing system of internal control; *ii*) to standardise the application of internal control; *iii*) to integrate internal control within other management systems and activities; *iv*) to formulate methods to test and evaluate the activities of internal control; and *v*) to analyse proposals related to internal control by the Comptroller General of the Union. It is composed of nine members and chaired by the Federal Minister for Transparency and Control. Its members are predominantly from the Office of the Comptroller General of the Union including its executive secretary, the Secretary of Federal Internal Control and the General Co-ordinator of Standards and Guidance for Internal Control. In addition, the Comptroller General of the Union appoints as members, for a period of one year, one special advisor for internal control from an organisation of the direct public administration and two representatives of internal audit units from organisations of indirect public administration. The remainder of this chapter is structured in two sections. The first section examines the framework for internal control within the federal public administration. It includes the focus on internal control and institutional arrangements within the federal public administration. It subsequently discusses recent efforts to introduce a risk-based approach to management control protocols at a government-wide and organisation-specific levels. The second part examines the institutional arrangements for creating a professional and independent internal audit

within Brazil's federal public administration, including differences between the direct and indirect administrations. It also discusses efforts to maintain the capability of the internal audit function using modern audit techniques, adequate resourcing and performance measurement.

## Internal control

Internal control is shaped and supported by the policies, instruments, systems and techniques devised to ensure that public organisations achieve their objectives while appropriately managing operational risks. Brazil's 1988 Federal Constitution contains an explicit reference to internal control within each of the 3 branches of government spanning general operations, financial management and asset management.<sup>2</sup> In particular, the 1988 Federal Constitution re-defines internal control, which was previously solely an auxiliary to the external control provided by the Federal Court of Accounts and broadens the scope of internal control beyond compliance alone. Brazil's systems of internal control have since undergone significant consolidation in parallel with modernisation of the public financial management system during the 1990s. Subsequent changes are focused on developing more risk-based approaches to target vulnerabilities in operations at government-wide and organisation-specific levels.

### *Internal control is broadly defined to measure effectiveness, efficiency and compliance within the public management (expenditure) cycle*

The 1988 Federal Constitution defines the purpose of internal control to evaluate both the achievement of the goals established in the four-year Pluri-Annual Plan (*Plano Plurianual*) and the implementation of government programmes and execution of the Annual Budget Law (*Lei Orçamentária Anual*). Evaluation measures effectiveness, efficiency and compliance.<sup>3</sup> Federal Law no. 10 180/2001 subsequently articulates the objective of internal control as evaluating government actions and the management of public officials, and supporting the function of external control.<sup>4</sup> This law defines internal control function as responsible for: *i*) assessing achievements of the targets set in the federal government's Pluri-Annual Plan; *ii*) evaluating the implementation of government programmes with respect to their objectives and quality of management; *iii*) providing information on the physical and financial status of projects and activities in the federal budget; *iv*) creating the conditions for the exercise of direct social control over federally funded programmes; and *v*) preparing the Annual Rendering of Accounts of the President of the Republic to be sent to the National Congress.

Federal Law no. 10 180/2001 formalised a number of changes to internal control that occurred gradually since the promulgation of the 1988 Federal Constitution. First, it links internal control to the public management (expenditure) cycle and the systems for planning, budgeting, financial management and accounting within the federal public administration.<sup>5</sup> Second, it distinguishes internal control as a separate area of responsibility from financial management and accounting, each with its own purpose, competencies and lead authority. Third, it enlarges the focus of internal control, adding the evaluation of programme performance and outcomes to inspection of compliance in administrative decision making. Fourth, it expands the role of internal control to investigate acts and events considered illegal or irregular committed by private actors, and not just public officials, in the use of federal public funds.

A series of developments led to the separation of internal control from financial management and accounting, including: *i*) the creation of the Federal Government

Financial Administration System in 1987, which centralised and automated public accounting procedures; *ii*) the re-definition of internal control in the 1988 Federal Constitution, as described above; *iii*) the conclusions of a 1992 Federal Court of Accounts audit of internal control and a 1993 Congressional Inquiry “Budgetgate”, both revealing alarming ineffectiveness of the existing systems of internal control; and *iv*) a change in orientation in the Federal Ministry of Finance, with an emphasis on cash and debt management and controlling inflation rather than fiduciary responsibilities. In particular, the 1992 Federal Court of Accounts audit recommended a significant re-organisation of internal control through the creation of its own administrative structure, separate from the Secretariat of the National Treasury. As a result, the Secretariat of Federal Internal Control was created. It was only in 2001 that this secretariat was relocated from the Federal Ministry of Finance to the newly established Office of the Comptroller General of the Union within the Office of the President of the Republic.

### ***The Office of the Comptroller General of the Union develops and monitors internal control policies within the federal public administration***

The Office of the Comptroller General of the Union fulfils many of the functions of a central internal control authority. These include: *i*) identifying and assessing management-related issues to determine if a government-wide approach is necessary; *ii*) formulating, reviewing and adjusting policy instruments; and *iii*) overseeing, interpreting and providing advice to public organisations on the application of policy instruments. As noted in the beginning of this chapter, policies and guidelines on general management, and human resource management, information management and procurement management are the responsibility of the Federal Ministry of Planning, Budget and Management. Financial management and accounting is the responsibility of the Federal Ministry of Finance. While there are instances where these three federal authorities work closely together, it does not appear to always be the case. For example, the Secretariat of Management is working with federal public organisations to re-engineer their internal practices and processes to improve service delivery. The extent to which the Office of the Comptroller General of the Union is actively involved in these changes appears to be limited largely to the implementation, rather than the formulation, of the reforms. Mechanisms for closer co-ordination in the modernisation of the internal control framework among the Office of the Comptroller General of the Union with the Secretariat of Management, Logistics and Information Technology (Federal Ministry of Planning, Budget and Management) and the Secretariat of the National Treasury (Federal Ministry of Finance) should be explored.

The “Federal Internal Control Manual” is a key instrument of the Office of the Comptroller General of the Union. It lays down the main concepts, guidelines, principles and rules regarding internal control. The manual, issued in 2001 by the Secretariat of Federal Internal Control, describes the general planning of control activities within the internal control system of the federal public administration. It also sets forth some general principles and guidelines on the use of benchmarks and indicators. Table 3.2 provides an overview of the main steps in planning internal control actions and the key documents involved. The manual lays out procedures and sources of information for preparing planning documents and for monitoring compliance with the recommendations and determinations of the internal and external control bodies. Sources of information include discussions with intermediate managers, governmental management systems (*e.g.* the Federal Government Financial Administration System, Integrated Human Resources Administration System, etc.) and audit reports.

Table 3.2. **Internal control planning guidelines, as outlined in Brazil’s 2001 “Internal Control Manual”, issued by the Secretariat of Federal Internal Control**

Phase	Activity
1	Mapping public policies in each public organisation, identifying macro-objectives, resources and responsible agents in order to assess the strategic importance of each policy.
2	Prioritising government programmes, based on defined political and strategic criteria, as well as risks categorised in accordance with their materiality, relevance, critical nature. Programmes will be classified as “essential,” “relevant,” and “auxiliary”, with the former requiring the most attention for “systematic control”.
3	Describing each essential programme and identifying its constituent actions.
4	Prioritising actions within each programme based on strategic criteria.
5	Preparing a report on the status of each selected action ( <i>relatório de situação</i> ) identifying: <i>i)</i> goals and benchmarks; <i>ii)</i> responsible bodies; <i>iii)</i> implementation mechanisms; <i>iv)</i> control systems, including direct social oversight; <i>v)</i> actions carried out in the context of the internal control system during the preceding year.
6	Preparing a strategic plan ( <i>plano estratégico</i> ) for the selected action, including the critical and vulnerable aspects impacting implementation, as well as the control approach to be adopted.
7	Preparing an operational plan ( <i>plano operacional</i> ) of each working task identified in the strategic plan, identifying the control actions to be undertaken and defining the necessary instruments and implementation timelines.

Source: Secretariat for Federal Internal Control, Office of the Comptroller General of the Union.

The current manual is more theoretical than operational in nature and could be supplemented with voluntary good practices guides and case studies to assist public managers. Good practices may help public managers effectively use generic tools (e.g. checklists, templates, etc.) throughout the internal control planning process. Case studies can be presented within good practice guides, or as distinct materials showing in more depth how processes were conducted, tools applied, results monitored and lessons learnt. To define good practices and prepare case studies, the central authority could survey and identify public organisations that have effectively applied internal control with tangible results. These may include federal, state and municipal public organisations, as well as private organisations, in Brazil and overseas.

The Commission for Co-ordination of Internal Control does not include representatives from the Federal Ministry of Planning, Budget and Management nor from the Federal Ministry of Finance.

### ***Special advisors on internal control advise federal ministers on matters of internal control and internal audit***

Special advisors on internal control sit inside the executive secretariat of each organisation of the direct federal public administration, to serve as interlocutors between the Secretariat of Federal Internal Control and their respective federal ministers. As level 5 supervisory and management officials, the advisors are one level below the executive secretary and heads of functional secretariats. With this responsibility comes accountability. Special advisors on internal control are liable for any damage and losses if they do not report to the Office of the Comptroller General of the Union within 15 days any irregularities of which they become aware. In addition to their advisory functions, these officials prepare the annual accounts and management reports and monitor the implementation of internal and external audit. While the special advisors on internal control interact with the Secretariat of Federal Internal Control to define annual audit plans on behalf of their respective federal ministers, they do not formally manage or oversee internal audit. As discussed in the second part of this chapter, internal audit for organisations of the direct federal public administration is conducted by the Secretariat of Federal Internal Control.

Special advisors on internal control are selected by their respective federal ministers, but their appointments are subject to final approval by the Comptroller General of the Union. Although the Comptroller General of the Union can refuse appointments and has done so in the past, approval is considered procedural in nature. In practice, more than half of all special advisors for internal control are Financial and Control Analysts seconded from the Office of the Comptroller General of the Union.

According to the Secretariat of Federal Internal Control, special advisors on internal control can be supported by administrative officials within the executive secretariat of their organisations. However, in some specific cases (*e.g.* the Federal Ministries of Social Development and Fight Against Hunger, Transport, Culture, Education and Health), the Office of the Comptroller General of the Union has allocated approximately five finance and control career officials to work with the advisor. This allocation was negotiated with these federal organisations and reflects the priority of these public policy areas for the government's goals. To provide this support, the Office of the Comptroller General of the Union carried out a competitive entry examination in 2008 in which a number of new officials were specifically recruited for these federal ministries. This allocation is formalised by an agreement between the Office of the Comptroller General of the Union and these five federal ministries defining the role of the officials supporting the special advisor. These agreements require finance and control career officials to provide assistance to public managers in implementing internal control and preparing manuals and guidelines as well as monitoring management actions.

**Box 3.1. The changing location of the policy and stewardship function for the internal control system of Brazil's federal public administration**

Brazil's internal control system of the federal public administration has continuously evolved over the last 50 years. There have been four main phases in this evolution: *i)* 1967-79; *ii)* 1979-86; *iii)* 1986-94; and *iv)* 2001 onwards. The responsibility for policy and stewardship of the internal control system has oscillated between the Federal Ministry of Finance and the Office of the President of the Republic.

- Federal Decree-Law no. 200/1967 created the internal control system under the central guidance of the Federal Ministry of Finance. Its creation followed the abolition by the 1967 Federal Constitution of a system of *ex ante* control of public expenditure by the Federal Court of Accounts. Under this system, General Inspectorates of Finance (*Inspetorias Gerais de Finanças*) were located within each federal ministry to advise their respective ministers on matters of internal control and internal audit.



### Box 3.1. The changing location of the policy and stewardship function for the internal control system of Brazil's federal public administration (*cont'd*)

- In 1979, the policy and stewardship function of internal control was transferred from the Federal Ministry of Finance to the Secretariat of Planning (*Secretaria de Planejamento*) within the Office of the President of the Republic. At the level of individual federal public organisations, the General Inspectorates of Finance were replaced by the Secretariats of Internal Control (*Secretarias de Controle Interno*). The transfer of the policy and stewardship function of the internal control system corresponded with a change from financial audit to management audit.
- In 1986, the policy and stewardship functions of the internal control system were once again re-assigned to the Federal Ministry of Finance. The functions of the internal control authority were located in the newly established Secretariat of the National Treasury, together with financial management and accounting. The creation of the Secretariat of the National Treasury represented a key step towards the consolidation of public finances. At the level of individual federal public organisations, the Secretariats of Internal Control continued to operate with a high degree of autonomy.
- In 1994, the internal control function was separated from the Secretariat of the National Treasury to a dedicated authority, the Secretariat of Federal Internal Control. This move created a stronger hierarchy between the Secretariat of Federal Internal Control and the Secretariats of Internal Control. While Secretariats of Internal Control remained physically within federal ministries, they now reported to the central authority of the system. The creation of the Secretariat of Federal Internal Control was accompanied by the creation of regional offices in all states and the introduction of audits of municipalities.
- Federal Law no. 10 180/2001 consolidated the existing legislation on internal control. In 2002 the Secretariat of Federal Internal Control was moved from the Federal Ministry of Finance to the Office of the President of the Republic, following the recommendation of a Federal Court of Accounts report adopted the previous year. Less than two months later, the Secretariat of Federal Internal Control was incorporated as one of the main cornerstones of the Office of the Comptroller General of the Union, which was created in 2001.

Source: Olivieri, C. (2008), *Política e Burocracia no Brasil: O Controle Sobre a Execução das Políticas Públicas* [Politics and Bureaucracy in Brazil: the Control Over the Execution of Public Policies], Fundação Getúlio Vargas, Escola de Administração São Paulo; da Silva Balbe, R. (2010), *O Resultado da Atuação Controle Interno no Context das Reformas na Administração Pública* [The Result of the Internal Control Activities in the Context of Reforms in Public Administration], Instituto Universitário de Lisboa – Departamento de Ciência Política e Políticas Públicas.

### ***Internal control is supported by common automated back-office systems that provide for the segregation of duties and documentation of decision making***

The direct federal public administration is regulated by a number of common management and supporting information systems (see Table 3.3). The centralisation and automation of these systems contributes to a common management framework and standardised administrative rules within the federal public administration. These directly support internal control by ensuring that all transactions and significant events are documented and authorised and only executed by officials acting within the scope of their

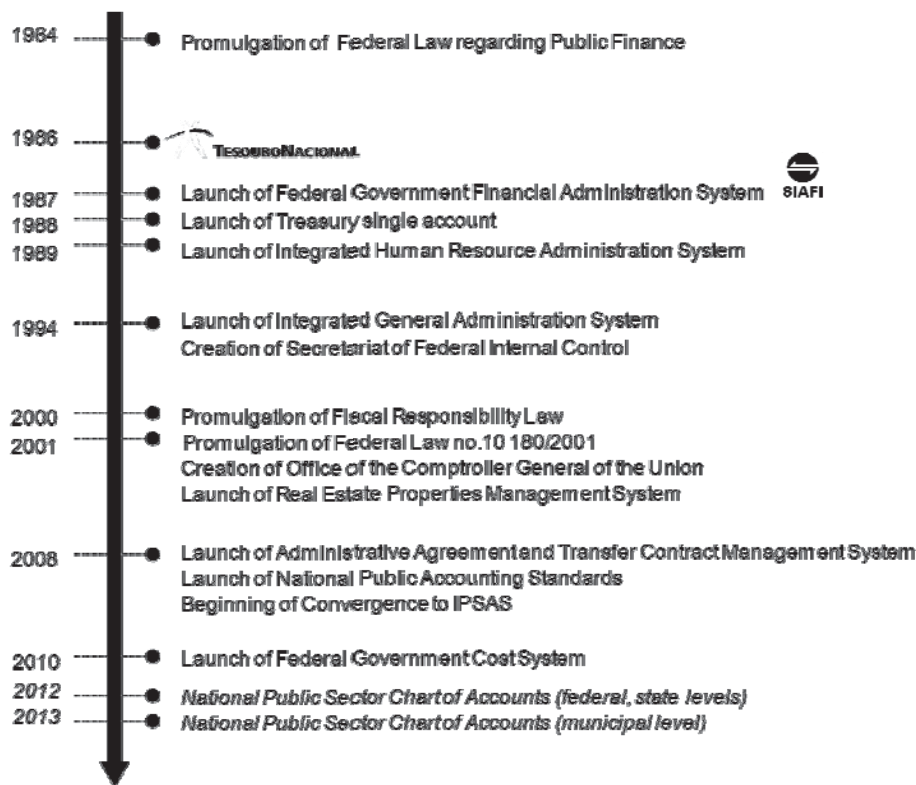
authority. Automation also assists in creating reliable and timely data that can be captured and communicated to various levels within public organisations for management decision making. Similarly, these systems serve as direct input into programme evaluation and audit necessary for supporting policy learning and adjustment.

Table 3.3. Management systems within the direct federal public administration

Management system	Lead authority	Supporting ICT system
Planning	Secretariat of Planning and Strategic Investment, Federal Ministry of Planning, Budget and Management	Budget Planning and Management Information System (SIGPlan) Accelerated Growth Programme Monitoring System (SISPAC)
Budgeting	Secretariat of Federal Budget, Federal Ministry of Planning, Budget and Management Department of Co-ordination and Control of State Enterprises, Federal Ministry of Planning, Budget and Management	Integrated System of Budget Data (SIDOR) State Enterprise Information System (SIEST)
Financial management and accounting	Secretariat of National Treasury, Federal Ministry of Finance	Federal Government's Financial Administration System (SIAFI)
Procurement and administrative contracts	Secretariat for Logistics and Information Technology, Ministry of Planning, Budget and Management	Integrated General Services Administration System (SIASG)/ Comprasnet
Administrative and transfer agreements	Secretariat of Management and Secretariat for Logistics and Information Technology, Ministry of Planning, Budget and Management	Administrative Agreement and Transfer Contract Management System (SICONV)
Human resource management	Secretariat of Human Resources, Ministry of Planning, Budget and Management	Integrated Human Resources Administrative System (SIAPE)
State property, real estate and buildings	Secretariat for State Assets, Federal Ministry of Planning, Budget and Management General Co-ordination of Functional Real Estate, Office of the President of the Republic (residential housing)	Integrated Asset Management System (SIAPA) Real Estate Properties Management System (SPIU)

Core among these management systems is the Federal Government Financial Administration System, an accounting and financial reporting system. The establishment of the Federal Government Financial Administration System in 1987 supported the standardisation of accounting and financial reporting within the federal public administration. This system constitutes a single database for accounting and financial information across the federal government, including the indirect public administration, legislature and judiciary. All budget transactions – including allocation, commitment, verification and payment – must be performed and recorded through the Federal Government Financial Administration System. The system is operated by public organisations. Each individual user must provide an identity number to access the system and all actions are automatically recorded and archived. Data cannot be input directly, but requires appropriate documentation (*e.g.* bank transfer, expenditure note, etc.). The system serves as an essential source of information for internal and external audit and provides direct input for the government's Transparency Portal (see Chapter 2). Prior to 1986, financial management was characterised by fragmented accounting systems and excessive physical *ex ante* controls resulting in significant delays in bookkeeping of more than 45 days after the end of the calendar month, and data inconsistencies. This affected management decision-making processes. Today, there are approximately 5 000 administrative units and 60 000 public officials connected through the Federal Government Financial Administration System.

Figure 3.2. Evolution of Brazil's federal public administration's back office financial management and accounting systems



Source: Secretariat of National Treasury, Federal Ministry of Finance.

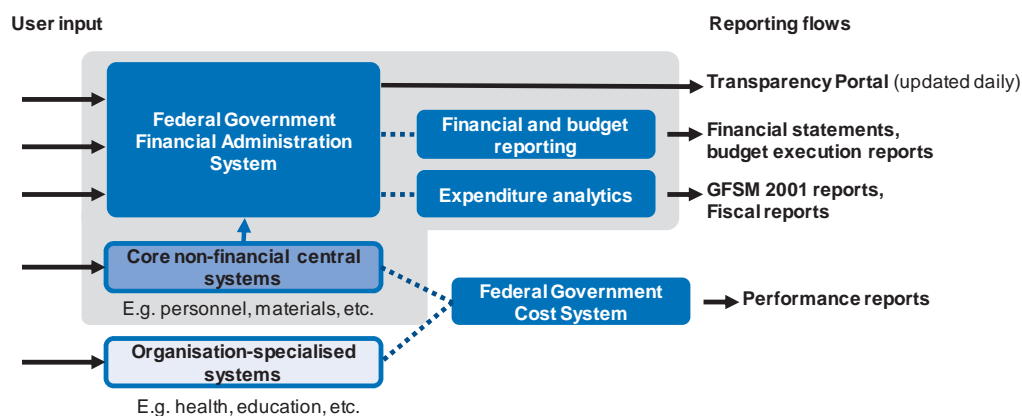
The introduction of the Federal Government Financial Administration System aided in the consolidation of government banking arrangements into a treasury single account. The substitution of the government operating account at Brazil's largest public commercial bank, the Bank of Brazil (*Banco de Brasil*), with the treasury operating account at the Central Bank created a direct link between the management and control of federal finance and the budget operations of the various management units. Implementation of the operating account eliminated more than 5 000 government bank accounts and made it possible to exert more effective control over the government cash flow. The treasury single account covers only federal public organisations. It also includes the transactions of the Institute of Social Security (*Instituto Nacional do Seguro Social*) and special accounts in foreign currencies (including external loans). Collection of revenues and payments is handled through the Bank of Brazil and, only in some exceptional cases, other commercial banks authorised by the Secretariat of National Treasury. Moreover, the absence of a treasury single account in the past resulted in the proliferation of government bank accounts, idle cash stock mostly unremunerated or low-yielding accounts and weak internal control. This was magnified by the proliferation of government bank accounts held by budget units (*e.g.* bank accounts for materials, bank accounts for personnel expenditure, bank accounts for material consumption, etc).

Most of the other management systems of the federal public administration are integrated into this system. For instance, the Planning and Management Information System (*Sistema de Informações Gerenciais e de Planejamento*) is used to establish and

monitor qualitative goals and establish expenditure limits for the Pluri-Annual Plan. The Integrated Budgetary Data System (*Sistema Integrado de Dados Orçamentários*) is used to prepare the draft Annual Budget Law, and allows for automatic update of changes in the budget into the Federal Government Financial Administration System. The Integrated General Services Administration System/Comprasnet supports the monitoring of procurement decision making and the management of general services (*i.e.* goods, buildings, vehicles, communications, etc.). Some systems, such as the Integrated Human Resource Administration System (*Sistema Integrado de Administração de Recursos Humanos*) and the Administrative Agreement and Transfer Contract Management System (*Sistema de Gestão de Convênio, Contrato de Repasses e Termo de Parceria*), are not fully integrated into the Federal Government Financial Administration System.

The Secretariat of the National Treasury is seeking to introduce the Federal Government Cost System to measure the efficiency of federal government programmes. This system will automatically combine information from various management systems (*e.g.* Federal Government Financial Administration System, Integrated Human Resource Administration System, Information Management and Planning System, Integrated General Services Administration System, etc.) to better assess and evaluate options for the delivery of public services. This will include examining and measuring the likely benefits, costs and effects of decisions by public managers and the federal government as a pre-requisite for evidence-based decision making. In the management module, the system will provide pre-formatted reports that enable users to extract information in a practical and quick way. The Secretariat of the National Treasury has a team that is responsible, among other activities, for creating new reports to meet the needs of users.

Figure 3.3. Data and reporting flows within Brazil’s federal public administration



Source: Secretariat of National Treasury, Federal Ministry of Finance.

In the first semester of 2009, the Federal Ministry of Finance initiated the development of the Federal Government Cost System. It subsequently presented an “Exploratory Prototype” of the system for approval to several authorities in the Federal Ministries of Finance and Planning, Budget and Management late in the second semester of 2009. The project was approved in July 2010 with the Secretariat of the National Treasury since initiating training for public officials who will use the system. The system has been available to federal public organisations since end-August 2010. Although not formally involved in the system’s development, the Secretariat for Federal Internal Control envisions the use of cost data to evaluate the managerial performance of

managers of federal public organisations, focusing on efficiency, effectiveness and economy in the management of public resources.

***The federal government has been responsive to federal public administration-wide risks to prevent misconduct and waste***

Brazil has a well-developed body of rules and systems in place to foster integrity in public service delivery and the operation of public organisations. For example, comprehensive commitment controls effectively limit commitments to actual cash availability and approved budget allocations. At the commitment stage (*empenho*) proposed expenditure is verified to ensure that spending proposals have been approved by an authorised official, that funds have been appropriated in the budget, that sufficient funds remain available in the proper category of expenditure, and that the expenditure is proposed under the correct category. At the verification stage (*liquidação*) the documentary evidence that the goods have been received or that the service has actually been performed is verified. Before the payment stage (*pagamento*) confirmation is needed that a valid obligation exists, that the competent person has signed that the goods or services have been received as expected, that the invoice and other documents requesting payment are correct and suitable for payment, and that the contractor is correctly identified. These controls are built into the Federal Government Financial Administration System.

At the same time, Brazil’s control system has demonstrated a flexibility to develop a whole-of-government approach to specific management-related issues. Two examples relate to the use of: *i*) administrative agreements (*convênios*) and transfer agreements (*contratos de repasse*); and *ii*) the Federal Government Payment Card (*Cartão de Pagamentos do Governo Federal*).

***Administrative and transfer agreements***

Administrative agreements involve the transfer of financial resources from the budget of a federal public organisation with a sub-national public or private not-for-profit organisation for the implementation of activities as part of a federal governmental programme. Transfer agreements are an instrument whereby the transfer of financial resources is processed through an institution or federal public financial agent acting as a representative of the Union. They are distinguished from administrative contracts (*contratos administrativos*) because of their not-for-profit nature. (For a discussion on administrative contracts, see Chapter 5.)

In 2002, the Secretariat of Federal Internal Control issued a technical note indicating the need to adopt measures aimed at examining the accounts of federal public organisations that use administrative and transfer agreements. The decision came in response to concerns over problems with the management of administrative contracts, namely perceived “excessive” discretion of public officials in signing agreements, inadequate attention to the management of agreements and weak transparency in their implementation. A Secretariat of Federal Internal Control working group established in the same year<sup>6</sup> concluded, among other things, that granting authorities should have the necessary human resources and capability to effectively monitor the implementation of administrative and transfer agreements. The working group findings were sent to various authorities, among them the Federal Court of Accounts.

Efforts were again initiated in 2005 to address the inadequacies of the legislative and management framework for administrative agreements by the Federal Court of Accounts.

Through this process, the Federal Court of Accounts determined that the Federal Ministry of Planning, Budget and Management should present a technical study for the implementation of online monitoring of administrative and transfer agreements. The terms of reference included making information available on: *i*) the parties to an agreement; *ii*) the member of the National Congress and budgetary amendment that allocated funds, if any, to the object of the contract; *iii*) the detailed work plan, including estimated costs per item/stage/phase; *iv*) tenders carried out with bids and data from all bidders; *v*) the status of physical implementation schedule indicating the goods purchased, services or work performed; *vi*) the name, social security number and location data of the direct beneficiaries, if any. The Federal Court of Accounts directed this issue through the Council on Transparency and Combating Corruption, an advisory body affiliated with the Office of the Comptroller General of the Union. This resulted in the promulgation of new management procedures on the use of administrative and transfer agreements, developed by the Office of the Comptroller General of the Union (see Chapter 2).<sup>7</sup>

The revised legal framework for transfer agreements aims to rationalise the use of agreements by public organisations through a number of restrictions. For instance, agreements with sub-national public organisations must have a minimum value of BRL 100 000 (USD 60 000; EUR 43 000). Public organisations are also prohibited from entering into agreements with organisations that have: *i*) defaulted of other administrative agreements or have inadequate qualifications; and *ii*) exceeded a certain total threshold value of partnerships, defined as a percentage of their total net income. In addition, the framework establishes: *iii*) clear rules against conflicts of interest in agreements with private not-for-profit organisations, banning agreements with organisations owned, led or controlled by public officials from the executive, legislature or judiciary, or their spouses, partners and close relatives; *iv*) a cap on the amount of resources that can be devoted to administrative expenses (5% of the value of the agreement); *v*) standard agreement clauses granting access by public officials of the awarding authority, internal and external auditors to all documents and information related to the execution of the agreement; and *vi*) discretion on the choice of dispute resolution over any differences deriving from the implementation of the agreement.

A key action in strengthening control of administrative agreements is the launch of a dedicated database registering and supporting the management of administrative and transfer agreements. Launched in September 2008, this management system allows public organisations to carry out price comparisons required for the acquisition of goods and services exceeding certain thresholds by private not-for-profit organisations. All acts and procedures related to the establishment, execution, monitoring, reporting and auditing of agreements must be recorded in the Administrative Agreement and Transfer Contract Management System (*Sistema de Gestão de Convênios e Contrato de Repasses*). This system is open to the public through the “Agreements Portal” (*Portal dos Convênios*). All not-for-profit organisations interested in entering into an agreement with a federal public organisation must be registered with the Administrative Agreement and Transfer Contract Management System. The information included in the system is detailed, and includes information on, for example, the identity of the directors or managers of the organisation, a certification of compliance with tax obligations, evidence on the technical and operational capacity, etc. Registration is valid for a period of one year. The system is being gradually implemented since 2008, with several modules already completed. As part of this implementation, training sessions have been and are being conducted for both federal managers and representatives of the organisations that are parties to the contracts.

It is expected that with the full implementation of the Management System for Agreements and Contracts with Transfers of Federal Funds, effective transparency in the use of federal funds transferred to entities under contracts will be achieved. The Administrative Agreement and Transfer Contract Management System – which is run by a Management Committee with representatives of the Secretariat of the National Treasury, the Secretariat for Federal Budget and the Secretariat for Logistics and Technology (both at the Federal Ministry of Planning, Budget and Management), as well as the Secretariat of Federal Internal Control – produces quarterly management reports providing consolidated data and disaggregated information on individual agreements.<sup>8</sup>

### *Federal Government Payment Cards*

The Federal Government Payment Card was established in 1998 for the payment of promotional or reduced travel arrangements for public officials. Only in exceptional circumstances were the cards authorised for below-threshold procurement. Otherwise, officials were obliged to use Type B accounts to pay below-threshold contracts of goods and services for immediate delivery.<sup>9</sup> Over time this obligation was relaxed and, in 2001, the use of the cards was expanded as an alternative to Type B accounts.<sup>10</sup> With these changes, the use of the Federal Government Payment Card grew significantly over time from less than 50 cardholders in 2002 to approximately 10 000 in 2008 and has remained around the same level since. The total value of expenditure using the cards grew from BRL 3 million (USD 1.8 million; EUR 1.3 million) in 2002 to BRL 80 million (USD 48 million; EUR 34 million) in 2010 (see Table 3.4). The average value of the cards fell from approximately BRL 65 000 (USD 39 000; EUR 28 000) per cardholder in 2002 to BRL 8 300 (USD 5 000; EUR 3 600) in 2010.

**Table 3.4. Expenditure using Brazil’s Federal Government Payment Cards**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Amount spent, in BRL million	3.0	9.3	14.2	21.7	33.4	76.3	55.3	64.6	80.1
Number of card holders	46	224	1 187	2 812	5 202	7 445	10 080	9 766	9 671

Source: Transparency Portal of the Federal Public Administration ([www.portaldatransparencia.gov.br](http://www.portaldatransparencia.gov.br)).

In 2008, the Office of the Comptroller General of the Union formulated Federal Decree no. 6 370/2008 to provide greater transparency and control of below-threshold expenditure for materials and services for immediate delivery using the Federal Government Payment Card. The decision was influenced by several newspaper articles about the irregular use of the card that were identified through the Transparency Portal of the federal public administration ([www.portaldatransparencia.gov.br](http://www.portaldatransparencia.gov.br)) (see Chapter 2). The move by the Office of the Comptroller General of the Union also followed media reports mentioned above, a Congressional Commission of Inquiry created in March 2008 to investigate the situation; a federal minister eventually resigned over the misuse of the card. The federal decree sets rules on the use of the Federal Government Payment Cards, including prohibiting bank withdrawals, except in two cases: *i*) costs related to specific situations of the public organisation, to be internally regulated, and never exceeding 30% of the total annual expenditure of the public organisation; or *ii*) to support the peculiarities of the essential authorities within the Office of the Presidency, Federal Ministry of Finance, Federal Ministry of Health,<sup>11</sup> Department of Federal Police, Federal Ministry of Foreign Affairs as well as the armed forces and intelligence authorities.

Due to the transparency provided by Federal Government Payment Card and with the enactment of Federal Decree no. 6 370/2008, Type B accounts were abolished. As such, the cards have become the only option for below-procurement-threshold expenditure. In parallel, the Office of the Comptroller General of the Union instructed the internal audit units in organisations of the indirect public administration to monitor expenditure made using the Federal Government Payment Card and introduced computer-assisted audits through the Public Spending Observatory to monitor the use of the cards. The Office of the Comptroller General of the Union also issued a frequently asked question booklet containing information on Federal Decree no. 6 370/2008 for users of the cards and as a basis for citizens to exert direct social control.

In 2009, the Federal Ministry of Planning, Budget and Management created the Payment Card System (*Sistema de Cartão de Pagamentos*) and required public officials using the cards to insert data related to their purchases into the system.<sup>12</sup> The information to be inputted includes the invoice number of purchases, the company's identification number (*Cadastro Nacional da Pessoa Jurídica*), the date of the purchase and its value, proof of expenses with purchases made with money drawn with a Federal Government Payment Card. The system is still under development, although the module for insertion of data by holders of the cards is already being used. The system is currently being evaluated and customised in order to integrate with the Federal Government Financial Administration System.

***Risk management is being introduced as a means of addressing specific vulnerabilities associated with public service delivery***

Over the last five years, the Office of the Comptroller General of the Union has placed increasing emphasis on risk management as a preventive measure against misconduct and corruption. Its vision is to instil a positive risk management culture within public organisations to complement and reinforce existing management controls. To do so, the Office of the Comptroller General of the Union is developing tools to help public managers effectively manage risks in their operations. Its major activity in this regard is the development of a generic risk management methodology:

- Based upon self-assessment: an organisation must take the initiative to test its own integrity, drawing upon the knowledge and opinions of its officials. In the process, organisations reveal their own risks and the officials make recommendations on how to strengthen resilience.
- Targeted at prevention: the methodology is designed to identify the main operational weaknesses and risks as the basis for strengthening an organisation's resilience against them.
- Actionable and monitorable: it allows public managers to identify operational risks and take the necessary *ex ante* measures to safeguard public resources, provide quality services and strengthen trust in government.

Two risk management methodologies have been developed by the Office of the Comptroller General of the Union. The first, the Corruption Risk Mapping Methodology (*Metodologia de Mapeamento de Riscos de Corrupção*), was developed in 2006 in partnership with Transparência Brasil. The second, the Risk Management Methodology (*Metodologia de Gerenciamento de Risco*), was developed by the Office of the Comptroller General of the Union in 2008 and modified in 2009 following a pilot of the first methodology. The pilot of the first methodology was conducted in three federal



ministries: the Federal Ministry of Culture, the Federal Ministry of Transport and the Federal Ministry of Social Development and Fight Against Hunger. These were selected primarily because of their close working relationship with the Office of the Comptroller General of the Union. The Office of the Comptroller General of the Union plans to apply the risk management methodology in five public organisations, or divisions therein, by 2012. While the first and second methodologies are formally articulated as complementing one another, senior officials within the Office of the Comptroller General of the Union indicate that the emphasis going forward is almost solely placed on the second methodology.

In developing its methodologies, the Office of the Comptroller General of the Union has drawn upon the experience of other countries and organisations from Brazil's private sector. Officials gathered information by studying the methodologies of countries and organisations and holding meetings and seminars on the subject. Among the methodologies examined have been Argentina and Mexico (first methodology), Colombia and the State of New South Wales (Australia) (second methodology). The experiences of Chile and Hong Kong, China were also reviewed, but the Office of the Comptroller General of the Union found that their methodologies did not meet its needs. For example, the Office of the Comptroller General of the Union reported that the Chilean methodology was too focused on risk mapping as an input for external audit activities rather than an input into internal control. In developing the methodology, however, the Office of the Comptroller General of the Union did not explore the experiences of other public organisations within Brazil. This is despite annual surveys conducted by the Office of the Comptroller General highlighting that a number of federal public organisations have, since 2007, begun to introduce risk management. For example, the Institute of Social Security (*Instituto Nacional do Seguro Social*), Brazil's Intelligence Agency (*Agência Brasileira de Inteligência*), the Bank of Brazil (*Banco da Brasil*), the Asset Management Company (*Empresa Gestora de Ativos*) and Petrobras have all introduced operational risk management.

### Box 3.2. Operational risk management in Brazil's Federal Ministry of Social Security

In 1999, the Federal Ministry of Social Security (Previdência Social Brasileira) began to conduct operational risk management activities. In 2002, it was the first organisation of the direct federal public administration to have a specific unit dedicated to risk management, although it was not until April 2003 that the Risk Management Office became part of the formal structure of the Federal Ministry of Social Security. In 2006, the Office was expanded to the Strategic Research and Risk Management Advisory Unit (*Assessoria de Pesquisa Estratégica e de Gerenciamento de Riscos*), responsible for all operational risk analysis and intelligence gathering for the Federal Ministry of Social Security. The unit is located under the Executive Secretary (deputy minister) of the Federal Ministry of Social Security. It is staffed by 180 officials spread across Brazil's 26 states and 25 officials in Brasília.

The unit produces information related to risk management and fraud of social security beneficiaries for the Federal Ministry of Social Security. It uses traditional audit techniques as well as data mining and cross checks the social security database with other government systems including the Federal Government Financial Administration System, Integrated Human Resource Administration System, National Automobile Registry (*Registro Nacional de Veículos Automotores*) and government credit organisations (e.g. SERASA). To support its activities, the Strategic Research and Risk Management Advisory Unit has developed a Monitoring and Analysis Information System (*Monitoramento e Análise das Informações da Previdência Social*) to create a fraud typology and allow management follow-up of investigations.

After identifying possible failures of internal control within the Federal Ministry of Social Security, the unit works in partnership with the area involved to mitigate risks. Many of the earlier problems were technological in nature and required major investments by the Social Security Technology and Information Company (Dataprev). After recommendations are issued, monitoring is conducted to verify whether the risk increases or decreases as a result of the recommendation.

There were over 11 600 investigations into fraud between 1999 and May 2010. The creation of the Strategic Research and Risk Management Advisory Unit resulted in significant growth in the number of investigations into fraud. In 2005 (the year before the creation of the unit) there were 68 investigations. In 2006, there were over 1 700 investigations. The number of investigations peaked in 2008 with over 5 100. As a consequence of the increase in investigations since 2006, the ratio of ongoing to closed cases has increased substantially from around 15-20% every year between 1999 and 2005 to over 50% since 2006. There is great variation, however, between different states: in Sergipe and Goiás, 98% and 83% of cases were closed, respectively; in Alagoas and Acre only 2% and 0%, respectively. In São Paulo and Rio, where the number of investigations are the highest, the per cent of cases closed is 11% and 28%, respectively.

The Strategic Research and Risk Management Advisory Unit also works in close co-operation with the Department of the Federal Police (*Departamento Polícia Federal*) and the Office of the Federal Public Prosecutor (*Ministério Público Federal*). Joint investigations of social security fraud between the Federal Police and the Office of the Federal Public Prosecutor have increased from 10 in 2003 to an average of 40 per year since 2006. Much of these joint actions have given rise to imprisonment of corrupt citizens. Nearly 20% of the arrests made so far are of public officials. Data suggests that as of 2003, over 500 public sector officials had been fired and over 300 imprisoned since 2003 due to Strategic Research and Risk Management Advisory Unit investigations. Estimates suggest that there was an estimated loss of BRL 462 million (USD 276 million; EUR 198 million) between 2006 and 2010.

Source : Strategic Research and Risk Management Advisory Unit, Federal Ministry of Social Security.

Table 3.5. Office of Comptroller General of the Union 2006 risk mapping methodology

<b>Questions relating to information necessary for decision making</b>
1. Is the information necessary for the decision defined in legislation or documented internal rules?
2. Is the information necessary for the decision built based on a methodology and specific criteria (e.g. assessment of prices for purchase based on market or cost analysis)?
3. Is the information necessary for the decision supported by structured data collection (i.e. adequate sources or pre-defined procedures and criteria are used)?
4. Is the information necessary for the decision consistent?
5. Do decision makers have all the information available at the moment of making the decision?
<b>Questions relating to decision-making points</b>
6. Do decision makers possess the necessary knowledge to make decisions in accordance with applicable legislation and rules?
7. Are there organisations/units and mechanisms for the control and supervision of the decision?
8. Are there mechanisms allowing access by interested parties to the motivation and the content of the decision?
9. Is there a historical record of the decision kept within the authority and/or other institutions?
10. Is the decision accompanied by criteria permitting the consideration of interested parties or beneficiaries in the process?
11. Is the decision driven by the objective of ensuring the economic efficiency of the process?
12. Do citizens participate in the decision-making process?
<i>i)</i> Is there a public consultation regarding the adoption of the decision?
<i>ii)</i> Is the focus of the decision considered in the evaluation of the results of public consultations?
<i>iii)</i> Are the results of public consultations taken into account in the adoption of the decision?
13. Is there control over contact between the decision maker and the beneficiaries or interested parties?
14. Do similar processes come to a decision within one year?
15. Can the decision be reviewed by another executive authority (i.e. appeal)?
16. Is the decision adopted on the basis of available information?
<b>Questions relating to decisions</b>
17. Is there a historical account of the results of the decision?
18. Does the result of the decision contribute to the improvement of the next decision or the final result of the process?
19. Are the requirements for partial results spelled out in legislation or internal rules?
20. Is there visibility regarding the economic and social implications of the decision?
21. Are there indicators to evaluate the time required for the decision?
22. Is there a control mechanism regarding the list of beneficiaries and interested parties in past decision-making processes (e.g. do they always get exemptions, etc.)?
23. Is there an evaluation of the final results of the process based on indicators or criteria measuring its effectiveness?

Source: Office of the Comptroller General of the Union.

The first attempt at developing a comprehensive methodology to identify and address corruption risks within the Brazilian public administration took place in 2006. It is comprised of five steps, from identification of organisational working processes to evaluation of risks: *i)* identifying the organisation's work processes; *ii)* selecting work processes considered "at risk" to be mapped; *iii)* defining the variables influencing each business process; *iv)* mapping the decisions for each process; *v)* mapping the risks in each decision point. For each decision-making point, three series of questions are to be asked relating to: *i)* the information used in or required for each decision-making point; *ii)* the decision-making points themselves; and *iii)* the decision results (see Table 3.5). According to the first methodology, processes are considered at risk if they involve either the direct purchase of goods or services, confer rights or benefits on citizens (e.g. issuance of permits, concessions, etc.), transfer resources to sub-national public or private not-for-profit organisations, or involve the imposition of administrative sanctions.

The responses to these questions are coded 1 (yes) or 0 (no). The higher the score, the lower the exposure risk to corruption.

The pilot of the first methodology highlighted a number of difficulties but also provided some unique insights into risk management. It focused solely on public procurement of off-the-shelf goods and common services using reverse auctions, rather than addressing more complex procurement objects and processes. In other words, it was a narrowly defined pilot that would not test the external validity of the methodology in identifying and managing risks within other areas of operational management. Foremost among the challenges identified was that the methodology was considered too academic in nature and focused on describing decision-making processes rather than assessing actual risk and developing mitigating measures. Despite these challenges, the application of the pilot methodology by the Federal Ministry of Culture identified a breakdown in communication between officials responsible for preparing and conducting the reverse auctions and those in charge of stock controls. In response to these difficulties, the Office of the Comptroller General of the Union made two main adjustments to its risk management methodology: *i*) focusing on activities (*atividades*) rather than processes; and *ii*) shifting from risk identification to risk management. Activities are the specific tasks of each management function (see Table 3.6).<sup>13</sup> Risks related to information management are not currently included in the methodology. Protecting information, including citizens' privacy, is a core value of any public sector organisation – and integrity management should contribute to this value. A number of OECD member countries have begun to introduce privacy impact assessments within their decision-making processes (*e.g.* Australia, Canada, the Netherlands, New Zealand, Norway and the United Kingdom).

**Table 3.6. Office of Comptroller General of the Union 2010 risk management methodology: management activities**

Management area	Activities
Human resource management	Granting of compensation, benefits, indemnities and advantages Hiring, mobility and dismissal of staff Consultant retention Granting/modification of retirement and pensions Resolution of administrative disciplinary procedures Training and development policy
Procurement management	Procurement procedures (tendering and exemptions) Contract management
Budget and financial management	Preparation/modification of budget proposal Budget execution Management of available funds and additional funding Agreement management
Asset management	Use and inventory of assets Sale, donation and transfer of movable and immovable assets Use of means of transport
Service delivery	Planning-designing programme/action goals and objectives Income transfers Surveillance and/or imposition of penalties Granting of benefits, incentives and financing Regulation Service to the public Evaluation of programme's/action's effectiveness, efficiency and costs

*Source:* Office of the Comptroller General of the Union.

The methodology itself is divided into five steps: *i)* selection of the most vulnerable activities; *ii)* evaluation of existing control measures for the most vulnerable activities; *iii)* formulation of preventive measures; *iv)* implementation of preventive measures; and *v)* monitoring the most vulnerable activities. The first step aims to provide the institution with an overview of the activities carried out in each of its management areas. For this purpose, the methodology establishes 12 vulnerability indicators (*indicativos de vulnerabilidade*) relating to factors mostly unrelated to management that influence the likelihood of corruption in the performance of a given activity (see Table 3.7). Each indicator has a pre-defined set of responses options, scored between 1 (low vulnerability) and 3 (high vulnerability). The final score determines the degree of risk that a given activity presents and whether further investigation into additional management controls is required. The remaining stages of the methodology focus on formulating, implementing and monitoring preventive measures, including the preparation of an action plan (*plano de ação*) to strengthen the control measures identified (model forms are provided). Further, it advises that the whole process be repeated every two years. Some indicators included in the 2010 methodology may require re-consideration. For example, by the end of 2010 all federal ministries were expected to have their own ombudsman unit (see Chapter 2), which may render Indicator 4 less significant (*i.e.* “are there communication mechanisms at the organisation for citizens to submit complaints and claims regarding the activities performed by the organisation”). As discussed earlier in this chapter, many activities are supported by information systems, which may render Indicator 9 less significant (*i.e.* “is there a computerised system at the federal level to implement the activity”).

**Table 3.7. Office of Comptroller General of the Union 2010 risk management methodology: vulnerability indicators**

Indicators	Scoring
1. How often is the activity subject to audit/inspection by audit authorities ( <i>i.e.</i> Federal Court of Accounts, Office of the Comptroller General of the Union)?	1. Annually 2. Every two years 3. Every three years or more, or never subject to audit/inspection
2. Have wrongdoing and/or irregularities been detected in the last two audits?	1. There have been no irregularities or wrongdoing 2. Only formal issues or irregularities were detected 3. Serious flaws, fraud, misuse and/or irregularities were detected, or the activity is never audited
3. Are there instruments providing for public consultation of information regarding the activity?	1. Information is available to the public in electronic media that allow free or easy access 2. The information is publicly available only in print or in electronic format with medium/difficult access 3. The information is offered only upon request by the person concerned or is not available to the public
4. Are there communication mechanisms at the organisation for citizens to submit complaints and claims regarding the activities performed by the institution?	1. The organisation has mechanisms for receiving complaints and claims, and these are often acted upon 2. The organisation has mechanisms for receiving complaints and claims, but these are rarely acted upon 3. The organisation does not have mechanisms for receiving complaints and claims
5. Does the activity have a high degree of deconcentration ( <i>i.e.</i> different units of the same organisations) and/or decentralisation (to states, the Federal District, municipalities)?	1. There is no deconcentration or decentralisation 2. The activity is partially deconcentrated or decentralised 3. The activity has a high degree of deconcentration or decentralisation
6. What degree of political interference is there in carrying out the activity?	1. There is no possibility of political interference 2. There is possibility of interference in some stages of the activity 3. There is possibility of interference in many or all stages of the activity

**Table 3.7. Office of Comptroller General of the Union 2010 risk management methodology: vulnerability indicators (cont'd)**

Indicators	Scoring
7. Does the activity involve funds derived from loan agreements with international organisations (e.g. Inter-American Development Bank, World Bank)?	<ol style="list-style-type: none"> <li>1. No</li> <li>2. It does, in part</li> <li>3. It does, predominantly</li> </ol>
8. Are laws and/or guidance manuals clear and sufficient to perform the activity?	<ol style="list-style-type: none"> <li>1. Yes, the rules and/or manuals are clear and sufficient</li> <li>2. Current rules and/or manuals generate some ambiguity in interpretation, presenting some difficulties in their application</li> <li>3. Current rules and/or manuals generate many interpretative doubts, compromising the performance of the activity</li> </ol>
9. Is there a computerised system at the federal level to implement the activity (e.g. Federal Government Financial Administration System, Integrated Human Resource Administration System, Integrated General Services Administration System)?	<ol style="list-style-type: none"> <li>1. There is a federal computerised system, and its use is mandatory for the implementation of the activity</li> <li>2. There is a federal computerised system, but its use is optional for the implementation of the activity</li> <li>3. There is no federal computerised system for the implementation of the activity</li> </ol>
10. To what extent does the activity have an impact on the destination or use of budget allocations, financial resources, or assets?	<ol style="list-style-type: none"> <li>1. The activity impacts on the destination or use of a low volume of budget allocation, financial resources or assets</li> <li>2. The activity impacts on the destination or use of a medium volume of budget allocation, financial resources or assets</li> <li>3. The activity impacts on the destination or use of a high volume of budget allocation, financial resources or assets</li> </ol>
11. To what extent may the activity result in the granting of benefits or the imposition of penalties on recipients?	<ol style="list-style-type: none"> <li>1. The activity may result in the granting of benefits or the imposition of penalties producing a small impact on the recipient</li> <li>2. The activity may result in the granting of benefits or the imposition of penalties producing a medium impact on the recipient</li> <li>3. The activity may result in the granting of benefits or the imposition of penalties producing significant impact on the recipient</li> </ol>
12. How should the activity be performed?	<ol style="list-style-type: none"> <li>1. The executor must strictly comply with the provisions of the applicable legislation at all stages of the activity</li> <li>2. The executor must comply with the provisions of the applicable legislation in most of the steps, but he/she can make assessments and take his/her own decisions regarding some aspects</li> <li>3. The executor, while required to follow legal requirements, can make assessments and take his/her own decisions regarding various aspects</li> </ol>

Source: Office of the Comptroller General of the Union.

## Professional and independent internal audit

Internal audit is a key supporting role of any public organisation's system of internal control. It provides decision makers and public managers with an independent and objective appraisal of the functioning of management control underpinning service delivery and programme performance. Internal audit findings and recommendations support informed and accountable decision making in relation to managing operational risks, enhancing effectiveness and achieving value for money. Moreover, internal audit allows decision makers and public managers to target their attention to areas in need of improvement. In order to add value, however, internal audit findings and recommendations must be adequately and promptly acted upon by decision makers and public managers. The role of internal audit is evolving in OECD member countries from an assessment of compliance with procedures and rules to a strategic partner in the management of public organisations. Although internal auditors can be a valuable resource, they should not be a substitute for the individual responsibility of public

managers to implement a risk-based approach to internal control. In this context, internal auditors are concerned with restoring citizen and investor confidence in government.

***Internal audit highly centralised within the direct public administration as a means to strengthen its professionalism and independence***

Internal audit for Brazil's direct federal public administration is highly centralised within the Secretariat of Federal Internal Control. This centralisation, implemented in 2000/2001, represents a deliberate policy shift, though its roots can be traced back to the early 1990s. Previously, all organisations of the direct federal public administration had their own Secretariat of Internal Control (*Secretaria de Controle Interno*). These secretariats were responsible for auditing not only the administrative units of organisations of the direct federal public administration, but also those of the agencies and foundations under the direct supervision of the respective organisations. State-owned and mixed-capital enterprises have always had their own internal audit functions. The policy shift regarding internal audit was driven by concern over the independence of the Secretariats of Internal Control from undue influence of high officials, as articulated by an audit report by the Federal Court of Accounts in 1992. This triggered a centralisation during the 1990s, with the Secretariats of Internal Control progressively losing significance as the Secretariat of Federal Internal Control consolidated its influence. The Secretariats of Internal Control within organisation of the direct public administration were discontinued altogether in 2001.

With the centralisation of internal audit within the direct federal public administration, Secretariats of Internal Control have been replaced by the Secretariat of Federal Internal Control and special advisors on internal control (*Assessor Especial de Controle Interno*). Each organisation of the direct federal public administration is supported by a dedicated "internal audit division" within the Secretariat of Federal Internal Control. These divisions have a presence in both the capital of Brasília and each of Brazil's 26 states. In cases of federal ministries with particularly large or complex functions (*e.g.* the Federal Ministries of Finance and Education), there are two internal audit divisions within the Secretariat of Federal Internal Control. In other cases, multiple federal ministries are grouped into a single division, (*e.g.* the Federal Ministries of Tourism and Sports and the Federal Ministries of Agriculture and Fisheries) (see Table 3.9). Within the regional units of the Secretariat of Federal Internal Control, it is also common for federal ministries to be grouped together within the same internal audit divisions.

Table 3.8. Level of centralisation of internal audit within the direct public administration in Brazil and select countries

Central government	
Centralised	Decentralised
Brazil, Portugal, <sup>1</sup> Spain <sup>2</sup>	Argentina, <sup>3</sup> Australia, Canada, Chile, <sup>4</sup> France, Germany, Italy, Japan, Korea, Mexico, <sup>5</sup> South Africa, United Kingdom, United States <sup>6</sup>

Notes:

1. Portugal: General Inspectorate of Finance (*Inspecção Geral de Finanças*) is responsible for: financial system, value for money and information and communications technology audits; reviewing performance evaluation; and establishing standards for government agency finance. Its mandate covers all central departments and agencies, local departments and agencies, state- and municipal-owned enterprises, and all private organisations financed by national or European Union funds.
2. Spain: General Controller and Accounting Directorate (*Intervención General de la Administración del Estado*), except for the tax administration.
3. Argentina: each ministry has an Internal Audit Unit, under the technical oversight of a central internal audit agency reporting to the presidency, the Internal Audit Agency of the Public Administration (*Sindicatura General de la Nación*).
4. Chile: internal auditors operate in all 190 services (*i.e.* ministries, agencies and public enterprises). The General Government Internal Audit Council, created in 1997, serves as an advisory authority to the executive branch and conducts audits of information databases and systems within ministries.
5. Mexico: each organisation has an internal control office, an operational extension of the Ministry of Public Administration (*Secretaría de la Función Pública*). The Ministry of Public Administration appoints the head of the internal control offices within public organisations to preserve the independence of control.
6. United States: there are 69 federal Offices of Inspectors General who share information and co-ordinate through the Council of Inspectors General on Integrity and Efficiency.

Source: World Bank/IADB (2007), *Argentina, Country Financial Accountability Assessment*; World Bank, Washington, D.C.; World Bank/IADB (2005), *Republic of Chile, Country Financial Accountability Assessment*; World Bank, Washington, D.C.; OECD (2010), *OECD Journal on Budgeting, Volume 2009 Supplement 1: OECD Review of Budgeting in Mexico*, OECD Publishing, Paris, doi: 10.1787/budget-v9-sup1-en; OECD (2008), *OECD Budget Review of Portugal*, OECD Publishing, Paris; IMF (2005), “Spain: Report on the Observance of Standards and Codes – Fiscal Transparency Module”, *IMF Country Report*, No. 05/58, IMF, Washington, D.C.; [www.ignet.gov](http://www.ignet.gov) for the United States.

Internal audit within Brazil’s direct federal public administration does not fall into the typical typology of internal audit. It is not conducted in-house, as demonstrated by the centralised role of the Secretariat of Federal Internal Control. It is not outsourced with in-house management, as the special advisors on internal control do not have a specific management function of the dedicated internal audit team responsible for their ministry within the Secretariat of Federal Internal Control. Nor is it fully outsourced, which would imply that organisations of the direct federal public administration would have a quasi-contractual arrangement with the Secretariat of Federal Internal Control for the audit services that it provides.<sup>14</sup> The Office of the Comptroller General of the Union considers that there are a number of benefits from the centralisation of internal audit for organisations of the direct federal public administration. These include: *i*) ensuring independence of audit work; *ii*) achieving standardisation and quality control of work; *iii*) promoting knowledge management; *iv*) contributing to the development and evolution of the career of finance and control officials; and *v*) facilitating an integrated approach to evaluation of government programmes involving more than one federal ministry. Moreover, the Office of the Comptroller General of the Union considers that linking dedicated divisions to a specific federal ministry, allows: *i*) better understanding of federal programmes and activities specificities; *ii*) continuous monitoring of events that have an impact on management; and *iii*) improved relations with public managers.



**Table 3.9. Organisation of the Secretariat of Federal Internal Control departments and divisions**

Departments	Divisions
Economic	Federal Ministry of Finance I <sup>1</sup> Federal Ministry of Finance II <sup>2</sup> Federal Ministry of Planning, Budget and Management Federal Ministry of Development, Industry and Trade
Social	Federal Ministry of Social Development and the Fight Against Hunger Federal Ministry of Justice Federal Ministry of Health Federal Ministry of Education I <sup>3</sup> Federal Ministry of Education II <sup>4</sup>
Infrastructure	Federal Ministry of the Environment Federal Ministry of Mines and Energy Federal Ministry of Science and Technology Federal Ministry of Transport Federal Ministry of Cities Federal Ministry of National Integration
Production and technology	Federal Ministries of Agriculture, Fisheries and Aquaculture (within one division) Federal Ministry of Agrarian Development Federal Ministry of Tourism Federal Ministries of Sports and Culture (within one division) Federal Ministry of Communications
Employment and social security	Federal Ministry of Social Welfare Federal Ministry of Labour and Employment Social Services System (“System S”) <sup>5</sup> Personnel Audits and Special Investigation of Accounts (within one division)

Notes:

1. The division Federal Ministry of Finance I is responsible for auditing administrative units and organisations of the indirect administration (*e.g.* agencies, foundations, state-owned and mixed-capital enterprises) that are under the authority of the Federal Ministry of Finance, *e.g.* Bank of Brazil, Federal Savings Bank, etc.
2. The division Federal Ministry of Finance II is responsible for auditing, among others, administrative units of the direct administration that are under the authority of the Federal Ministry of Finance, both in Brasília and Brazil’s 26 states, *e.g.* Secretariat of Federal Revenue, tax courts, etc.
3. The division Federal Ministry of Education I is responsible for auditing, among others, programmes related to education policy management, graduate research and universities.
4. The division Federal Ministry of Education II is responsible for auditing, among others, programmes related to general literacy, vocational training and youth inclusion.
5. Social Services System (“System S”) comprises para-statal organisations that play a specific role in the training and welfare of employees of companies from some sectors of industry, commerce and services, agriculture and livestock. These specific organisations were created by the government, but are not state-owned enterprises or agencies. Their financial resources are collected through compulsory contributions made by private companies as well as from the Social Security system in general. Although the System S does not execute public policies, it supports broader social goals.

*Source:* Secretariat of Federal Internal Control, Office of the Comptroller General of the Union.

Internal audit within Brazil’s direct federal public administration does not fall into the typical typology of internal audit. It is not conducted in-house, as demonstrated by the centralised role of the Secretariat of Federal Internal Control. It is not outsourced with in-house management, as the special advisors on internal control do not have a specific management function of the dedicated internal audit team responsible for their ministry within the Secretariat of Federal Internal Control. Nor is it fully outsourced, which would imply that organisations of the direct federal public administration would have a quasi-contractual arrangement with the Secretariat of Federal Internal Control for the audit services that it provides.<sup>15</sup> The Office of the Comptroller General of the Union

considers that there are a number of benefits from the centralisation of internal audit for organisations of the direct federal public administration. These include: *i*) ensuring independence of audit work; *ii*) achieving standardisation and quality control of work; *iii*) promoting knowledge management; *iv*) contributing to the development and evolution of the career of finance and control officials; and *v*) facilitating an integrated approach to evaluation of government programmes involving more than one federal ministry. Moreover, the Office of the Comptroller General of the Union considers that linking dedicated divisions to a specific federal ministry, allows: *i*) better understanding of federal programmes and activities specificities; *ii*) continuous monitoring of events that have an impact on management; and *iii*) improved relations with public managers.

*Internal audit within the indirect federal public administration (i.e. agencies, foundations, state-owned and mixed-capital enterprises) is decentralised*

Federal Law no. 10 180/2001 on the organisation of the federal planning, budget, financial management, accounting and internal control systems of the federal public administration requires all organisations of the indirect public administration to establish their own internal audit units. This requirement was introduced in 2001 as part of the restructuring of the internal audit function of the federal public administration. Previously, state-owned and mixed-capital enterprises were the only organisations of the indirect public administration obliged to have their own internal audit unit. Prior to 2001, agencies and foundations were audited by the Secretariat of Internal Control located in the federal ministry with responsibility for supervision of their functions and activities. Internal audit units within organisations of the indirect federal public administration are linked to the board of directors or head of the organisation, as defined in their respective establishing legislation. The heads of internal audit units are selected by the board of directors or head of the organisation but, as in the case of the special advisors on internal control, must be approved by the Comptroller General of the Union.

*There is select decentralisation and use of collaborative internal audit within the direct federal public administration*

While Brazil is classified as having a centralised internal audit function within the direct public administration, variations do exist within this model (see Table 3.10). Select organisations of the direct public administration have their own internal audit units (*i.e.* decentralised internal audit service). These include the Office of the President of the Republic (which also audits the Office of the Comptroller General of the Union) and the Federal Ministries of Foreign Affairs and Defence.<sup>16</sup> The Internal Control Secretariat of the Office of the President of the Republic audits 27 public organisations located under the Office of the President of the Republic, accounting for BRL 10.3 billion in 2010 (USD 5.8 billion; EUR 4.4 billion) in annual government expenditure. The internal audit units within the Federal Ministries of Foreign Affairs and Defence audit more than 200 and 400 administrative units, respectively. The decision to maintain a Secretariat of Internal Control in these organisations reflects the nature of their functions and state security. The 2010 budgets of the Federal Ministries of Foreign Affairs and Defence were BRL 2.1 billion (USD 1.2 billion; EUR 0.9 billion) and BRL 58.2 billion (USD 33 billion; EUR 25 billion), respectively

Table 3.10. **Brazil's three models of internal audit in the direct federal public administration**

Centralised (under the Secretariat of Federal Internal Control)	Decentralised (in ministries or functional secretariats)	Collaborative (i.e. Secretariat of Federal Internal Control, Federal Court of Accounts)
Agrarian Development	<b>Pre-2001 centralisation of internal audit</b>	Specific programmes
Agriculture	Office of the President	(e.g. Family Grant Programme)
Cities	Defence	
Communications	Foreign Affairs	
Culture	Unified Health System (DENASUS)	
Development and Trade		
Education	<b>Post-2001 centralisation of internal audit</b>	
Environment	Secretariat of Federal Revenue	
Finance		
Fisheries		
Justice		
Labour and Employment		
Mines and Energy		
National Integration		
Planning, Budget and Management		
Science and Technology		
Social Development and Fight Against Hunger		
Transport		

The Unified Health System (*Sistema Único de Saúde*) under the Federal Ministry of Health also has its own internal audit department (*Departamento Nacional de Auditoria do Sistema Único de Saúde*, DENASUS) since 1986.<sup>17</sup> The existence of a dedicated internal audit unit is attributed to the size and complexity of the system: it includes over 5 800 hospitals, of which nearly 3 500 are private, 2 100 are public and 150 are university hospitals (see Case Study 3). The Secretariat of Federal Revenue General Co-ordinator of Internal Audit is the first organisation of the direct federal public administration to have its own internal audit unit since the centralisation of internal audit within the Secretariat of Federal Internal Control in 2001. The Secretariat of Federal Revenue has exclusive authority to levy and administer taxes on personal income, corporate income, payroll, wealth, foreign trade, banking and finance, rural property, hydroelectric and mineral resources (see Case Study 1).

Some specific high-level programmes have a dedicated oversight and control network (*i.e.* collaborative audit) involving various public authorities. Such a network was established in January 2005 to systemise and co-ordinate oversight and controls over the Family Grant Programme. The programme covers 12.6 million households (with an average of 4 persons per household, its coverage spans approximately one-quarter of Brazil's population of 190 million citizens), and accounts for 5% of the federal government's non-capital expenditure, or 0.84% of total government expenditure. The creation of the network involved a formal agreement of co-operation among the Office of the Comptroller General of the Union, the Federal Court of Accounts (and its sub-national counterparts) and the Federal Public Prosecutors with the Federal Ministry of Social Development and the Fight Against Hunger. The control activities of the network are in addition to the regular activities of the respective organisations. Furthermore, the design of the Family Grant Programme includes citizens within the programme implementation arrangements incorporates, in a *de facto* manner, civil society into this network (see Case Study 2).

*The Secretariat for Federal Internal Control plays a critical role in setting internal audit standards and co-ordinating internal audit activities*

The Secretariat of Federal Internal Control Department of Planning and Co-ordination provides guidance on standards and rules for internal audit units within organisations of the indirect federal public administration. For example, Secretariat of Federal Internal Control Normative Instruction no. 1/2001 outlines the functions of internal audit units, including examining the lawfulness and legitimacy of actions in accordance with different administrative systems (e.g. financial management, human resources, asset management, etc.).

Manuals issued by the Department of Planning and Co-ordination provide orientation on the procedures to be followed during the audit and the preparation of the audit report. Different manuals correspond with the various types of audits (i.e. there are separate manuals for government programme audits, financial audits, random audits, special investigation of accounts, etc.). They define the steps of work as well as the responsibilities of the internal audit teams, the audit co-ordinator and audit supervisor. For example, the manual for government programme audits defines the following steps to build evaluations: *i)* mapping public policies (i.e. macro-objectives, resources, organisational responsibilities); *ii)* prioritising governmental programmes (i.e. based on materiality, relevance and critical factors); *iii)* prioritising the actions of each programme according to criteria defined with strategic bases; *iv)* situational reporting (i.e. objectives, goals, delivery mechanisms, target users/beneficiaries); *v)* strategic planning (i.e. critical points – better option among the several possibilities of control); and *vi)* operational planning (i.e. division of labour, stages, procedures, control techniques). These manuals are developed through a process of internal consultation with finance and control analysts and technicians – the career group constituting the bulk of Office of the Comptroller General of the Union officials and the special advisors on internal control.

In addition, the internal audit units in organisations of the indirect federal public administration are formally subject to two types of monitoring by the Secretariat of Federal Internal Control. First, internal audit units are required to submit an Annual Plan of Internal Audit Activities (*Plano Anual de Atividades de Auditoria Interna*) and an Annual Report of Internal Audit Activities (*Relatório Anual de Atividades de Auditoria Interna*) to the Secretariat of Federal Internal Control as a basis for evaluation. Second, internal audit units of organisations of the indirect federal public administration are subject to peer review by other internal audit bodies once every three years.

The Annual Plan of Internal Audit Activities is submitted for review to the Secretariat of Federal Internal Control before end-October, and it reports back by end-January.<sup>18</sup> The plan includes information on: *i)* planned internal audits and their objectives; and *ii)* planned institutional development and capacity building actions. Within 20 days of receipt of the plan, the Secretariat of Federal Internal Control issues comments on the planned activities and recommends additional internal audit actions, as appropriate. The plans are subsequently finalised and approved by the heads of the respective federal public organisations before the end of December, and then shared with the Secretariat of Federal Internal Control. The Annual Report of Internal Audit Activities includes: *i)* a description of actions undertaken by the internal audit unit; *ii)* a record of internal audit activities conducted during the year, their recommendations or determinations; *iii)* information on developments that have impacted on internal audit actions; and *iv)* information on institutional development and capacity building activities. The content of these reports is protected and subject to banking, tax or business confidentiality. The

number of Annual Plans of Internal Audit Activities and Annual Reports of Internal Audit Activities received by the Secretariat of Federal Internal Control was not available to the OECD.

The Secretariat for Federal Internal Control notes that the peer review was included in the internal audit manual in 2001 as an aspiration in line with international good practice. The objective of the peer review is to assess if the internal audit unit under review is effectively performing its functions. However, to date, no peer reviews of internal audit units have been conducted. Senior officials within the Secretariat for Federal Internal Control informed the OECD Secretariat that peer reviews remain a goal, but no specific date has been set for their introduction.

As noted above, the Commission for Co-ordination of Internal Control is an advisory body to the internal control system of the federal public administration. The commission is made up of officials from the Office of the Comptroller General of the Union together with one special advisor for internal control and two representatives of internal audit units from organisations of indirect public administration, appointed for a one-year term by the Comptroller General of the Union. However, the commission has not convened since 2003. In some regards, this development reflects the current composition of the commission and the centralisation of the internal audit function within the direct federal public administration. The Office of the Comptroller General of the Union could assess the potential role of the Commission for Co-ordination of Internal Control as a mechanism for exchanging experiences on internal audit, in particular between the direct and indirect federal public administration. If the commission was re-activated, the Office of the Comptroller General of the Union could assess its composition. The commission may benefit from the participation of more internal audit units from organisations of the indirect public administration, internal audit units of sub-national governments, the national professional internal audit association and the Federal Court of Accounts.

### ***Performance audits of federal public organisations and the sub-national government's delivery of federal programmes are an increasing focus***

Over time, audits of government programmes grew substantially in number, from 113 to 2 000 per year – or from 1% to nearly 20% of total audit activities – between 2005 and 2010 (see Table 3.11 and Figure 3.4). Programme audits combine analysis of financial, non-financial and compliance activities, with particular attention to performance against targets set in the Pluri-Annual Plan and Annual Budget Law. Random audits comprise a large share of the annual audit activities of the Secretariat of Federal Internal Control, varying between 30% and 70% between 2005 and 2010. Random audits examine the implementation of federal programmes by sub-national governments. Municipalities and states are selected by the Federal Savings Bank (*Caixa Econômica Federal*), using the national lottery system, verifying financial and non-financial information, compliance and effectiveness.<sup>19</sup> During this same period, financial audits remained at about 10% of all audits conducted by the Secretariat of Federal Internal Control. Annual financial audits verify information provided by federal public organisations as input into the external rendering of accounts. Public organisations are selected for audits by the Federal Court of Accounts, with the participation of the Secretariat of Federal Internal Control, based on materiality and relevance. The audits aim to ensure the regularity of accounts, and verify financial reporting of federal budgetary funds and asset management.

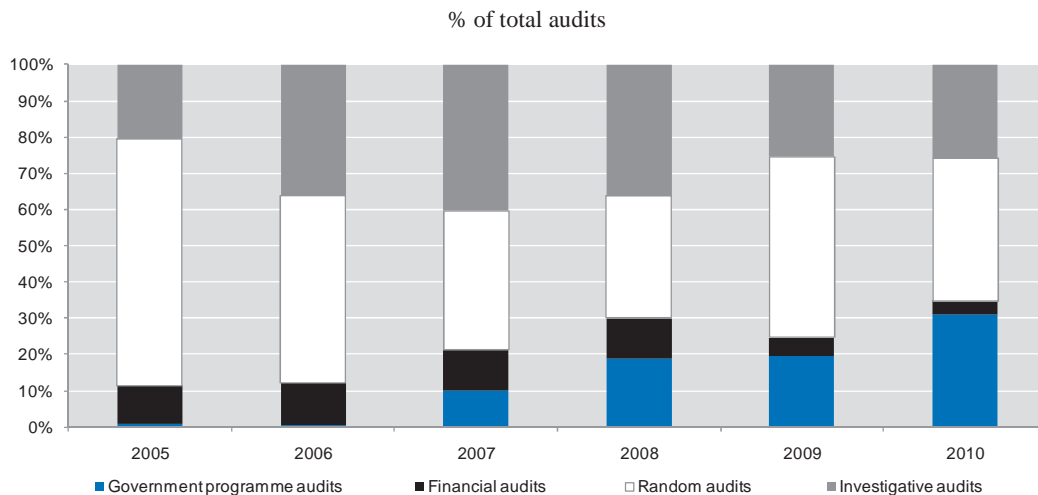
Table 3.11. **Secretariat of Federal Internal Control audits**

By audit type, per year

Type	2005	2006	2007	2008	2009	2010
Government programme audits	113	56	1 152	2 039	1 979	4 380
Financial audits, of which related to:	1 232	1 316	1 322	1 180	519	515
Direct public administration	943	995	987	838	286	251
Indirect public administration	289	321	335	342	233	264
Random audits	7 974	5 750	4 462	3 622	5 063	5 520
Investigative audits, of which from:	2 401	4 022	4 695	3 899	2 572	3 655
Office of Federal Public Prosecutors	N/A	414	638	970	1 023	1 031
Federal Ministry of Justice	N/A	153	296	329	444	662
Offices of state public prosecutors	N/A	97	136	117	101	109
Federal Court of Accounts	N/A	19	26	68	102	88
National Congress	N/A	98	76	49	38	33
Office of the President of the Republic	N/A	9	1	4	3	1

Notes: In addition, the Secretariat of Federal Internal Control is responsible for conducting audits to evaluate the performance of agreements with international financial institutions and other donor organisations. In recent years, its approach has evolved considerably from one process to a simple accounting audit approach for evaluating goals and objectives of the government action benefit from these resources. Between 2003-08, the Office of the Comptroller General of the Union conducted over 2 200 audits of more than 1 000 projects, averaging around one-third of total federal projects audited annually. The results of the audits are sent to the Secretariat of the National Treasury of the Federal Ministry of Finance, the Secretary of International Affairs of the Federal Ministry of Planning, Budget and Management and the Brazilian Co-operation Agency of the Federal Ministry of Foreign Affairs, who are responsible for primary supervision and monitoring of these projects.

Source: Secretariat of Federal Internal Control, Office of the Comptroller General of the Union.

Figure 3.4. **Secretariat of Federal Internal Control audits**

Source: Secretariat of Federal Internal Control, Office of the Comptroller General of the Union.

A fourth category of audits – investigative audits – is based on issues of integrity attributed to concerns raised in other audit activities and external requests. Such requests may come from the management of individual public organisations, the Civil House of the Office of the President of the Republic, the Department of Federal Police, the Office

of the Federal Public Prosecutor, members of the National Congress, the Federal Court of Accounts or citizens. These audits are primarily aimed at reviewing issues of legality and integrity. The results are published in the Annual Audit Report on Accountability and are sent to the Federal Court of Accounts, Department of Federal Police and Office of the Federal Public Prosecutors. During 2008, over 3 200 complaints or requests for investigations were received by the Secretariat of Federal Internal Control, of which nearly 2 500 were audited. The gap between the number of complaints received and those that are addressed (25%) was due, in many cases, to a lack of data or consistency of the information provided through a preliminary review of information. Some 900 inspections were completed in 2008, spanning 348 municipalities and involving a number of federal programmes within, among others, the Federal Ministries of Cities, Health, Education, Social Development and Fight Against Hunger.

New control techniques of federal public organisations and the sub-national government's delivery of federal programmes have been a recent focus. Programme audits are prioritised according to issues of materiality (*i.e.* size of the budget), relevance (*i.e.* contribution to a public organisation's mission) and operational risks. These can receive a maximum of one-third of the total weighting. Table 3.12 provides an illustration of the prioritisation of internal audit activities for 2011. It shows that the 2014 FIFA World Cup and 2016 Olympic Games have already become priority topics for the Secretariat of Federal Internal Control.

Table 3.12. **2011 programme audit prioritisation matrix of Secretariat of Federal Internal Control**

Criteria	Range of possible scores
1. Materiality	
1.1 The estimate of total funds allocated to the programme	0-50
2. Relevance	
2.1. Inclusion within the Growth Acceleration Programme ( <i>Programa de Aceleração do Crescimento</i> ); the Education Development Plan ( <i>Plano de Desenvolvimento da Educação</i> ); or the Social Agenda ( <i>Agenda Social</i> )	0-20
2.2. Inclusion within the Budget Framework Law/Millennium Development Goals/Ministerial Strategic Orientation/external financing (loans, grants, etc.)	0-5
2.3. Inclusion within the 2014 FIFA World Cup and 2016 summer Olympics activities	0-25
2.4. Programme typology	0-10
3. Operational risk	
3.1. Evaluation of performance	0-10
3.2. Complaints received	0-9
3.3. Judgement/opinion on accounts	0-9
3.4. Risk objects and areas	0-5
3.5. Human resource policy	0-7
3.6. Decentralised implementation	0-6
3.7. Performance of direct social control	0-3
3.8. Management control	0-4

Source: Secretariat of Federal Internal Control, Office of the Comptroller General of the Union.

The creation of the random audit programme in 2003 constituted a fundamental change in the approach to auditing the implementation of federal programmes by local governments that first began in 1995. The key differences between these two approaches centre on the selection of municipalities, and the focus of the audits. First, since 2003, municipalities are selected at random using the national lottery system rather than a statistical method applied by the Secretariat of Federal Internal Control. To ensure a fair and impartial selection, representatives of the media, political parties and civil society are invited to attend the drawings of municipal governments. Second, random audits cover the operations of municipalities in full, including their management systems, rather than simply the execution of a selected programme.<sup>20</sup> Random audits were applied to states, large municipalities and specific programmes in FY 2004, 2007 and 2008, respectively. Empirical evidence of the impact of these audits suggests that they have had an impact on the electoral performance of incumbent parties and mayors (see Box 3.3).

The introduction of the random audits programme was met with significant resistance by municipalities, even resulting in a series of lawsuits against the federal government. The municipalities alleged that the Secretariat of Federal Internal Control had no power to audit municipalities and was encroaching on the jurisdiction of the Federal Court of Accounts and the municipalities themselves. They also charged bias on the part of the Secretariat of Federal Internal Control in the selection process, with some municipalities arguing that they were selected for political reasons. None of these claims were upheld by the High Court of Justice (*Superior Tribunal de Justiça*). A subsequent 2006 audit of the random audit programme by the Federal Court of Accounts found that there was no statistical evidence of bias in the selection of the random audits.

### Box 3.3. Empirical evidence on the effect of Secretariat of Federal Internal Control random audits

A number of empirical studies have been prepared based on the results of the Secretariat of Federal Internal Control programme of random audits of small and medium-sized municipalities on the electoral performance of incumbent parties and mayors. Drawing upon 669 municipal reports of random reports selected across the first 13 lottery tranches, Ferraz and Finan (2007) found that an increase in reported corruption of one standard deviation from the sample median reduces the likelihood of an incumbent's re-election by 20%. In addition, they found that the effect of the Office of the Comptroller General of the Union random audits was more pronounced in areas where local radio is available, reducing the probability of re-election by 40%, and increasing the likelihood of re-election of non-corrupt incumbent politicians. Ferraz et al. (2009) go further and highlight the impact of corruption on education outcomes, with corruption reducing education outcomes, measured by results of standardised tests, by 0.35 standard deviations.

In a similar regard, in examining the impact of the random audit reports from 784 municipalities randomly selected from the first 15 lottery tranches, Brollo (2009) found that the release of audit reports, on average, has a detrimental impact on unveiled corrupt mayors' probability of re-election. However, voters do not punish mayors who are affiliated with the political party of the President. The impact of the release of audit reports on the electoral outcomes completely disappears after eight months. There is also evidence that voters can perceive the effects of reductions in transfers at least 15 months before the municipal elections. His analysis shows that the central government significantly reduced the amount of transfers by 25% to municipalities with more than 2 reported corruption violations (30% of the same) after the release of the audit reports. Additionally, the results suggest that the central government compensates politicians who are affiliated with the political party of the President, in municipalities with no or few violations reported in the year and in subsequent years of the audit reports.

Leal Santana (2008) examined the impact of Secretariat of Federal Internal Control random audits



on mismanagement and waste, drawing upon the results of over 1 300 random audits in more than 1 300 municipalities. The study reveals that administrative efficiency (calculated as a proportion between the level of irregularities detected and the amount of resources audited by the Secretariat of Federal Internal Control) is significantly lower in connection with social development programmes as a consequence of the random audits. More significantly, the study concludes that administrative efficiency increases following a second random audit of the same municipality (with inefficiency dropping by 45%, with a 116% drop if the analysis is limited to social programmes alone). The study also reveals that in municipalities where the same mayor underwent both the first and the second audit, the level of administrative efficiency dropped (although the results are only statistically significant in connection with education programmes). This last finding suggests that local mayors may not expect a second audit and relax the level of internal control.

*Sources:* Ferraz, C. and F. Finan (2007), “Exposing Corrupt Politicians: the Effects of Brazil’s Publicly Released Audits on Electoral Outcomes”, *IZA Discussion Paper Series*, No. 2836, Institute for the Study of Labour (*Forschungsinstitut zur Zukunft der Arbeit*, IZA), Bonn; Brollo, F. (2009), “Who is Punishing Corrupt Politicians: Voters or the Central Government? Evidence from the Brazilian Anti-Corruption Programme”, unpublished paper; Leal Santana, V. (2008), “O Impacto Das Auditorias da CGU Sobre o Desempenho Administrativo Local [The Impact of CGU Audits on Local Administrative Performance]”, *Revista da CGU*, 5:22-27, December.

Whereas investigative audits respond to reasonable belief of misconduct, fraud and corruption, the Secretariat of Federal Internal Control also conducts audits to ascertain and quantify individual liability for damages and losses to the federal public administration.<sup>21</sup> This is done through a special investigation of accounts (*Tomada de especial contas*). As part of such an investigation, the Secretariat of Federal Internal Control issues an Audit Report and Certificate indicating any rules or regulations breached, identifying the official responsible and quantifying the damages and losses incurred. Between 2001 and 2010, special investigations of accounts identified damages and losses to the state of approximately BRL 4.6 billion (USD 2.8 billion; EUR 2.0 billion). Many of these concerned the failure of federal public officials to render financial accounts, or irregularities associated with the use of public funds by the federal public administration and funds transferred to sub-national public organisations and private not-for-profit organisations through administrative agreements.

Table 3.13. **Secretariat of Internal Control special investigations of accounts**

	Number of audits conducted each year						
	2001	2005	2006	2007	2008	2009	2010
Total investigations, of which:	1 108	1 934	1 496	1 722	1 539	1 227	1 481
– Irregularities identified, of which:	484	1 628	1 157	1 459	1 062	1 047	1 106
– Failure to render accounts	106	914	314	503	452	327	245
– Irregularities in use of public resources	90	354	449	248	109	274	243
– Rendered accounts not approved	77	0	46	266	179	145	54
– Breach of object agreement	75	188	208	218	172	301	235
– Damage caused by public official(s)	52	101	97	127	40	62	109
– Irregularity in use of scholarship funds	28	37	20	23	68	105	111
– Irregularities in Unified Health System activities	0	23	22	71	42	60	72
– Other	56	11	1	3	0	3	37
– Estimate damages (in BRL million)	16.7	448.3	656.0	659.6	642.3	702.7	352.2

Notes: 2010 figures until 31 March 2010.

Source: Secretary of Federal Internal Control, Office of the Comptroller General of the Union.

*New audit techniques have been introduced to strengthen internal control and to inform internal audit*

Since 2006, the Office of the Comptroller General of the Union has used data mining, analysing existing data and generating new government data in collaboration with public organisations, to identify misconduct and corruption. Computer-assisted audit techniques use data mining, matching and validation for audit checks. These provide powerful electronic tools for both operational management and internal audit. It is an iterative process within which progress is defined by discovery, either through automatic or manual methods. One of the first projects was conducted in 2006 and focused on potential conflicts of interest between public officials and suppliers in public procurement. The Office of the Comptroller General of the Union sampled 13 million suppliers and 588 000 public officials to find that some 2 500 federal public officials were the owners or shareholders of nearly 2 000 companies which had supplied over BRL 400 million (USD 239 million; EUR 171 million) to the federal public administration between 2004 and 2006. Moreover, there were cases in which 313 of the 2 000 companies had supplied goods and services to the public organisation in which its owner or shareholder was employed. While these results did not immediately imply misconduct, they resulted in investigations by the Secretariat of Federal Internal Control. Information on the impact of these earlier pilots was not available to the OECD.

From these beginnings, in December 2008, the Office of the Comptroller General of the Union established the Public Spending Observatory to monitor government spending as a basis for identifying possible irregularities and misconduct. Through the Public Spending Observatory, expenditure data is crossed with other government databases as a means of identifying atypical situations that require further examination. Possible irregularities are identified by running automatic “tracks” through data on a daily basis, resulting in “orange” or “red” flags that are shared with management of the federal public organisations to which the data relates. Once a suspicious pattern has been detected, it is loaded into the Online Analytical Processing tool for regular monitoring. A number of working themes have been established within the Public Spending Observatory, including public procurement and outsourcing (see Chapter 5), the Family Grant Programme (see Case Study 2), Federal Government Payment Cards, *per diem* and travel allowances (see Box 3.4). A similar approach is also used for examining the content of private income and asset disclosures by federal public officials (see Chapter 4).

More recently, the Office of the Comptroller General of the Union has introduced permanent monitoring of expenses (*acompanhamento permanente dos gastos*), a form of remote audit. Part of the Office of the Comptroller General of the Union’s 2007-10 Institutional Integrity Plan (*Plano de Integridade Institucional*), the permanent monitoring of expenses involves continuous monitoring of the implementation of policies and programmes using expenditure data and knowledge of management processes. The Office of the Comptroller General of the Union reports that the outputs of this activity enables better understanding of: *i*) the structure, capacity and workforce of administrative units; *ii*) the profile and the evolution of expenditure and costs of government programmes; *iii*) the main suppliers and their participation in procurement and administrative contracts; *iv*) actual expenditure in respect to market price, the good or service that was received or how it was used for the intended purposes; *v*) areas for improvement for management and internal control; and *vi*) situations that deserve clarification or further investigation. The permanent monitoring of expenses is conducted by the Secretariat of Federal Internal Control and allows issues to be detected and corrected in a timely manner. Moreover, through this remote auditing, the Secretariat of

Federal Internal Control believes that it can identify and prioritise topics for internal audits.

### Box 3.4. Automated tracks on Federal Government Payment Cards and *per diems* and travel allowances

#### Federal Government Payment Cards

- Vehicle rentals.
- Purchases from suppliers that have outstanding tax debts with the Secretariat of Federal Revenue cannot enter supply contracts with the government.
- Fractioning of expenditure.
- Fuel, lodging, supermarket and restaurant expenditure.
- Expenditure in atypical establishments.
- Transactions made during cardholder's holiday/leave.
- Transactions on weekends or holidays.
- Transactions above BRL 1 500 (USD 896; EUR 644).
- Organisations with transactions above 30% of total annual expenditure.

#### *Per diems* and travel allowances

- Improper calculation of airport and boarding fees.
- Excess *per diems* for public officials.
- Unanticipated reservation costs.
- Route/flight occupancy statistics.
- Prices paid for airline tickets.

*Source:* Secretariat of Corruption Prevention and Strategic Information, Office of the Comptroller General of the Union.

While the permanent monitoring of expenditure allows for the identification and correction of errors, there is no obligation for public managers to periodically undertake self-evaluations of internal control operations. Self-evaluation places the onus on public managers to better understand their systems as a basis for making continual improvements. This process is adopted by a number of OECD member countries and is also recognised by INTOSAI as useful to ensure that controls for which managers are responsible continue to be appropriate and are working as planned. For example, the Government of New Zealand emphasises self-review procedures in each individual public organisation. These procedures include a programme of self-assessment covering financial controls, as well as management review and evaluation of output effectiveness. In the United States, public organisations are required by law to annually conduct control self-assessments. Guidelines for these evaluations are issued centrally by the Office of Management and Budget. The results are reported to the President and the Congress. The reports state whether systems meet the objectives of internal control and conform to standards established by the Comptroller General.

***Internal audit capability is strong but could benefit from a focus on performance, including both effectiveness and efficiency***

Resource mobilisation and flexibility is not recognised as a problem within the Secretariat of Federal Internal Control nor the Office of the Comptroller General of the Union more generally. There are approximately 2 600 public officials working in the Secretariat of Federal Internal Control (1 400 in Brasília and 1 200 in its regional offices). Staffing resources within the Secretariats of Internal Control within the Federal Ministries of Foreign Affairs and Defence, on the other hand are considered more constrained and heavily affected by an ageing workforce. There are currently 744 officials within the internal audit department for the Unified Health System (DENASUS), although only 4 are auditors by profession. This figure has increased from 686 in 2006, but is below a high of 1 226 in 1997. The 2010 OECD Review of Human Resource Management in Government of Brazil notes that the federal public administration is ageing much more rapidly than the domestic labour market (OECD, 2010d). Constitutional Amendment no. 23/1999 created a small opportunity for public officials who, upon reaching the retirement age of 65, wish to remain in public employment until the age of 70. However, specific measures for preparing for transition have not been undertaken, for example retaining select officials beyond retirement, recruitment of new officials, development of fast-track careers to fill gaps in positions, etc.

Within the Office of the Comptroller General of the Union, participation in programmes and training courses taught by a national school of administration is mandatory for career progression for finance and control officials (*i.e.* finance and control analysts and finance and control technicians).<sup>22</sup> With a view to ensuring compliance with this provision, the Office of the Comptroller General of the Union offers annual training to expand the skills and knowledge of finance and control analysts and technicians need to perform their functions. This training includes a ten-hour module on ethics and public service. This module is sub-divided into units covering: *i*) the normative principles underlying high standards of conduct; *ii*) obligations and duties of public officials and acts of administrative misconduct; *iii*) conflicts of interest and recommendations for avoiding them; *iv*) obligations and duties of the ethics committees; and *v*) the role of the Public Ethics Commission in providing guidance to the ethics committees within individual public organisations. However, finance and control analysts and technicians are not typically members of professional associations, for example internal audit, accounting, etc. In addition, the Office of the Comptroller General of the Union has created and promoted post-graduation programmes for its officials focused on the themes of auditing and government control.

It is the responsibility of organisations of the indirect federal public administration to ensure career development for internal auditors. Some organisations – such as Petrobras, Bank of Brazil (*Banco do Brasil*) and Federal Savings Bank (*Caixa Economica Federal*) – define positions, functions and promotion in their career plans. The full details of career development for internal auditors within organisations of the indirect federal public administration is not available.

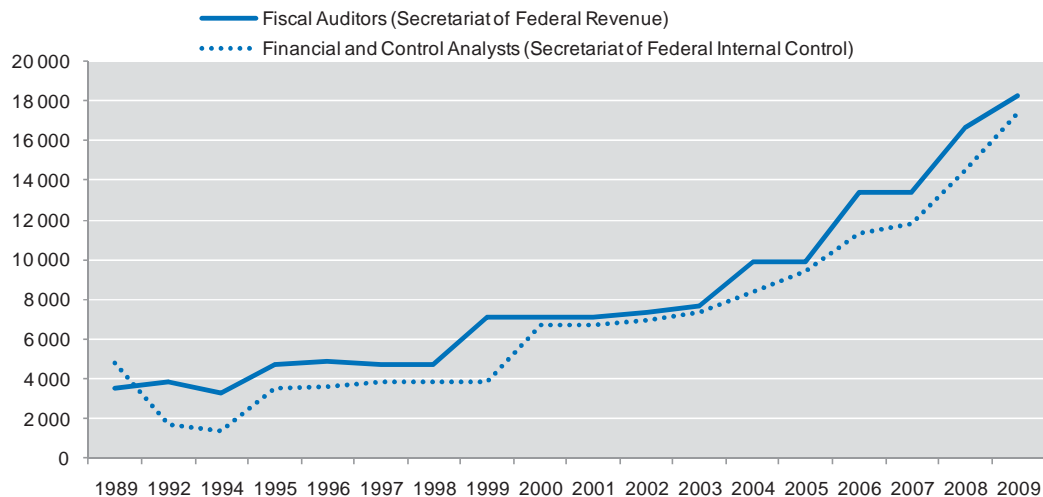
The Office of the Comptroller General of the Union reports to have lost many officials due to perceptions of relatively low pay. These officials have not only gone to the private sector but to other federal public organisations, for example the Federal Court of Accounts. During the past 5 to 10 years, the government has sought to resolve this problem. Federal Law no. 11 890/2008 establishes new pay levels for finance and control officials. The wage policy is aimed at strengthening the career system for anti-corruption

officials by reducing the potential commission of illicit acts by finance and control officials. Mean salaries for federal finance and control auditors have increased by approximately 100% during the past 5 years and over 400% during the past decade. Figure 3.5 provides an overview of the evolution of salary levels for financial and control analysts (*Analista de Finanças e Controle*), compared to those of fiscal auditors at the Secretariat of Federal Revenue, which is considered to be one of the best-paid careers within the federal public administration.

In line with this increase in pay, the total budget of the Office of the Comptroller General of the Union, in which the Secretariat of Federal Internal Control is located, has increased. In 2009, its budget was approximately BRL 500 million (USD 300 million; EUR 215 million), up from BRL 66 million in 2005 (see Table 3.14). Excluding personnel costs, the budget for the Office of the Comptroller General of the Union has increased from BRL 22.4 million to BRL 32.4 million (44.6%). The Office of the Comptroller General of the Union receives a lump sum appropriation, albeit with a sub-limit on wages. Without going to the legislature, the Office of the Comptroller General of the Union is allowed to re-allocate funds among line items within their responsibility without Federal Ministry of Finance approval. It is not possible to carry over unused funds or appropriations from one year to another.<sup>23</sup>

Figure 3.5. **Salaries of federal internal auditors (financial and control analysts) in comparison to federal tax officials (fiscal auditors)**

in BRL per month



Note: value of remuneration fiscal auditors and financial and control analysts in January of each year.

Source: da Silva Balbe, R. (2010), *O Resultado da Atuação Controle Interno no Context das Reformas na Administração Pública* [The Result of the Internal Control Activities in Context of Reforms in Public Administration], Instituto Universitário de Lisboa – Departamento de Ciência Política e Políticas Públicas.

Table 3.14. Office of the Comptroller General of the Union's annual budget appropriation

in millions BRL

	2001 <sup>1,2</sup>	2005	2006	2007	2008	2009	2010
Personnel	N/A	175.8	270.9	354.8	413.9	532.7	591.5
Materials	N/A	3.1	0.8	1.0	1.7	1.7	2.0
Capital	N/A	2.8	5.1	7.1	10.7	4.8	12.5
Other	N/A	53.9	45.4	51.8	58.6	60.8	90.8
Total	N/A	235.6	322.1	414.8	484.9	600.0	696.8

Notes:

1. The data refer to the month of November for each year surveyed.
2. In 2001, the Office of the Office of the Comptroller General of the Union was a secretariat linked to the Civil House of the Office of the President of the Republic. Beyond the aggregate budget of the Civil House budget, budget figures for the Secretariat of Federal Internal Control cannot be extracted for 2001.

Source: Office of the Comptroller General of the Union.

Including internal auditors in the Office of the President of the Republic, Federal Ministry of Defence, Federal Ministry of Foreign Affairs, Secretariat of Federal Revenue and the Unified Health System, the ratio between internal audit and public officials within the direct public administration is approximately 1:163; however, this is a very crude indicator of efficiency. Excluding the internal auditors for the Unified Health System, this figure falls to 1:209. This ratio is lower than in many OECD member countries, for example, 1:247 in the United States federal government, 1:563 in the United Kingdom, 1:752 in the Netherlands and 1:979 in Canada's federal government (Sterck and Bouckaert, 2006). While the figures for these other OECD member countries include both the direct and indirect public administration, the figures for Brazil do not.

Table 3.15. Staffing in internal audit units and teams within Brazil's direct federal public administration, 2009

Audit unit	Finance and control analysts	Finance and control technicians	Others*	Total
Secretariat of Federal Internal Control	1 591	743	223	2 557
Central Unit (Brasília)	829	421	148	1 398
Regional units	762	322	75	1 159
CISSET/Office of the President	27	11	25	63
CISSET/Federal Ministry of Foreign Affairs	3	0	10	13
CISSET/Federal Ministry of Defence	8	0	16	24
DENASUS	4	0	740	744
Special advisors of internal control	10	3	9	22
Secretariat of Federal Revenue	0	0	25	25

Note: Others include officials in charge of administrative tasks and secondees from other federal ministries that work at the Office of the Comptroller General of the Union.

### Box 3.5. Potential for select decentralisation of internal audit in Brazil’s direct federal public administration

Whereas the examples of decentralised audit structures were built into Brazil’s current internal audit system from its inception in 2001, an internal audit unit (General Co-ordinator of Internal Audit) was established in 2007 within the Federal Ministry of Finance’s Secretariat of Federal Revenue (see Case Study 1). This change sets a precedent for further consolidating Brazil’s internal audit model, raising the scope for “select” decentralising of internal audit within the direct public administration. A question thus arises over what criteria should be used to assess which public organisations can establish their own internal audit unit. Such a criterion would need to focus on the size of the organisations and their operations, as well as whether they had demonstrated competency in risk management. Similarly, attention would be needed to ensure that the decentralisation of internal audit was developed in a gradual and phased manner not undermining internal audit during the transition phase. Subsequently, capacity needs to be established within the Office of the Comptroller General of the Union to ensure that public sector organisations comply with policy requirements for internal audit.

There is also a potential business case for increasing the scope of centralisation of internal audit within the indirect federal public administration, providing potential efficiency and savings through shared service arrangements.<sup>24</sup> Smaller organisations may not have the resources or capacity to establish effective internal audit. In this regard, the question becomes whether a “contractual relationship” for internal audit services can be established between the Secretariat of Federal Internal Control and organisations of the indirect public administration. Establishing shared service centres can only be done with the co-operative effort of high officials of the public organisations concerned. Three approaches can support the introduction of shared services. The first relies on a top-down approach in which support service officials are transferred to shared services centres with the budgets of public organisations simultaneously decreased for the corresponding amount of resources. The second relies on an incentive, which consists of a specified, temporary cut back target for support services. The third relies on a temporary or permanent across-the-board productivity cut, which is not specifically linked to support services (OECD, 2010b).

#### *Co-ordination between the Office of the Comptroller General of the Union and the Federal Court of Accounts occurs through a number of mechanisms*

Common areas of work performed by internal audit authorities and supreme audit institutions offer opportunities for co-ordination and co-operation. There is both formal and informal discussion between the two organisations regarding the selection of annual financial audits. The two organisations also hold a joint post-graduate course in audit and control of government activities through the *Instituto Serzedello Correa*,<sup>25</sup> and share the same virtual audit training programmes. This allows auditors in both the Office of the Comptroller General of the Union and the Federal Court of Accounts to understand the audit methodologies of the other, although both organisations have a different audit methodology. The Office of the Comptroller General of the Union also monitors the audit findings and implementation of decisions of the Federal Court of Accounts. Audit officials also note that the Secretariat of Federal Internal Control and the Federal Court of Accounts share a similar organisational structure with dedicated audit teams for each federal ministry.

Table 3.16. **Advantages and risks of co-ordination and co-operation between internal and external audit**

Advantages	Risks
<ul style="list-style-type: none"> <li>– Exchanging ideas and knowledge between audit professionals.</li> <li>– Increasing efficiency and effectiveness of audits in planning audits and communicating audit findings.</li> <li>– Reducing the likelihood of unnecessary duplication of audit work (economy).</li> <li>– Mutual support on audit recommendations to enhance the effectiveness of audit service.</li> </ul>	<ul style="list-style-type: none"> <li>– Compromising confidentiality and subsequently management's trust in the role of internal audit.</li> <li>– Differing conclusions or opinions on the work performed by the other party.</li> <li>– Communicating the preliminary findings to an external party before sufficient audit evidence exists to support those findings.</li> <li>– Imposing, if not properly defined, additional burdens for co-ordination and co-operation on either party in the audit activities of the other party.</li> </ul>

Source: Adapted from INTOSAI (2010), Co-ordination and Co-operation between SAIs and Internal Auditors in the Public Sector, INTOSAI GOV 9150, [www.issai.org/media\(802,1033\)/INTOSAI\\_GOV\\_9150\\_E.pdf](http://www.issai.org/media(802,1033)/INTOSAI_GOV_9150_E.pdf).

*Internal audit is subject to various levels of performance evaluation addressing issues of quality and impact*

All internal audits are subject to three levels of quality control: first, by the co-ordinator of the audit team; second, by the supervisor of the audit team (typically the official in charge of a regional office or a division in the central unit); finally, by the central division that requested the audit or inspection work. Revisions focus on a combination of issues such as the formal aspects of the report, consistency of the audit findings (*i.e.* are the findings supported by adequate evidence?), appropriateness of recommendations (*i.e.* are they appropriate and feasible?) and the verification of audit documentation. Co-ordinators of the audit team must also complete an assessment form on the participation of auditors under their supervision as a means of enhancing control measures and professional learning. The assessment takes into account the professional conduct of auditors, such as organisation and compliance with professional confidentiality standards. Besides the regular revisions in these instances, Inspections of Compliance are carried out by the Secretariat of Federal Internal Control Department of Planning and Co-ordination to evaluate internal audit activities focusing on audit planning, prioritisation of activities, quality of audit reports and the role of team co-ordinators and supervisors.

Since end-2008, every audited unit is obliged to have three meetings per year with the Secretariat of Federal Internal Control (typically, January, March/May/June and October). These meetings help the Secretariat of Federal Internal Control to monitor the implementation of the Permanent Plan of Measures. Information on progress in addressing recommendations is input into an internal database to support the activities of the Secretariat of Federal Internal Control. Recommendations may be given one of the following statuses: *i*) fulfilled; *ii*) revised; *iii*) postponed at the request of the public manager; *iv*) reiterated, recommendation only partially implemented; *v*) reiterated, recommendation refused by the public manager but not accepted by the Secretariat of Federal Internal Control; and *vi*) refusal of recommendation accepted by the Secretariat of Federal Internal Control. The Permanent Plan of Measures does not include audit recommendations from the Federal Court of Accounts.

The Secretariat of Federal Internal Control is developing computerised monitoring software to support effective monitoring of its recommendations. The software,



“Monitor-web”, will allow managers to more easily implement, and internal audit authorities (including decentralised and network internal audit) to monitor, internal audit recommendations. It is expected that the Monitor-web will also reduce the paperwork for public managers in complying with internal audit recommendations, allowing public managers to respond to recommendations and register their “action plans” online. The Monitor-web system will replace the manual monitoring of internal audit recommendations.

Performance indicators do not exist for internal audit in Brazil. Quantitative internal audit targets are defined and performance against them monitored on a semi-annual basis. OECD member countries are moving forward in the development of performance indicators for internal audit. For example, in 1997 the Australian National Audit Office undertook a review of internal audit within the Commonwealth (federal) Government. Such analysis can be used within continuous improvement programmes in business re-engineering. Drawing on these measures allows for structured practitioner dialogue to improve effectiveness and efficiency in government operations. Yet the measurement of these dimensions – particularly outputs (*i.e.* the final products of public organisations) and outcomes (*i.e.* the desired results from delivering outputs) – is frequently crude or simply missing. While the arguments for measuring government operations are very strong, there are also risks. For example, measurement can divert scarce political, managerial and practitioner resources. Equally important, these measures represent only one contribution to management decision making and their designers must consider how to prevent gaming or unintended perverse outcomes being stimulated by the presence of measurement. Discussions and initiatives on measurement of internal audit outputs and outcomes are being undertaken by the Office of the Comptroller General of the Union.

### **Box 3.6. Benchmarking the internal audit function: the experience of the Australian National Audit Office**

In 1997 the Australian National Audit Office undertook a review of internal audit within the Commonwealth (federal) Government. Such analysis can be utilised as part of continuous improvement programmes in business re-engineering or in a market testing exercise.

The objective was to obtain and report quantitative and qualitative benchmarks on performance in internal audit within the public sector; and to compare the public sector benchmarks with equivalent international data to identify better practices and highlight opportunities for improvement.

In benchmarking the internal audit service the Australian National Audit Office focused on input, processes and outputs based on cost, time, quantity and quality. The benchmarks are limited in scope in that they rely only on data provided by public organisations and, except for a quality assurance process, were not audited by the Australian National Audit Office.

Between 2000 and 2002, the Australian National Audit Office found improvements in membership of internal audit officials in relevant professional bodies; time taken from fieldwork to issuing the final report; use of formal client surveys; average cost per internal audit report; and the proportion of internal audit recommendations accepted.

**Box 3.6. Benchmarking the internal audit function: the experience of the Australian National Audit Office (cont'd)**

**Australian National Audit Office internal audit benchmarks**

	Input	Process	Output
Cost	Cost of internal audit as a percentage of total expenditure Total cost of the internal audit function	N/A	Cost per internal audit report
Quantity	Total expenditure per auditor Number of employees per internal auditor	Comparison of the allocation of internal audit resources Comparison of resource allocation between assurance activities (percentage of reports produced)	Average reports per internal auditor
Time	N/A	Allocation of effort across planning, fieldwork and reporting Analysis of time taken to complete an audit (excluding planning)	N/A
Quality	Educational level and professional qualifications of internal auditors Average years of experience of internal auditors	Analysis of quality control techniques used regularly Use of formal and informal client satisfaction surveys	Acceptance of recommendations (percentage)

*Source:* Australian National Audit Office (2000), “Benchmarking the Internal Audit Function”, Audit Report no. 14 2000–2001, Performance Audit; Australian National Audit Office (2002), “Benchmarking the Internal Audit Function Follow-On Report: Benchmarking Study”, Audit Report no. 13, 2002-03, Information Support Services; OECD (2009), *Measuring Government Activity*, OECD Publishing, Paris, doi: 10.1787/9789264060784-en.

In addition, the activities of the Secretariat of Federal Internal Control are audited by the Federal Court of Accounts on a periodic basis. For example, in 2005, the Federal Court of Accounts carried out an audit of the Secretariat of Federal Internal Control to analyse the performance of internal control within the federal public administration in connection with the monitoring over irregularities and misuse of public resources. It considered the powers and the instruments available to the Secretariat of Federal Internal Control as well as its operational capacity and the criteria used to allocate resources among the different control activities. It drew particular attention to the Secretariat of Federal Internal Control’s random audits. The Federal Court of Accounts, which supports the National Congress (see Chapter 1), conducted the report at the request of the Federal Senate. Among its findings, the Federal Court of Accounts found that Secretariat of Federal Internal Control policies were in line with international standards (*e.g.* INTOSAI guidelines for performance auditing).

### Box 3.7. Findings of 2006 Federal Court of Accounts audit of the Secretariat of Federal Internal Control

In 2006, the Federal Court of Accounts carried out an audit of the Secretariat of Federal Internal Control to analyse the performance of internal audit in connection with the monitoring of irregularities and misuse of public resources. It considered the powers and the instruments available to the Secretariat of Federal Internal Control as well as its operational capacity and the criteria used to allocate resources among the different control activities.

The Federal Court of Accounts Decision found that:

- Random audits succeeded in achieving their objective of promoting direct social control and combating corruption. However, the exclusion, at the time, of municipalities with more than 500 000 inhabitants, which together represented more than 29% of the population, was unjustified. It instructed the Secretariat of Federal Internal Control to include such municipalities in the programme.
- Random audits dramatically reduced the amount of time and staff devoted to internal audits of government programmes and actions. At the time, random audits accounted for 90% of auditing activities. This raised concerns, as some programmes with potential for corruption (e.g. public works, advertising, information technology contracts) do not involve the transfer of funds to municipalities. However, the Federal Court of Accounts Decision confirmed the limited number of irregularities identified through management audits, which it compared with the potential of random audits (which had revealed serious irregularities in 54% of cases).
- The information produced based on the random audits was insufficient to prosecute specific officials or for the Federal Court of Accounts to establish individual responsibility and claim compensation for losses and damages to the state. It instructed the Secretariat of Federal Internal Control to improve these aspects.

The Secretariat of Federal Internal Control did not pay enough attention to organisations of the indirect public administration, including state-owned and mixed-capital enterprises, some of which had caused problems in the past (e.g. the postal company). It recommended that the Secretariat of Federal Internal Control prepare a specific programme to audit state-owned and mixed-capital enterprises in collaboration with the internal audit units of these enterprises.

The Office of the Comptroller General of the Union has presented to the Federal Court of Accounts a comprehensive set of initiatives concerning these recommendations. In 2009, the Federal Court of Accounts found these measures satisfactory. The recommendations were subsequently labelled as fully implemented.

*Source:* Federal Court of Accounts Decision (*Acordão*) no. 412/2007 and 2 178/2009.

## Conclusions and proposals for action

Brazil's internal control system of the federal public administration has been continuously modernised since the late 1980s. It began with standardisation and automation of the back-end systems and the establishment of the internal control policy and stewardship role within the Office of the Comptroller General of the Union. It is advancing with the introduction of risk-based control both at the level of the federal public administration and individual public organisations. These developments shift the emphasis from compliance to management. The modernisation of internal control systems

supports the government's efforts to enhance integrity and prevent corruption. In order to strengthen the internal control framework, Brazil's federal government could consider the following proposals for action for the Office of the Comptroller General of the Union:

- Complement the 'Internal Control Manual of the Federal Public Administration' with a series of good practice guides. The current manual is particularly formalistic and theoretical in nature rather than operational. These good practice guides may address issues such as risk management, control actions, planning internal audit activities, resourcing internal audit, internal audit work practices and performance assessment and quality assurance. Good practices need not only originate from federal public organisations but also state and municipal public organisations, as well as private organisations, in Brazil or overseas. In the process of formulating good practice guides, the Office of the Comptroller General may identify good practices from internal audit units within the indirect federal public administration to complement those of its own audit activities.
- Introduce (in a phased manner) the current risk management methodologies in at least five public organisations during 2011/2012 as a basis for continued learning on risk management, and to refine earlier risk management methodologies. In this process, the Office of the Comptroller General of the Union should actively take a lead role in the process because of its mandate, resourcing and understanding of internal control. This will help public organisations to better understand their operational risks and provide input into refining the current operational generic risk management methodologies. Over time, and with increased maturity of risk management frameworks in these federal public organisations, the role of the Office of the Comptroller General of the Union can focus on providing an independent assurance of the effectiveness of risk management strategies and the effectiveness of the framework.
- Work together with the Federal Ministry of Planning, Budget and Management and the national schools of administration to integrate risk management into programmes supporting the development of competencies of senior public managers.

In parallel with moves to strengthen the internal control system of the federal public administration, internal audit within federal ministries has been largely centralised within the Secretariat of Federal Internal Control, with dedicated internal audit teams allocated to each federal ministry. Agencies, foundations, state-owned and mixed-capital enterprises all have their own internal audit units. The Secretariat of Federal Internal Control has increasingly invested in programme (performance) audit and developing systems to follow up on audit recommendations. In order to strengthen the efficiency of the internal audit function, Brazil's federal government could consider the following proposals for action for the Office of the Comptroller General of the Union:

- Include both internal and external audit recommendations and progress made in implementing them in the proposed Monitor-web, a system designed to ensure quality and adequate follow up of internal audit activities. Focusing on internal audit recommendations alone does not allow management to have a holistic picture of independent assessments of their operations. Moreover, as the federal public administration introduces risk management into federal public organisations, attention may also be given to integrating this information into the audit monitoring systems. This would ensure a single dashboard for public managers to monitor and evaluate internal control actions. It would also enable

internal auditors to access the same information held by public managers in conducting an objective evaluation of internal control actions.

- Benchmark internal audit activities conducted by dedicated internal audit teams within the Office of the Comptroller General of the Union and the internal audit units of organisations of the indirect public administration to explore differences in costs, quantity, time and quality of internal audit activities and to drive performance improvements.
- In the medium- to long-term, assess the business case for shared internal audit services across the direct public administration. Such an assessment would include criteria to be introduced should a federal public organisation wish to develop its own internal audit function.

In order to strengthen collective commitment and the whole-of-government approach for internal control, Brazil's federal government could consider the following proposals for action for the Office of the Comptroller General of the Union:

- Explore mechanisms for closer co-ordination in the modernisation of the internal control framework among the Office of the Comptroller General of the Union with the Secretariats of Management, Logistics and Information Technology (Federal Ministry of Planning, Budget and Management) and Secretariat of the National Treasury (Federal Ministry of Finance). These secretariats have policy functions that impact the internal control system of the Federal Public Administration. For example, the Secretariats of Management are working together with federal public organisations to re-engineer internal processes to improve service delivery. The Secretariats for Logistics and Information Technology and National Treasury also oversee many of the back-office management systems of the federal public administration.
- Assess the role and composition of the Commission for Co-ordination of Internal Control as a mechanism for exchanging experiences on internal control. This commission has not convened since 2003. The commission could play an advisory role in the development of tools to support risk management in federal public organisations and provide much meaningful input into the generic risk management methodologies developed by the Office of the Comptroller General of the Union. However, the commission may benefit from the participation of more internal audit units from organisations of the indirect public administration (currently only one-third) and the involvement of representatives from the national professional internal audit association and the Federal Court of Accounts.

## Notes

1. See United Nations Convention Against Corruption, Article 9.2:  
“Each state party shall, in accordance with the fundamental principles of its legal system, take appropriate measures to promote transparency and accountability in the management of public finances. Such measures shall [include]...*iii*) a system of accounting and auditing standards and related oversight; *iv*) effective and efficient systems of risk management and internal control; and *v*) where appropriate, corrective action in the case of failure to comply with the requirements established in this paragraph.”  
  
See Article 3 of the Inter-American Convention Against Corruption, which notes that governments:  
“[To promote and strengthen the development by each of the states parties of the mechanisms needed to prevent, detect, punish and eradicate corruption; and to promote, facilitate and regulate co-operation among the states parties to ensure the effectiveness of measures and actions to prevent, detect, punish and eradicate corruption in the performance of public functions and acts of corruption specifically related to such performance] the states parties agree to consider the applicability of measures within their own institutional systems to create, maintain and strengthen: ...government revenue collection and control systems that deter corruption”.
2. See 1988 Federal Constitution, Article 70.
3. See 1988 Federal Constitution, Article 74.
4. See Federal Law no. 10 180/2001, Article 19.
5. The Federal Planning and Budget System aims to: formulate national strategic planning; formulate national plans, sectoral and regional economic and social development; make the multi-year plan, the budget guidelines and annual budgets; manage the planning process and the federal budget; promote co-operation among the states, the Federal District and the municipalities, aiming for compatibility of rules and tasks related to different systems, at the federal, state, county and municipal levels. The Federal Financial Management System is aimed at the financial balance of the federal government, within the limits of public revenue and expenditure. The Federal Accounting System aims to highlight the state budget, financial and property of the Union.
6. See Office of the Comptroller General Administrative Order no. 164/2002.
7. See Federal Decree no. 6170/2007 and Federal Ministry of Planning, Budget and Management, Federal Ministry of Finance and Office of the Comptroller General of the Union Interministerial Decree no. 127/2008, implementing the aforementioned federal decree).

8. See [www.convenios.gov.br/portal/publicarArquivos](http://www.convenios.gov.br/portal/publicarArquivos).
9. See Federal Decree no. 2 809/1998 regarding the purchase of tickets by federal public organisations.
10. See Federal Decree no. 3 892/2001 regarding the purchase of airline tickets, materials and services through use of Federal Government Credit Card by federal public organisations.
11. This may be applied only in relation to the specificities involved in the assistance of indigenous health.
12. See Federal Ministry of Planning, Budget and Management Administrative Instruction no. 90/2009.
13. The concept of activity is broader than that of “organisational unit” (*unidade organizacional*), which refers to the unit or department in charge of a given task. As a result, a given activity can be carried out by a plurality of organisational units within a given institution.
14. There are various models for resourcing an internal audit activity. These include:
  - In-house: internal audit services are provided exclusively or predominantly by in-house employees of the organisation. The internal audit activity is managed in-house by an employee of the organisation.
  - Co-sourced: internal audit services are provided by a combination of in-house employees and service providers. The internal audit activity is managed in-house by an employee of the organisation.
  - Outsourced with in-house management: internal audit services are provided by service providers contracted to the organisation for this purpose. The internal audit activity is managed in-house by an employee of the organisation.
  - Fully outsourced: all internal audit services are provided by service providers contracted to the organisation for this purpose. The service provider also manages the internal audit activity. Project management of the service provider contract is done in-house by an employee of the organisation.
15. There are various models for resourcing an internal audit activity. These include:
  - In-house: internal audit services are provided exclusively or predominantly by in-house employees of the organisation. The internal audit activity is managed in-house by an employee of the organisation.
  - Co-sourced: internal audit services are provided by a combination of in-house employees and service providers. The internal audit activity is managed in-house by an employee of the organisation.
  - Outsourced with in-house management: internal audit services are provided by service providers contracted to the organisation for this purpose. The internal audit activity is managed in-house by an employee of the organisation.
  - Fully outsourced: all internal audit services are provided by service providers contracted to the organisation for this purpose. The service provider also manages the internal audit activity. Project management of the service provider contract is done in-house by an employee of the organisation.
16. Federal Law no. 10 180/2001, Articles 22 and 23; Federal Decree no. 3 591/2000, as amended by Federal Decrees no. 4 034/2002 and no. 6 692/2008. The Secretariat of

Internal Control of the Office of the President of the Republic is responsible for internal control activities of the Office of the Attorney General of the Union until the creation of its own body. To date, the Office of the Attorney General of the Union has not established its own internal control body.

17. DENASUS oversees and audits Unified Health System-specific activities. While established in 2000, DENASUS was not a new unit. Its predecessor, the Department of Control, was established as the central internal audit unit of the Unified Health System in 1990. More recently, Federal Decree no. 5 841/2006 establishes DENASUS within the structure of the Secretariat for Strategic and Participatory Management of the Federal Ministry of Health. The move was in response to increasing the institutionalisation of the Unified Health System and gradual decentralisation of health services and the use of financial resources, making it necessary to consolidate power in the implementation of strategic management processes and participatory systems.
18. Until 2007, these plans were submitted to the Secretariat of Federal Internal Control before end November. The fiscal year in Brazil runs from 1 January through 31 December.
19. Municipal lotteries selects 60 municipalities with a population of up to 500 000 inhabitants, not including state capitals. These have been conducted every month since April 2003. To date, 29 rounds of random audits have been conducted and over 1 500 municipalities (or more than 28% of all municipalities) have undergone random audits. In each municipality, auditors examine accounts and documents and make personal and physical inspection of works and services implementation. Particular emphasis is on interaction with the population, either directly or through community councils or other representative organisations engaged in social control activities. The results of the lottery selection and the final audit reports for municipalities and states, as well as capitals and major cities, are available online from the Office of the Comptroller General of the Union Internet pages: [www.cgu.gov.br/AreaAuditoriaFiscalizacao/ExecucaoProgramasGoverno/Sorteios/Estados/Sorteados/index](http://www.cgu.gov.br/AreaAuditoriaFiscalizacao/ExecucaoProgramasGoverno/Sorteios/Estados/Sorteados/index); access to state random audit reports: [www.cgu.gov.br/sorteios/index2](http://www.cgu.gov.br/sorteios/index2); list of municipalities by lottery: [www.cgu.gov.br/AreaAuditoriaFiscalizacao/ExecucaoProgramasGoverno/Sorteios/Municipios/Sorteados/index](http://www.cgu.gov.br/AreaAuditoriaFiscalizacao/ExecucaoProgramasGoverno/Sorteios/Municipios/Sorteados/index); access to municipality state random audit reports: [www.cgu.gov.br/sorteios/index1](http://www.cgu.gov.br/sorteios/index1).
20. These audits were conducted in several steps: *i*) the Secretariat of Federal Internal Control would select the programmes to be audited in accordance with its own procedures (i.e. assessing relevance, risks, etc.); *ii*) the Secretariat of Federal Internal Control would carry out an audit of federal ministries involved in the implementation of those programmes with a view to understanding the design and characteristics of the programmes; *iii*) the Secretariat of Federal Internal Control would produce a list of municipalities based on statistical significance and send a service order (*ordens de Serviço*) describing the scope of the audit (list of municipalities and of programmes to be scrutinised) to the Secretariat of Federal Internal Control regional units; *iv*) the Secretariat of Federal Internal Control regional units would perform the audit and prepare a management report on the execution of each programme in each region; and *v*) the Secretariat of Federal Internal Control would consolidate the data and produce a national evaluation on the execution of the audited programmes, forwarding the final report to the federal ministries concerned in order for them to address the issues identified by the Secretariat of Federal Internal Control (Olivieri, 2008).
21. See Federal Court of Accounts Normative Instruction no. 56/2007, as amended.

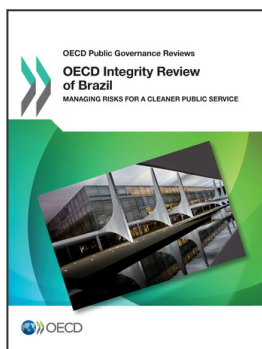


22. See Federal Law no. 11 890/2008, Article 154, paragraph 2.
23. In general, the remaining credits from one year cannot be transferred to the following year. In exceptional circumstances, however, this can occur (Federal Constitution, Article 167§2).
24. Shared service centres can be defined as government units providing support services to more than a single public organisation or sub-sector of government (central government, social security funds, local government). Support services include internal audit, as well as human resources and organisation, information and ICT, accommodation and facilities, communication, finance and procurement. Units that provide support services to a single public organisation (including its subordinate divisions) are not considered shared service centres. These units have always been the most important providers of support services in central government, and still are in most OECD member countries. On the other hand, units that provide support services to two or more (core) public organisations and/or divisions of two or more public organisations can be considered shared service centres (OECD, 2010b).
25. The *Instituto Serzedello Correa* is a strategic support unit of the Federal Court of Audit, subordinate to the General Secretariat of the President of the Republic, which aims to propose and pursue policies and actions of external selection of public officials, corporate education and knowledge management.

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