



Independent Validation

Of

The Internal Audit Capability Model (IA-CM)

Self-Assessment of the Contoladoria-Geral do

Estado (CGE)

State of Minas Gerais, Brazil

Final Report

12 June 2015

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1. Introduction

1.1 Background

The World Bank, as part of its initiative to strengthen internal auditing in the public sector, would like to see an improvement in the internal audit capacities of Brazilian Public Sector Subnational Internal Control Entities (*Controladorias Gerais dos Estados, CGEs*).

These entities have grouped together under an association (*Conselho Nacional dos Órgãos de Controle Interno, CONACI*) that seeks to enhance collaboration between the entities and to promote a closer integration of practices.

In May 2014, a Working Group was created to support the modernization of the Brazilian Internal Control system, and enhance the capacity of governance and control organizations and agencies. The Working Group is composed of the CONACI representatives from the states of Espírito Santo, Santa Catarina, the Federal District, São Paulo, Ceará, Piauí and Fortaleza and representatives of the World Bank.

To assess the current state of the internal audit capacity of the CGEs, three representative CGEs were identified to conduct self-assessments of their capabilities using the Internal Audit Capability Model (IA-CM) for the Public Sector.¹ A team of peers reviewed the self-assessments for quality assurance purposes along with a representative of CONACI.

One of the three CGEs selected was the Controladoria Geral do Estado (CGE) in the State of Minas Gerais.

This report includes the results of an independent on-site validation of the CGE's self-assessment.

The self-assessment and validation supports the CGE in developing a strategy and action plan with the way forward to achieve a more effective internal audit activity over the short to medium term.

Overall highlights and recommendations for short-term action are included in Section 2.2. The CGE's action plan for the short-term priority recommendations is found in Section 2.2.3.

The CGE conducted its IA-CM self-assessment in April 2015. The results of the self-assessment can be found in Appendix C. It should be noted that the CGE has suggested some activities to support improved capabilities. These are incorporated and elaborated, as necessary, in Section 2.3 The Six IA-CM Elements: Conclusions and Areas for Improvement.

The on-site validation took place May 6-8, 2015 in Belo Horizont, Brazil. The following was performed:

- Review, validate and assess the CGE's self-assessment results, principally focussing on the KPAs found in Level 2 – Infrastructure and Level 3 – Integrated;
- Analyze the CGE's areas of strength and those that need improvement; and

¹ *The Internal Audit Capability Model (IA-CM) for the Public Sector* (The IIA Research Foundation, 2009).

- Identify strategies/practices/activities to improve the capacity, capabilities and effectiveness of the CGE, particularly in achieving Level 2 – Infrastructure in the short term and Level 3 – Integrated in the medium term.

The following considerations were important to ensuring a successful IA-CM self-assessment and validation:

- CGE management and stakeholder support;
- Internal audit practitioner involvement at all stages; and
- Action plans that reinforce sustainable processes and can be realistically implemented.

Furthermore, factors in the external environment, such as those found in the Government of Brazil with regard to governance structures, risk management, financial management and control and people management, as well as those within the State of Minas Gerais and the CGE, such as its institutional capacity and resource levels, must be considered when developing strategies and action plans to sustain key process areas (KPAs).

1.2 IA-CM Validation Process

The detailed methodology to conduct the independent validation of the CGE's self-assessment can be found in Appendix B. The methodology includes the tasks to be undertaken before, during and after the on-site validation and the primary outputs expected (B.1). Also included are: a list identifying persons from within the CGE and other key stakeholders external to the CGE who were interviewed as part of the validation (B.2); the primary lines of enquiry for the interviews (B.3); and selected documents that were reviewed and obtained to support the results of the validation (B.4). The presentation introducing the IA-CM on-site validation is found in B.5.

It should be noted that in some cases the validation relied on the results of the CGE's self-assessment and the interviews conducted, particularly when supporting evidence was not readily available during the two-day on-site validation timeframe. Furthermore, in instances where documentation was not translated into English or interviews conducted in Portuguese, information corroboration was heavily dependent on the team members' translation or interpretation of facts.

1.3 The Internal Audit Capability Model (IA-CM)

The IA-CM is a recognized international framework that identifies the fundamentals needed for effective internal auditing in the public sector. It is a universal model with comparability around principles, practices, and processes that can be applied globally.

The model identifies five progressive capability levels, tied to leading practices: Level 1 – Initial, Level 2 – Infrastructure, Level 3 – Integrated, Level 4 – Managed, and Level 5 – Optimizing. Each capability level identifies key process areas (KPAs) and essential practices that must be implemented/institutionalized within the six elements of an internal audit activity identified in the model.

The six IA-CM elements are shown in Exhibit 1.3.1.

Exhibit 1.3.1: The Six IA-CM Elements of Internal Auditing

1. Services and Role of Internal Auditing
2. People Management
3. Professional Practices
4. Performance Management and Accountability
5. Organizational Relationships and Culture
6. Governance Structures

Source: The Internal Audit Capability Model (IA-CM) for the Public Sector (The IIA Research Foundation, 2009).

More details on the structure of the IA-CM are found in Appendix A.

2. IA-CM Validation Summary

The capability of an internal audit function is influenced by the external control environment, the institutional framework and infrastructure of the organization within which it is situated, and the capacity of the internal audit activity itself. For this reason, this section begins by providing some background on the control environment in Brazil generally and then specifically in the State of Minas Gerais. Section 2.2 then provides overall priority recommendations from the IA-CM Validation along with the depiction of the CGE on the 1-page IA-CM Matrix. The CGE's action plan is also included. Section 2.3 provides a more detailed description of the current state of the CGE with respect to each of the six IA-CM elements and highlights the various areas for improvement resulting from the validation.

2.1 Control Environment

2.1.1 Federative Republic of Brazil²

The 1988 Federal Constitution is the main source document establishing the structure and mandates of the various control institutions in Brazil.

There are three tiers of government in the Brazilian federation: the federal government, 26 states and the Federal District (in which the capital Brasília is located), and 5,570 municipalities.

The federal government exercises control over the central government.

The 26 Brazilian states and the Federal District are semi-autonomous, self-governing entities with relative financial independence. Each state has its own government structure, mirroring that at the federal level. The 1988 Federal Constitution allows states to keep their own taxes, and mandates regular allocation of a share of the taxes collected locally by the federal government. The Executive role is held by the Governor (*Governador*) and his appointed Secretaries (*Secretários*).

The municipalities are the third federal unit of the Federative Republic of Brazil. Each municipality enacts its own "constitution" (*Lei Orgânica*), and it is allowed to collect taxes and fees. Municipalities are governed by an elected mayor (*Prefeito*) and a unicameral Councillors' Chamber (*Câmara de Vereadores*).

With respect to the control institutions, the 1988 Federal Constitution provides for external control of the federal public administration by the National Congress, with the assistance of the Federal Court of Accounts (*Tribunal de Contas da União, TCU*). The Federal Court of Accounts performs its auxiliary role to the National Congress in two main ways. First, it issues a 'preliminary opinion' (*parecer prévio*) on the government's year-end accounts as technical input into the work of the Planning, Budget and Control Joint Committee. Second, the Federal Court of Accounts has a consultative function to provide permanent advice to the National Congress on budget execution. The 1988 Federal Constitution gives the National Congress and congressional committees the possibility of requesting the Federal Court of Accounts to carry out specific inspections and audits.

² *Control Structure in Brazil*, 15 April 2015, Governance Global Practice, Brazil Country Management Unit, Latin America and the Caribbean Region

There is also a State Court of Accounts (*Tribunal de Contas do Estado, TCE*) in each state and the Federal District. The State Court of Accounts reports to the legislative branch in each Brazilian state. They are the entities responsible for performing financial, compliance and operational audits and special reviews of budget execution and the quality of government expenditures at the state level. There are 27 state audit organizations (and six municipal audit organizations).

With respect to internal control, the Office of the Comptroller General of the Union (*Controladoria-Geral da União, CGU*) is responsible for fighting acts of corruption and enhancing transparency within the federal public administration. It is located within the Office of the President of the Republic and has four primary functions: promoting transparency and citizen engagement; ombudsman; internal control; and internal audit. Internal audit for Brazil's direct federal public administration is highly centralized within the CGU's Secretariat of Federal Internal Control. Each organization of the direct federal public administration is supported by a dedicated 'internal audit division' within the Secretariat of Federal Internal Control. In addition, in each Ministry, there is an Internal Control Special Advisor, who is part of the CGU career stream, but is appointed by and reports to Ministry managers.

Select organizations of the direct public administration have their own internal audit units (i.e. decentralized internal audit service or Ciset). 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 and the Unified Health System. The CGU has 26 regional offices.

The CGU also provides functional direction and support to organizations of the indirect public administration. Federal Law no. 10 180/2001 on the organization of the federal planning, budget, financial management, accounting and internal control systems of the federal public administration, requires all organizations 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.

At the state level, the states have established State Internal Control Agencies (*Controladorias Gerais do Estado*) but their capacity and modus operandi differ. Some enjoy the status of a ministerial position while others are still a department within the Governor's office or the state Ministry of Finance.

Some municipalities have also established internal control agencies.

2.1.2 State of Minas Gerais

In 2011, pursuant to the administrative reform provided by Lei Delegada nº 179, 1 January, and by Lei Delegada nº 180, 20 January, the State General Audit Office assignments were expanded, and it was renamed Controladoria Geral do Estado (CGE). Its organizational structure was defined by the Decreto nº 45.536, 27 January 2011.

Based on the foregoing laws, the CGE directly assists the Governor in the performance of his duties regarding the related matters and actions, within the Executive Power, in defence of the public interest, of the internal control, of the public auditing, of the internal corrections, of the prevention of corruption and

fight to corruption, and to the enlargement of transparency in management within the State Public Administration.³

The Head of the CGE is appointed by and reports directly to the Governor of the State of Minas Gerais.

The CGE is made up of three principal sub-units: Auditing and Management Control, Internal Affairs, and Institutional Information and Transparency. It is modelled after the Brazilian federal comptrollership structure. However, the Office of the Ombudsman is a separate function reporting to the Governor.

The Auditing and Management Sub-Unit of the CGE is also comprised of various decentralized units found in Secretariats, which report functionally to the CGE, but administratively to the relevant Secretariat management.

Internal Affairs also has de-centralized units in Secretariats, but they are autonomous and report to the relevant Secretarial management.

2.2 Highlights, Recommendations and Action Plan

2.2.1 Overall

Based on the independent validation of the CGE's IA-CM self-assessment, the CGE has some essential activities and processes that need to be implemented and sustained to fully achieve Level 2 – Infrastructure. All KPAs up to and including those at a particular level must be institutionalized to achieve that level. The CGE is also in process of implementing the essential activities and processes to achieve some of the KPAs found in Level 3 – Integrated.

It is important to begin by noting the various positive attributes that were observed during the validation. The Head of the CGE was appointed in 2015 by the recently elected Governor. He, along with his senior management team, is a career auditor. Many have previous audit experience from the CGU. The Head of the CGE is currently reviewing the structure, roles and responsibilities of the CGE with the objective of ensuring that it is meeting the Governor's needs, and that of the State, for internal control, internal audit, internal affairs, and transparency and promotion of public integrity.

The IA-CM 1-page matrix, depicting the CGE's positioning on the model, can be found in Exhibit 2.2.1. The matrix identifies the KPAs that have been institutionalized; those in progress – short to medium term; those that the CGE could consider institutionalizing – medium to longer term; and those KPAs not fully assessed in the CGE self-assessment or subsequent validation.

Following the matrix, the report identifies in Section 2.2.2, the suggested actions that the CGE take in the immediate future to help strengthen internal auditing. The CGE's responses and action plans are included in Section 2.2.3.

Section 2.3 then provides a more detailed description of the current state of the CGE with respect to each of the six IA-CM elements and highlights the various areas for improvement resulting from the validation.

³ IA-CM Assessment Report, CGE, State of Minas Gerais

Exhibit 2.2.1 Positioning on the IA-CM Matrix

| | Services and Role of IA | People Management | Professional Practices | Performance Management and Accountability | Organizational Relationships and Culture | Governance Structures |
|---------------------------------|--|--|---|---|--|---|
| Level 5 –Optimizing | IA Recognized as Key Agent of Change | Leadership Involvement with Professional Bodies Workforce Projection | Continuous Improvement in Professional Practices Strategic IA Planning | Public Reporting of IA Effectiveness | Effective and Ongoing Relationships | Independence, Power, and Authority of the IA Activity |
| Level 4 – Managed | Overall Assurance on Governance, Risk Management, and Control | IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning | Audit Strategy Leverages Organization's Management of Risk | Integration of Qualitative and Quantitative Performance Measures | CAE Advises and Influences Top-level Management* | Independent Oversight of the IA Activity CAE Reports to Top-level Authority |
| Level 3 – Integrated | Advisory Services Performance/Value-for-Money Audits | Team Building and Competency Professionally Qualified Staff Workforce Coordination | Quality Management Framework Risk-based Audit Plans | Performance Measures Cost Information IA Management Reports | Coordination with Other Review Groups Integral Component of Management Team | Management Oversight of the IA Activity Funding Mechanisms |
| Level 2 – Infrastructure | Compliance Auditing | Individual Professional Development Skilled People Identified and Recruited | Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities | IA Operating Budget IA Business Plan | Managing within the IA Activity | Full Access to the Organization's Information, Assets, and People <u>Reporting Relationships Established</u> |
| Level 1 – Initial | Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas | | | | | |



| |
|---|
| KPAs not assessed |
| KPAs – Could be Institutionalized – medium to longer term |
| KPAs in progress – short to medium term |
| KPAs institutionalized |

2.2.2 Highlights and Recommendations

It is important that the following actions are initiated in the short term to support more effective and professional internal auditing.

The list below identifies the specific recommendations in order of priority that the CGE should initiate as soon as possible.

People Management

- Invest in training, particularly that specifically for professional internal auditors;
- Identify auditor competency requirements at the various levels (e.g. junior or senior auditor, team leader, audit manager), document work responsibilities in job descriptions, and determine training, development and skills required;
- Develop training plans specific to individual needs;
- Develop and institutionalize a performance evaluation system that includes, if appropriate, incentives for excellence in performance; and
- Explore whether salary levels/compensation can be increased for the auditor career stream in Minas Gerais.

Professional Practices

- Update the internal audit manual and elaborate the policies, practices and programs necessary to ensure internal audits are conducted with rigour and due professional care;
- Develop and implement the detailed methodology for the annual risk-assessment and audit planning process;
- Follow professional internal audit standards in the conduct of audits;
- Adopt an internal audit professional Code of Ethics; and
- Develop and implement a comprehensive quality assurance program on individual audit engagements to ensure auditor work is reviewed and deficiencies addressed, when noted.

Services and Role of Internal Auditing

- In the area of compliance auditing, ensure that internal auditing focusses on the audit of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, and contracts, rather than pre and post-transaction auditing.

Governance Structures

- Initiate discussion and formalize a practice (e.g. through legislation or regulation) to ensure auditors have full access to all the information, assets, and people required to carry out their duties; and
- In terms of operational budget and funding, assess and report on the adequacy of resources to carry out an appropriate internal audit plan that provides the necessary assurance to the Governor that resources are adequate to permit coverage of critical risks within a reasonable time frame; consider developing and implementing a process to identify the impact of resource limitations and communicate the impact to the Governor.

Organizational Relationships and Culture

- Review the CGE's organizational structure to determine the optimal reporting structure and responsibilities – particularly with respect to the decentralized units to ensure that sufficient and appropriate internal audit work is performed, supervised effectively and reported transparently; and
- Since some of the CGE functions appear to be more management control functions rather than oversight functions (e.g. Internal Affairs, and Institutional Information and Transparency) ensure processes and practices are put in place to assure the independence and objectivity of the professional internal audit function.

2.2.3 CGE Response and Action Plan

| PLANO DE AÇÃO CGE-MG | |
|---|----------------------------|
| Element/Future Strategies | Implementation Date |
| Services and Role of Internal Audit: | |
| In the area of compliance auditing, ensure that internal auditing focusses on the audit of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, and contracts, rather than pre and post-transaction auditing. <ol style="list-style-type: none"> 1. Carry out the restructuring of the units of CGE - June/2015; 2. Define a new planning tool for the audit units – October/2015; 3. Define assessment mechanism and management coordination of the audit activities– December/2015. | 31/12/2015 |
| Internal restructuring of the CGE/MG units as well as of the decentralized units, from a definition of a risk matrix which will lead to the priority audit areas; <ol style="list-style-type: none"> 1. Raise competencies from internal control organs – March/2015; 2. Compare CGE's competencies to the ones of internal organs – May/2015; 3. Publish law concerning the new structure of the units of CGE – June/2015. | 30/06/2015 |
| People Management: | |
| Invest in training, particularly that specifically for professional internal auditors; <ol style="list-style-type: none"> 1. Find out about CGE's servers interest in taking part in postgraduate courses in audit area– April/2015; 2. Organize content of a postgraduate course in audit area – June/2015; 3. Formalize commitment agreement with education institution – December/2015. | 31/12/2015 |
| Identify auditor competency requirements at the various levels (e.g. junior or senior auditor, team leader, audit manager); document work responsibilities in job descriptions, and determine training, development and skills required. <ol style="list-style-type: none"> 1. Identify the required competencies for each developing level of the auditor – October/2015; 2. Prepare normative with the auditor's competencies for each level– December/2015; 3. Publish normative – December/2015. | 31/12/2015 |
| Develop training plans specific to individual needs. <ol style="list-style-type: none"> 1. Find out about CGE's servers educational backgrounds and their needs for qualification– August/2015; 2. Find out the CGE's servers necessity for qualification along with their leaderships – September/2015; 3. Prepare CGE's servers qualification plan– December/2015. | 31/12/2015 |

| | |
|--|-------------------|
| <p>Develop and institutionalize a performance evaluation system that includes, if appropriate, incentives for excellence in performance.</p> <ol style="list-style-type: none"> 1. Raise information about the audit engagement and the required characteristics for its performing – August/2015; 2. Suit the performing evaluation to the internal auditor reality – December/2015; 3. Publish joint resolution with the Planning and Management State Secretary establishing a new individual performing assessment system for the internal auditors– June/2016. | <p>30/06/2016</p> |
| <p>Explore whether salary levels/compensation can be increased for the auditor career stream in Minas Gerais.</p> <ol style="list-style-type: none"> 1. Discuss the internal auditor career salary levels with the Planning and Management State Secretary – July/2015; 2. Publish law with the new internal auditor career salary levels – December/2015. | <p>31/12/2015</p> |
| <p>Set, by specific law, the duties of the auditor job, according to what provided by the art. 7, § 1, of Law nº 15.304/04.</p> <ol style="list-style-type: none"> 1. Identify required competencies for the internal auditor job – December/2015; 2. Prepare decree with the internal auditor job assignments – May/2016; 3. Publish decree with the internal auditor job assignments – June/2016. | <p>30/06/2016</p> |
| <p>Restructure the internal auditor's career plan.</p> <ol style="list-style-type: none"> 1. Discuss the internal auditor career plan with the Planning and Management State Secretary – July/2015; 2. Publish law with the new internal auditor career plan – December/2015. | <p>31/12/2015</p> |
| <p>Provide selection process for specific professional areas (Civil Engineer, Computer Scientist).</p> <ol style="list-style-type: none"> 1. Carry out studies about the necessity of internal auditors for specific areas – June/2016; 2. Ask Planning and Management State Secretary for authorization to carry out a selection process and to hire the firm to be in charge of it – July/2016; 3. Carry out selection process - December/2017. | <p>29/12/2017</p> |
| <p>Institute methodology for the elaboration of an audit plan that provides the relation between the number and the profile of employees as well as the engagements to be performed.</p> <ol style="list-style-type: none"> 1. Carry out studies regarding the elaboration of auditing plan – August/2015 2. Develop methodology concerning auditing plan that explains the relation between the number of servers and their profiles as well as the work to be performed – November/2015; 3. Validate methodology – December/2015. | <p>31/12/2015</p> |
| <p>Professional Practices:</p> | |
| <p>Update the internal audit manual and elaborate the policies, practices and programs necessary to ensure internal audits are conducted with rigour and due professional care.</p> <ol style="list-style-type: none"> 1. Check points to be updated in internal audit manual – December/2015; | <p>30/06/2016</p> |

| | |
|--|------------|
| <ol style="list-style-type: none"> 2. Update internal audit methodology, trying to aggregate policies, practices and programs required to ensure internal auditings to be conducted with professional stringency and zeal– May/2016; 3. Validate methodology – June/2016. | |
| <p>Develop and implement the detailed methodology for the annual risk-assessment and audit planning process.</p> <ol style="list-style-type: none"> 1. Carry out studies concerning the development of methodology on risk evaluation and audit planning– August/2015; 2. Develop methodology for risk evaluation and audit planning – November/2015; 3. Validate methodology – December/2015. | 31/12/2015 |
| <p>Follow professional internal audit standards in the conduct of audits.</p> | 30/06/2016 |
| <p>Adopt an internal audit professional Code of Ethics.</p> <ol style="list-style-type: none"> 1. Search for ethical codes of other internal auditor careers – September/2015; 2. Elaborate specific ethical code for internal audit function exercise at CGE – December/2015; 3. Elaborate and publish decree with ethical code for the internal auditor’s career – June/2016. | 30/06/2016 |
| <p>Develop and implement a comprehensive quality assurance program on individual audit engagements to ensure auditor work is reviewed and deficiencies addressed, when noted.</p> <ol style="list-style-type: none"> 1. Find out about competencies of internal control organs – March/2015; 2. Compare the CGE’s competencies to the ones of the control organs – May/2015; 3. Publish decree with the new structure of the CGE’s units – June/2015. | 31/06/2015 |
| <p>Restructure the audit nucleus and sector and sectional units, gathering the ones that act in similar government areas into a singular unit. By doing this, the teams will be enlarged, the number of decentralized units will decrease and the work coordination and performance will be facilitated, as well as the communication with them.</p> | 30/06/2015 |
| <p>Enlarge, by means of legislation changes, the performing of CGE in relation to the state companies, as well as create a matrix of risk contemplating the auditable units and the priority area, keeping hours in the plan for specific demands from the managers. Thereby, it will be prepared a document with the CGE’s central organ planning.</p> | 30/06/2016 |
| <p>Organizational Relationships and Culture:</p> | |
| <p>Review the CGE’s organizational structure to determine the optimal reporting structure and responsibilities – particularly with respect to the decentralized units to ensure that sufficient and appropriate internal audit work is performed, supervised effectively and reported transparently.</p> <ol style="list-style-type: none"> 1. Perform the internal restructuring of CGE units – June/2015; 2. Define new planning instrument for the audit units – October/2015; 3. Define assessment mechanism and management coordination of audit activities – December/2015. | 31/12/2015 |

| | |
|---|------------|
| Since some of the CGE functions appear to be more management control functions rather than oversight functions (e.g. Internal Affairs, and Institutional Information and Transparency) ensure processes and practices are put in place to assure the independence and objectivity of the professional internal audit function. | X |
| Prepare quarterly reports, consolidating audit activities, carried about in the period, which will integrate the annual report of activities. <ol style="list-style-type: none"> 1. Search for other internal control organ consolidated reports – November/2015; 2. Define consolidated quartely report model of the audit activities for CGE – December/2016. | 31/12/2016 |
| Governance Structures | |
| Initiate discussion and formalize a practice (e.g. through legislation or regulation) to ensure auditors have full access to all the information, assets, and people required to carry out their duties. | 31/12/2015 |
| In terms of operational budget and funding, assess and report on the adequacy of resources to carry out an appropriate internal audit plan that provides the necessary assurance to the Governor that resources are adequate to permit coverage of critical risks within a reasonable time frame; consider developing and implementing a process to identify the impact of resource limitations and communicate the impact to the Governor. <ol style="list-style-type: none"> 1. Evaluate the expenditure requirements given the new CGE’s struture – January/2017; 2. Prepare proposed budget containing the expenditure requirements of CGE– June/2017. | 31/06/2017 |
| Implement mechanisms and processes that assure the discussion of encountered problems, the joint search for solutions and managers' subsequent feedback regarding to the contributions of the audit engagements to their performance. <ol style="list-style-type: none"> 1. Carry out studies referring to the development of methodology of implementing mechanisms and processes that will allow the discussion of issues found, of the joint search for solutions and the accomplishment of feedback – November/2015; 2. Validate methodology – December/2015. | 31/12/2015 |

2.3 The Six IA-CM Elements: Conclusions and Areas for Improvement

2.3.1 Services and Role of Internal Auditing

With respect to the **Services and Role of Internal Auditing** element, the CGE is currently institutionalizing the necessary sustainable and repeatable processes to fully institutionalize Level 2 – Infrastructure and aspects of Level 3 – integrated.

The CGE carries out a combination of compliance audits, performance/value-for-money audits and advisory services in both the centralized unit and the decentralized units. Some work is performed by the central unit in conjunction with the decentralized units.

In the past, some compliance audits appear to have focused more on pre-transaction review to assess transactional adherence to laws and procedures rather than on the adequacy of the system or process. The CGE is assessing its priorities with respect to compliance and performance auditing to ensure critical areas are addressed and professional internal auditing is conducted of systems, processes and operational performance.

The CGE has developed audit manuals and procedures (e.g. Norm and Service Instructions) for the performance of its audits. The CGE is in the process of updating these to ensure the sustainability of its processes and to include more specific procedural details; for example: relating to communication with the client such as during exit meetings to discuss recommendations. The CGE is also disseminating a risk-based audit engagement methodology. Working paper guidelines provide for a combination of electronic and hard copy documents.

Audit engagements are supervised and reviewed for quality assurance in the centralized unit, but not to the same extent in the decentralized units.

The CGE has also developed a computerized system to monitor recommendations to ensure deficiencies are addressed within reasonable timeframes. Some on-site follow-up work is performed, depending on relevance and risk.

The CGE currently devotes a portion of its resources to advisory services in both the central and decentralized units. To help sustain this Level 3 KPA, the CGE should ensure that any requests for advisory services:

- support the CGE vision and mission;
- can be undertaken without impacting on resources allocated for planned assurance audit work; and
- help support the overall assurance requirements of the Governor.

The CGE could also give consideration to the following in future audit engagements:

- More proactive, preventative auditing;
- More analytical and advisory role;
- More focus on efficiency, effectiveness and economy of public systems, processes and operations rather than procedural practices; and
- More focus on results-based management and auditing.

2.3.2 People Management

For element, **People Management**, the CGE has achieved some aspects of Level 2 – Infrastructure and is actively addressing the processes currently under its control and initiating forward-thinking people management strategies.

The Head of the CGE is assessing people management priorities, including the need for a comprehensive training policy; integration of the decentralized audit units into CGE regular training curricula; and providing training in conjunction with federal audit groups thereby exposing auditors to a broader professional audit base and competencies. There is also some discussion with a local university to consider the development of an internal audit program.

In the State of Minas Gerais, as in Brazil generally, public servers, including Government Auditors, are hired via a public tender process or contest. The auditors' duties are defined by law, as are their salary levels. Other than a requirement for a University Degree, there are no other defined selection criteria (specific experience, training, skills, or personal attributes) to qualify for entry into the Government Auditor career stream. Once an auditor is appointed, there is a three-year probationary period, after which the auditor becomes a career civil server. Movement from one level to another level within the stream is based primarily on years employed (and training completed).

The CGE has developed a 360° Performance Evaluation system, but it is not always practiced. There are no additional job descriptions or competency profiles elaborated for the auditors.

There has been a substantial increase in the number of auditors in the CGE since 2014. For this reason, it is important that in the short term the CGE consider the following in the area of people management:

- Invest in training, particularly that specifically for professional internal auditors;
- Identify auditor competency requirements at the various levels (e.g. junior or senior auditor, team leader, audit manager); document work responsibilities in job descriptions, and determine training, development and skills required; and
- Develop training plans specific to individual needs.

It may be difficult in the short term for the CGE to change the current hiring and retention practices in Brazil for public servers. However, the following could be considered in the State of Minas Gerais:

- Identify additional selection criteria (e.g. specific educational and training prerequisites) to complement the public tender process;
- Develop and institutionalize a performance evaluation system that includes, if appropriate, incentives for excellence in performance; and
- Explore whether salary levels/compensation can be increased for the auditor career stream in Minas Gerais.

It is also important that when the CGE prepares its annual audit plan, it coordinates the audit plan development with the audit resources that it has available and determines if additional resources are needed.

2.3.3 Professional Practices

In terms of element, **Professional Practices**, the CGE has institutionalized many essential activities in Level 2 – Infrastructure, but needs to augment some professional practices to establish the foundation to move to Level 3 – Integrated.

As noted, the CGE has an audit manual, procedures and audit programs in place and is updating and elaborating on them to ensure sustainability of practices and that audit engagements are conducted more effectively.

Currently, the goals and activities of the CGE are identified in its annual Agreement of Results. With respect to the decentralized audit units, the annual goals are provided in their Annual Audit Plans. During 2015, the CGE has been reacting to a number of on-demand audits.

The CGE is currently identifying its audit universe, developing an annual risk assessment methodology to use in establishing audit priorities; and, elaborating on guidance for preparation of future annual audit plans in the centralized and decentralized units.

It is important in developing the annual audit plan that the CGE:

- Through consultations with the Governor and other senior State management and/or other stakeholders (e.g., the TCE), identify the areas/issues that are considered as priorities to be addressed by the CGE.
- Identify the audit engagements, including cyclical audits, to be included in the plan and what other services the CGE will be providing to the State.
- Determine the indicative audit objectives and scope for each audit engagement and those for any other services, if applicable.
- Determine the overall resources required (human, financial, material) to accomplish the plan by including the sum of resources for each audit engagement, other services to be provided, and any additional resources that may be required to respond to other management and/or stakeholders priorities that might arise during the period covered by the plan.
- Determine the mix of human-resource capabilities required to accomplish the plan.
- Obtain the Governor's approval of the plan and the resources required to implement the plan.

While there is no specific code of ethics for the auditor, one has been established by the Government's Employee Code of Behaviour Ethics and the State Senior Administration.

To fully institutionalize Level 2 with respect to professional practice methodology and reinforce the professionalism of the internal auditors, it is important that the CGE give consideration to:

- following professional internal audit standards in the conduct of its audits;
- adopting an internal audit professional Code of Ethics; and
- developing and implementing a comprehensive quality assurance program on individual audit engagements to ensure auditor work is reviewed and deficiencies addressed, when noted.

2.3.4 Performance Management and Accountability

For this element, the CGE needs to develop processes and practices to implement Level 2 – Infrastructure.

The financial resources to be used by the CGE are provided in the year’s budget, proposed by the State Governor and approved by the State Legislative Assembly. It is important that a realistic budget is determined that provides the CGE with sufficient resources to perform as a professional internal audit activity.

The goals and activities of the CGE are identified in its annual Agreement of Results. With respect to the decentralized audit units, the annual goals are provided in their Annual Audit Plans. The outputs are evaluated and an annual report issued.

It should be noted that an Internal Control Report is issued annually by the Governor, a chapter of which describes internal audit activities performed.

To support transparency, completed audit reports can be accessed on the CGE’s website.

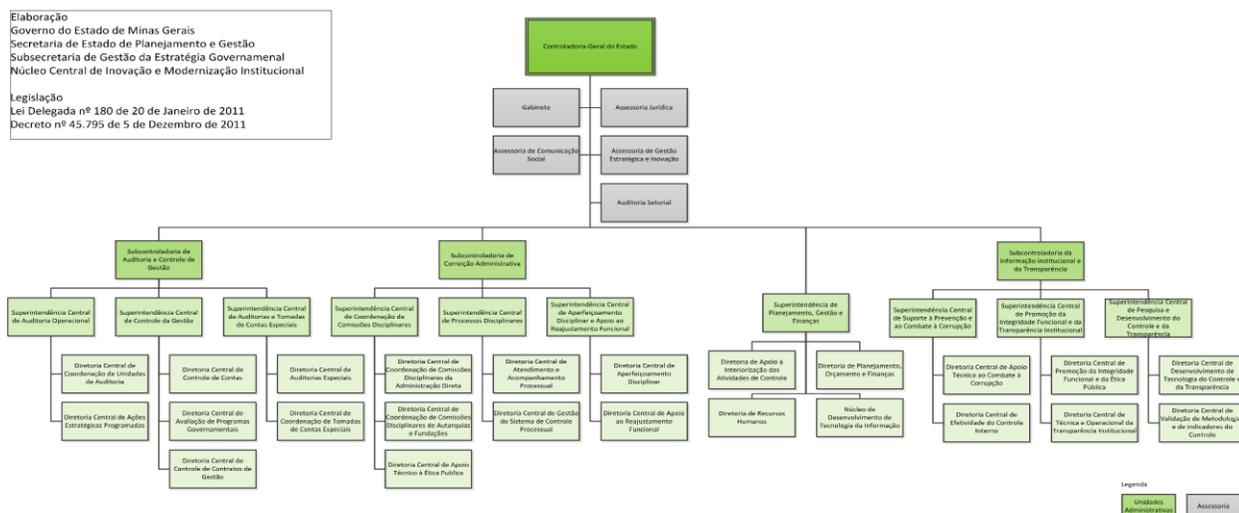
In summary, to achieve Level 2 – Infrastructure and aspects of Level 3 - Integrated, the CGE needs to put in place a comprehensive performance management and accountability framework that includes, for example:

- performance measures, monitoring and reporting;
- comprehensive cost system; and
- relevant management decision-making reports on performance results and financial information.

2.3.5 Organizational Relationships and Culture

With respect to the element, **Organizational Relationships and Culture**, the CGE is considered for the most part at Level 2 - Infrastructure. The CGE should consider implementing sustainable activities and practices to institutionalize two KPAs in Level 3 – Integrated. Integral Component of the Management Team and Coordination with Other Review Groups are in progress short to medium term.

The CGE’s current organizational structure⁴ is as follow:



⁴ Ibid.

The Head of the CGE is appointed by and reports directly to the Governor of the State of Minas Gerais.

The CGE is made up of three principal sub-units: Auditing and Management Control, Internal Affairs, and Institutional Information and Transparency.

In addition to the central Auditing and Management Sub-Unit, the CGE is comprised of various decentralized units found in Secretariats, who report functionally to the CGE, but administratively to the relevant Secretariat management. The Head of the CGE is currently reviewing the CGE's organization structure to determine the optimal reporting structure and responsibilities – particularly with respect to the decentralized units to ensure that sufficient and appropriate internal audit work is performed, supervised effectively and reported transparently.

Some of the CGE functions appear to be more management control functions rather than oversight functions; for example: the Internal Affairs, and Institutional Information and Transparency. These processes seem to complement the work of internal auditing. However, it is important that processes and practices are put in place to assure the independence and objectivity of the professional internal audit function.

The CGE meets regularly with the Governor, advises senior State management on strategic matters, and participates on a high-level Planning, Management and Strategy/Governance Committee, along with the Secretaries of Finance, Planning, Government, and Public Works and Civil House.

It is important that the CGE nurtures its relationships with other Secretariats reporting to the Governor to reinforce its role as an integral part of the Governor's management team, while ensuring its independence and objectivity are not compromised.

The CGE will want to be seen as a partner with management.

With respect to the KPA, Coordination with Other Review Groups, in Level 3, the CGE does not appear to have regular and ongoing working relationships with other review, investigative and advisory groups in the State of Minas Gerais or with the subnational Supreme Audit Institution, the TCE.

Ongoing collaboration with other such review, investigative and advisory groups, may be helpful in order to share relevant information on issues of mutual concern and coordinate activities to ensure appropriate governmental coverage. However, it is important that throughout such collaboration the critical role the CGE has in providing independent and objective assurance services to the Governor is appreciated.

It may also be helpful if the CGE increases its coordination, including the establishment of formal processes that support periodic liaison and nurture a transparent and cooperative relationship with the TCE. This may help facilitate communication channels and encourage complementarity of the work of the CGE with that of the TCE. In addition to sharing internal audit plans, which is considered a best practice, this could also include sharing other relevant external and internal audit information, which could potentially minimize duplication of effort, and encourage reliance by the TCE on the CGE's work.

2.3.6 Governance Structures

With respect this element, the CGE needs to establish some additional sustainable practices and processes to fully achieve Level 2 – Infrastructure.

In 2011, pursuant to the administrative reform provided by Lei Delegada nº 179, 1 January, and by Lei Delegada nº 180, 20 January, the State General Audit Office assignments were expanded, and it was renamed Controladoria Geral do Estado (CGE). Its organizational structure was defined by the Decreto nº 45.536, 27 January 2011.

The CGE's duties, responsibilities and reporting relationship are identified in those laws. However, it may be helpful to design and have approved a more concise formal document, such as an Internal Audit Charter, which clearly and succinctly defines the internal audit activity's purpose, authority and responsibility.

There does not appear to be legislation that provides for full access to all the information, assets, and people required by auditors to carry out their duties. Consideration should be given to initiate discussion and formalize this practice to ensure auditors have full access to all the information, assets, and people required to carry out their duties.

Two KPAs at Level 3 – Integrated need some additional focus. With respect to Management Oversight of the IA Activity, the CGE needs to monitor its needs in terms of the adequacy of support provided to it by the Governor/Vice-Governor and Civil House, in their capacities as stakeholders.

In addition, the CGE could consider enhancing and augmenting management input through other State Secretariat client management advice and support, and that from CONACI, as needed.

In terms of Funding Mechanisms, the CGE should assess and report on the adequacy of resources to carry out an appropriate internal audit plan that provides the necessary assurance to the Governor that resources are adequate to permit coverage of critical risks within a reasonable time frame. The CGE should consider developing and implementing a process to identify the impact of resource limitations and communicate the impact to the Governor.

The Head the CGE is appointed by and reports directly to the Governor. While reporting to the top-level authority can be seen as providing a high degree of organizational independence, there may be challenges in the Head of the CGE reporting directly to the Governor of the State of Minas Gerais. While the Head and CGE auditors will be expected to exercise personal objectivity in the conduct of their internal audit work, it may on occasion be difficult to be entirely independent from the desires of the Governor in view of the organizational reporting relationship.

To assure its independence and support its ability to effectively deliver on its state-wide mandate, the CGE may wish to institutionalize the KPA, Independent Oversight of the IA Activity, at Level 4 – Managed.

Consideration could be given to the creation of an Independent Audit Advisory Committee to provide advice and support the Head of the CGE, including, for example:

- reviewing the risk-based internal audit plan, which includes both assurance and consulting activities;
- reviewing the CGE's budget and resource plan and organizational structure for appropriateness;
- receiving communications from State Secretaries and senior management on the CGE's performance; and
- making appropriate enquiries to determine whether there are inappropriate scope or resource limitations for the CGE.

Such a Committee may also reinforce the concept of societal control and transparency.

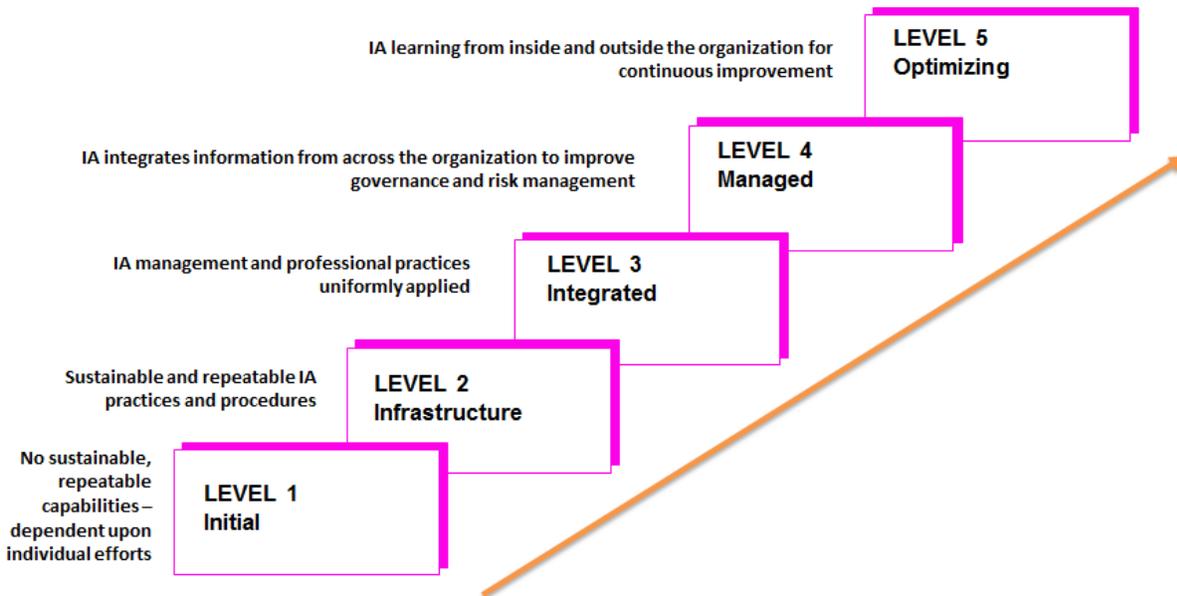
Appendix A: The IA-CM

The IA-CM framework was developed to identify fundamentals needed for effective internal auditing in the public sector and consists of five progressive capability levels, tied to leading industry practices.

The IA-CM shows the steps in progressing from a level of internal auditing typical of a less established organization to a strong effective, IA activity generally associated with a mature and complex organization.

Each of the five capability levels describes the characteristics and capabilities of an IA activity at that level. The levels illustrate the stages through which an IA activity can evolve as it defines, implements, measures, controls, and improves its processes and practices. Implementing repeatable and sustainable processes at one level provides the foundation on which to progress to the next level. It is a “building block” approach to establishing effective internal auditing.

Exhibit A.1
IA – CM Levels



The IA-CM also identifies **six essential elements** for an IA activity:

1. **Services and role of internal auditing** – The services include the provision of assurance and advice as well as co-sourced services with external service providers. The role is to provide independent and objective assessments to assist the organization in accomplishing its objectives and improve operations.
2. **People management** – The process of creating a work environment that enables people to perform to the best of their abilities. People management includes job descriptions, recruitment, performance standards, professional development, training, ongoing coaching, and career development.
3. **Professional practices** – Reflects the full backdrop of policies, processes, and practices that enables the IA activity to be performed effectively and with proficiency and due professional care.
4. **Performance management and accountability** – Refers to the information needed to manage, conduct, and control operations of the IA activity and account for its performance and results.
5. **Organizational relationships and culture** – Includes the organizational structure and the internal management and relationships within the IA activity itself as well as the Chief Audit Executive’s relationship with senior management.
6. **Governance structures** – The reporting relationship (administrative and functional) of the Chief Audit Executive, and how the IA activity fits within the organizational and governance structure of the organization.

Key Process Areas (KPAs), related to each of the six elements, have been identified for the capability levels. The KPAs are the main building blocks that determine the capability level achieved by the IA activity. Each KPA describes a cluster of related activities that when performed collectively achieve a purpose and produce immediate outputs and longer-term outcomes.

Exhibit A.2 presents the IA-CM graphically as a one-page matrix. The vertical axis represents the capability levels – with the capability of the IA activity increasing from bottom to top. The elements of internal auditing are presented on the horizontal axis. The KPAs for each level for each element are identified in the relevant boxes for the appropriate level. There are 41 KPAs on the IA-CM.

The colours on the matrix depict the extent or influence that the IA activity has over the elements. When moving from left to right on the matrix, the ability of the IA activity to independently institutionalize the KPAs decreases. Similarly, the IA activity has potentially less ability to independently institutionalize the KPAs as the capability levels move upward from Levels 2 to 5. This shift occurs because the organization and the environment will tend to increase their influence over whether the IA activity is able to institutionalize the KPAs at the higher capability levels.

Exhibit A.2
IA-CM 1-Page Matrix

| | Services and Role of IA | People Management | Professional Practices | Performance Management and Accountability | Organizational Relationships and Culture | Governance Structures |
|---------------------------------|--|--|---|---|--|--|
| Level 5 – Optimizing | IA Recognized as Key Agent of Change | Leadership Involvement with Professional Bodies Workforce Projection | Continuous Improvement in Professional Practices Strategic IA Planning | Public Reporting of IA Effectiveness | Effective and Ongoing Relationships | Independence, Power, and Authority of the IA Activity |
| Level 4 – Managed | Overall Assurance on Governance, Risk Management, and Control | IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning | Audit Strategy Leverages Organization's Management of Risk | Integration of Qualitative and Quantitative Performance Measures | CAE Advises and Influences Top-level Management | Independent Oversight of the IA Activity CAE Reports to Top-level Authority |
| Level 3 – Integrated | Advisory Services Performance/ Value-for-Money Audits | Team Building and Competency Professionally Qualified Staff Workforce Coordination | Quality Management Framework Risk-based Audit Plans | Performance Measures Cost Information IA Management Reports | Coordination with Other Review Groups Integral Component of Management Team | Management Oversight of the IA Activity Funding Mechanisms |
| Level 2 – Infrastructure | Compliance Auditing | Individual Professional Development Skilled People Identified and Recruited | Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities | IA Operating Budget IA Business Plan | Managing within the IA Activity | Full Access to the Organization's Information, Assets, and People Reporting Relationships Established |
| Level 1 – Initial | Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas | | | | | |

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Green shaded areas represent KPAs within elements and levels that can be typically achieved by an IA activity itself. Yellow areas require management structures and processes outside of internal auditing to achieve the individual KPAs.

An effective and mature IA activity would be expected to achieve at least Level 3 - Integrated. An IA activity at Level 3 will generally conform with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and focuses its efforts on capacity, independence and objectivity.

As such, the IA-CM provides a tool that a public sector organization can use to:

- determine its internal auditing requirements according to the nature, complexity and associated risks of its operations;
- assess its existing internal auditing capabilities against the requirements it has determined; and

- identify any gaps between those requirements and its existing internal auditing capabilities. Having identified these gaps, an organization can then address any significant ones and work toward developing the appropriate level of internal auditing capability.

Underlying Principles

A number of principles underlie the IA-CM.

- Internal Auditing is an integral component of effective governance in the public sector and as such helps organizations achieve their objectives and account for their results.
- In assessing the level of capability of an internal audit activity, three variables must be considered – the internal audit activity itself, the organization, and the overall environment in which the organization operates.
- The internal audit activity is directly related to the actions taken by the Chief Audit Executive to establish the processes and practices needed to achieve and maintain the internal auditing capabilities and the measures taken by the organization's management to establish a supportive environment for internal auditing.
- Not every organization requires the same internal auditing capability or sophistication. The appropriate level will be commensurate with the nature and complexity of the organization and the risks to which the organization may be exposed. "No one size fits all."
- Internal auditing must be delivered in a cost-effective manner.

Appendix B: The Independent Validation Methodology

B.1 Before, During and After the On-site Validation

Before the on-site validation:

The CGE conducted an IA-CM self-assessment and the results were available for review at the beginning of the on-site validation. In addition, the following activities took place before the on-site validation.

- Introductory/Kick-off meeting 6 February 2015.
- Development of a IA-CM Self-Assessment Framework, tools, resources and guidance in partnership with the Working Group.
- Transmittal and review of relevant supporting documentation from the CGE relating to the six elements of the IA-CM: its Services and Role of Internal Auditing; People Management; Professional Practices; Performance Management and Accountability; Organizational Relationships and Culture; and Governance Structures. (See Appendix B.4 for a list of selected documentation reviewed during the on-site validation.)
- Review of other pertinent information relating to the organization itself and any environmental factors that may influence the effectiveness of the CGE.
- Preparation of a list of potential key senior managers and stakeholders that may be interviewed along with the primary lines of inquiry. (See Appendix B.2 for those interviews and meetings conducted during the on-site validation and Appendix B.3 for the primary lines of enquiry.)
- Preparation of an IA-CM presentation to use to introduce the IA-CM Validation exercise to CGE participants and key stakeholders, as required. (See Appendix B.5)

The on-site-validation:

The following activities took place during the on-site validation.

1. Review of the results of the CGE's self-assessment with senior CGE audit management and various levels of internal audit practitioners: 6-8 May 2015.
 - a. Using the one-page IA-CM matrix to discuss which KPAs have been achieved by the CGE and assess at what capability level the CGE is positioned.
2. Validation of the results of the IA-CM self-assessment.
 - a. Conducted a walkthru of all documentation supporting the IA-CM self-assessment and reviewed selected documentation of interest.
 - b. Interviewed key stakeholders, including CGE client management.
 - c. Identified the actual KPAs that have been achieved by the CGE, based on interviews and documents available.
 - i. Assessed whether the purpose, activities, outputs and outcomes, as described in the IA-CM, were institutionalized by the CGE.
 - ii. Confirmed which practices and activities have to function effectively and continue to function to institutionalize and sustain the KPA.
 - d. Identified the KPAs that the CGE would like to achieve and determined the means to institutionalize those KPAs.
 - e. Addressed any other relevant considerations.

3. Meeting with the CGE's Head to discuss the results of the validation of the CGE's IA-CM assessment and any issues/suggestions for improvement that may have surfaced during the validation: 8 May 2015.

During and after the on-site validation:

1. Compilation of summary notes from the meetings/interviews, etc., identifying areas to follow up.
2. Preparation of a draft report on the results of the independent IA-CM validation, including details of the KPAs institutionalized, along with the relevant KPAs not fully institutionalized with strategies and areas for improvement.
3. Inclusion in the draft report a draft Strategy and detailed Action Plan, in consultation with the CGE, identifying a way forward to institutionalize all KPAs at a minimum of Level 2 - Infrastructure.

B.2 Principal Interviewees Supporting the IA-CM Independent Validation

- Mario Vinicius Claussen Spinelli, Controlador - Geral do Estado, CGE
- Dany Andrey Secco, Controlador - Geral Adjunto, CGE
- Marcio Almeida do Amaral, Chefe de Assessoria Técnica, CGE
- Eduardo Fagundes Fernandino, Subcontroladoria de Auditoria e Controle de Gestão, CGE
- Leonardo Barbabela, Promotor de Justiça, coordenador do Centro de Apoio às Promotorias de Defesa do Patrimônio Público (Caopp)
- Marco Antonio Rezende Teixeira, Secretário de Estado de Casa Civil
- Bruno Westin Leal, Secretário de Estado Adjunto, Secretaria de Estado de Fazenda
- Wieland Silberschneider, Secretário Adjunto, Secretaria de Estado de Planejamento e Gestão

B.3 Senior Managers and Key Stakeholders - Principal Interview Questions

Purpose: To obtain views on whether the CGE meets the needs of senior State managers and key stakeholders in supporting governance, risk management, and control processes; and what improvements, if any, are needed by the CGE.

Questions include:

- Is there a supportive environment for internal auditing?
- Are there central drivers or audit traditions positively influencing or negatively impacting on the effectiveness of internal auditing?
- What is the relationship of the CGE with senior State management, the Supreme Audit Institution, and other relevant stakeholders? How are these relationships sustained and nurtured? How do these relationships contribute to the effectiveness of internal auditing?
- Is internal auditing adding value to the State of Minas Gerais or the Government of Brazil? How is "adding value" assessed/measured?
- What are the leading practices demonstrated by the CGE? How are these sustained/institutionalized into the CGE? In other words, how has the CGE ensured that these practices will continue to be demonstrated (e.g., legislated mandate or policy)?
- How is the independence of the CGE and its practitioners assured?

- Are there areas where the CGE could improve? Are there specific areas where the capability of the CGE could be more evolved?
- Are there sufficient resources for the CGE to provide reasonable assurance that governance, risk management, and control processes are effective?

B.4 Selected Documents Supporting the IA-CM Self-Assessment and Independent Validation

General

- Internal Audit Capability Model (IA-CM) Workbook

Governance Structures

- Lei Delegata no. 180/2011: Structure of the State of Minas Gerais Executive Power
- Lei Delegata no. 179/2011: Structure of the State of Minas Gerais Executive Power
- Decreto Estadual No. 45.795/2011: organization of the CGE

Organizational Relationships and Culture

- CGE Organization Chart
- Minutes of the meeting and attendance sheets from the CGE and the decentralized units
- CAE's agenda

Performance Management and Accountability

- Internal Audit Report 2014
- Internal Control Report Fiscal Year 2014
- Annual Budget Law 2014

Professional Practices

- Audit Consolidated Manual (Volumes I-III)
- Special Account Manual
- Resolution No. 018/2011: methodology to apply to audit engagements in the State of Minas Gerais
- Service instruction No. 003/2014/SCG/CGE: elaboration of annual plan
- Agreement of Results Fiscal Year 2014
- Risk-based Audit Methodology
- Example of annual audit plan - Hemominas
- Samples of audit programs
- Decreto Estadual no. 46.644/14 which provides for the "Codigo de Conduta Etico do Agente Publico e de Alta Administracao"
- Ethics Commission Internal rules

People Management

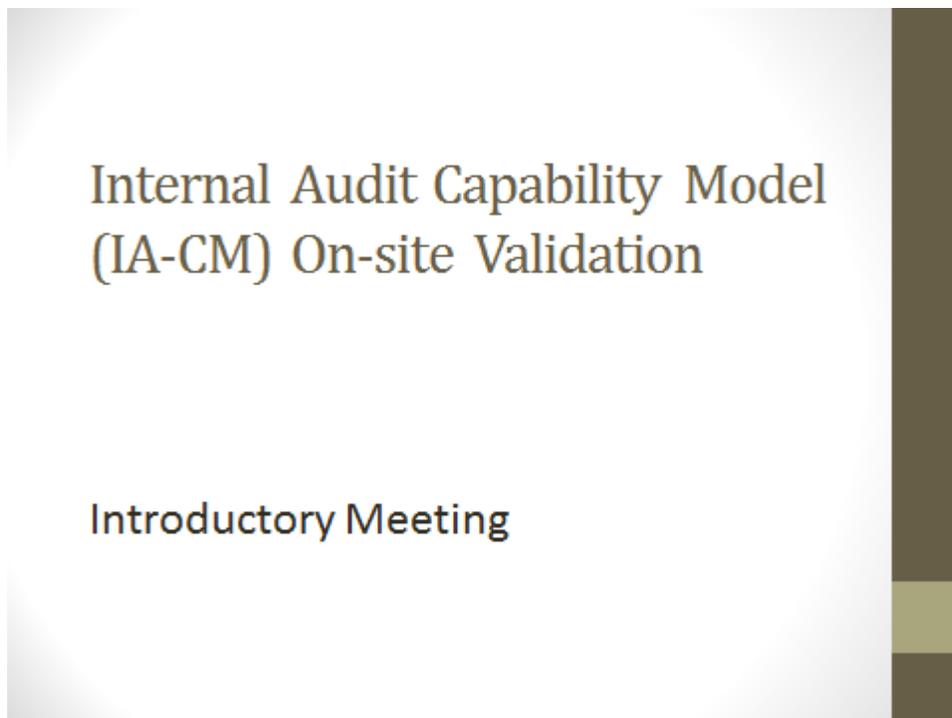
- Lei Estadual No. 15.304/04: establishes Executive Power Internal Auditor's Career
- Selection Process Notice SEPLG/CGE No. 02/2012
- Various Communications – calling for trainings (e.g. 053-2014 – Course "Internal Auditing Control" by the CGU)

- Various Individual Training Certificates
- Training Course Attendance List
- Performance Evaluation Systems Manual, Staff Member and Public Manager Performance Evaluation Models

Services and Role of Internal Auditing

- CGE Resolution No. 014/2010: implementation of recommendations
- Sample audit reports and covering memos (e.g. CAMG KPMG Report)

B.5 Presentation Introducing the On-site Validation



Presentation Outline

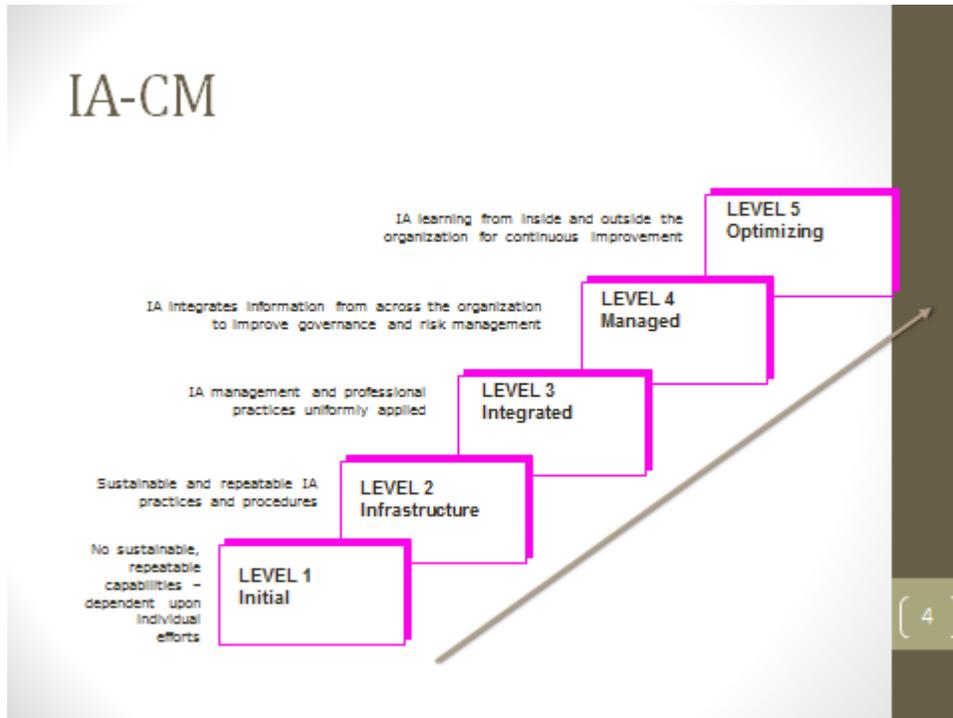
- The IA-CM
- IA-CM On-site Validation
 - Purpose
 - Before the On-site Validation
 - On-site Validation
 - Deliverables and Proposed End Dates
 - Important Considerations

[2]

The IA-CM

- What is the IA-CM?
 - Framework for Assessment
 - Communication Vehicle
 - A Roadmap for Orderly Improvement

[3]



- ## The IA-CM
- IA-CM
 - Self-assessment and development tool for continuous improvement
 - Determines optimum capability
 - Underpinned by The IIA's mandatory guidance
- { 5 }

IA-CM On-site Validation

- Purpose
 - To validate and assess the CGE's self-assessment results
 - To analyze the CGE's areas of strength and those that need improvement
 - To identify strategies/practices/activities to improve the capacity, capabilities and effectiveness of the CGE
 - Contribute to overall strengthening of internal audit in the public sector in Brazil

[6]

Before On-site Validation

- Kick-off/Introductory Meeting – 6 Feb 2015
- IA-CM Training
- Validation Background Documentation
 - IA-CM Workbook
 - Initial CGE Documentation Identified
 - Initial CGE Key Stakeholders Identified
- Results of three CGE's Self-Assessments
- Summary of Control Environments

[7]

On-site Validation

- Meet with CGE's Chairmen
- Review Results of CGE's Self-Assessment
 - Senior CGE Audit Management
 - Various Levels of Internal Audit Practitioners
- Validate Results
 - Review Supporting Documentation
 - Interview Key Stakeholders, including CGE's Client Management
- Obtain Input for Country-level Framework Concept Development Activities

{ 8 }

On-site Validation

- Report on Results
 - Identify KPAs Institutionalized
 - Identify Strategies to Implement KPAs Not Fully Institutionalized
 - Develop Action Plan, in Consultation with CGE

{ 9 }

Deliverables and End Dates

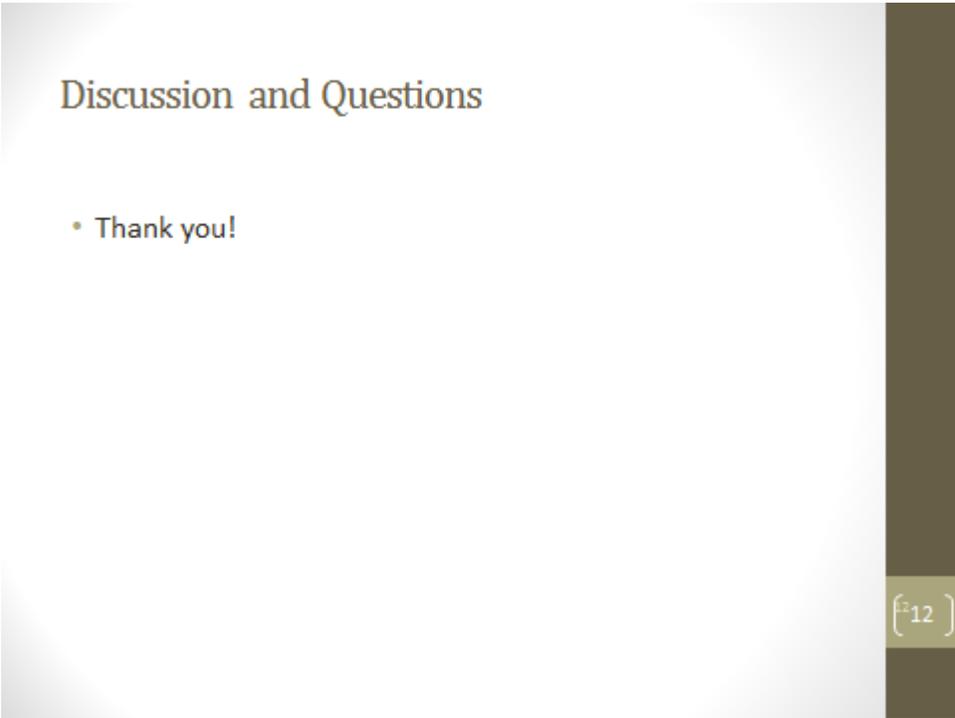
| Deliverables | Proposed End Dates |
|--|--|
| 1. Reports on results of Independent On-site Validations of the three CGEs' IA-CM Self-Assessments - includes KPAs institutionalized and means to ensure sustainability - includes relevant KPAs not fully institutionalized with strategies and areas for improvement - includes description of the current internal control environment of CGE assessed and activities and action plan needed to make CGE a state-of-the-art control entity | Drafts for Discussion: Mid May Final: Mid June |
| 2. Presentation with findings and recommendations for Conference May 27-29 | Mid May |
| 3. Concept Paper and detailed action plan with recommendations to strengthen the Public Sector Internal Audit/Control Environment in Brazil | Draft for Discussion: Mid May Final: Mid June |
| 4. Recommendations to improve CONACI and CGEs IA-CM tools for reviewing internal audit | Mid June |

{ 10 }

Important Considerations

- All appropriate bodies in government participate
- Management and stakeholder support
- Internal audit practitioner involvement at all stages
- Action plans support sustainable processes and effective internal audit activities
- Concept paper with recommendations that can be realistically implemented

{ 11 }

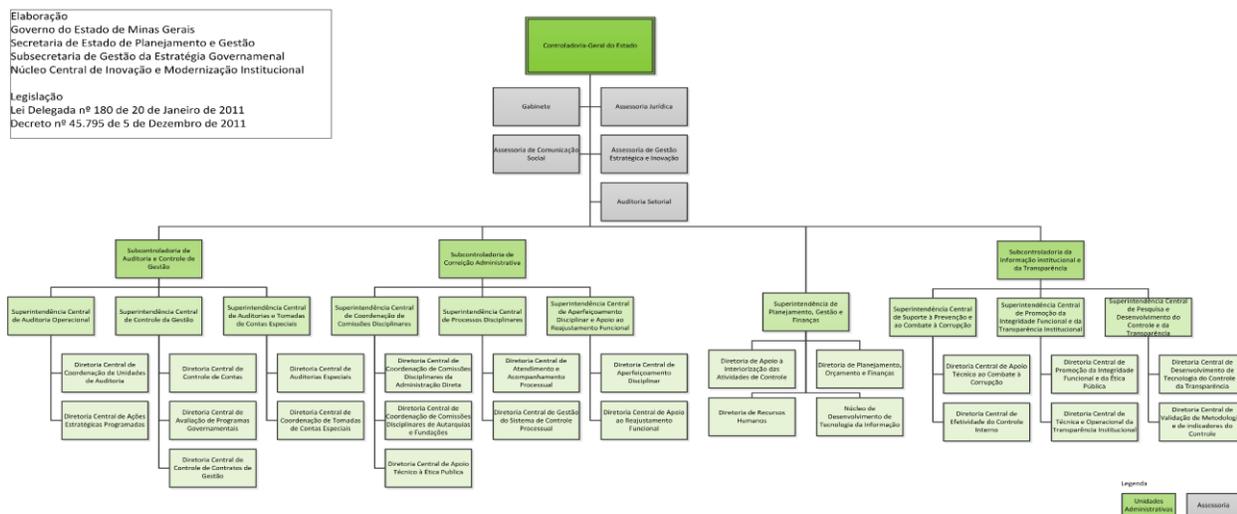


Appendix C: IA-CM Assessment Report of the Contoladoria-Geral do Estado (CGE)

This appendix includes an extract from the Minas Gerais CGE’s IA-CM Self-Assessment. It comprises the main findings and recommendations from the assessment conducted in April 2015.

IA-CM ASSESSMENT REPORT

In 2011, since the administrative reform provided by Lei Delegada nº 179, 1 January, and by Lei Delegada nº 180, 20 January, the State General Audit Office assignments were expanded, and it was renamed **Contoladoria Geral do Estado (CGE)**. Its organic structure was defined by the Decreto nº 45.536, 27 January 2011:



The *Controladoria Geral do Estado*, in terms of Lei Delegada nº180/11, and of art. 2 of Decreto nº 45.795, 5 December 2011, is aimed at directly assisting the Governor in the performance of his duties regarding the relating matters and actions, within the Executive Power, in defence of the public interest, of the internal control, of the public auditing, of the internal corrections, of the prevention of corruption and fight to corruption, and to the enlargement of transparency in management within the State Public Administration.

The internal control functions are extended to the special funds instituted by state law and in which there is the State participation, and to the entities on which the State exerts direct or indirect control. Internal

auditors, governmental managers and agents and Treasury Secretariat servers, in office at CGE/MG due to a technical cooperation covenant, as well as servers from other organs and servers in exclusively commissioned posts, compose the CGE/MG staff:

| Staff Composition – Fiscal Year 2014 Composition | Total Quantity | Internal Auditors |
|---|-----------------------|--------------------------|
| Cabinet | 22 | 2 |
| Superintendence of Planning, Management and Finance | 14 | 1(1) |
| Undercontrollershship of Auditing and Management Control | 54 | 31 |
| Undercontrollershship of Internal Corrections | 48 | 16 |
| Undercontrollershship of Institutional Information and Transparency | 22 | 12 |
| Total | 160 | 62 |

Source: CGE.

Note: (1) Server on sick leave for more than one year, being sent to the HRD for controlling.

It is noteworthy the increasing in the number of internal auditors in office at CGE/MG, due to the appointment of 70 (seventy) new auditors, approved in the selection process of the 2012 fiscal year. There were 16 (sixteen) auditors in office at CGE/MG that year, but in 2014 this number grew to 62 (sixty-two), with 31 (thirty-one) of them allocated to specific audit activities.

Regarding the sector and sectional internal control organs, they comprise the audit and administrative internal corrections functions and integrate the organ structure of the Direct Administration and of the Autarchies and Foundations, respectively. These organs are technically subordinated to *Controladoria-Geral do Estado*, except, with respect to the internal corrections activity, the ones which integrate The State Attorney General's Office, the Treasury Secretary and the Social Defence organs.

It is up to the sector and sectional organs provide, within the organs to which they are administratively subordinated to, the effectiveness of the audit activities and internal corrections.

It is up to CAE the indication, the formalization and the submitting of the appointment act to commissioned posts of people in charge of sector and sectional organs of The Executive Power Internal Control System.

The Auditor's posts belong to the CGE/MG Staff Chart, and the auditors perform at the Internal Control System Units, according to art. 6 from Lei nº 15.304, 11 August 2004.

**Comparison of Sector/Sectional Auditors' Distribution according to their FUNCTIONAL SITUATION Fiscal Years
 2012 / 2013 / 2014**

| Position in 14/11/ 2014 % | | Sector/Sectional Auditors Functional Situation | |
|---------------------------|---------------------|--|--|
| 2012 | 2013 ⁽¹⁾ | 2014 ⁽²⁾ | |
| 24% | 31% | 37% | CGE Internal Auditor Career Effective Servers |
| 27% | 25% | 22% | Effective Servers from other MG State Executive Power careers |
| 48% | 45% | 41% | Servers from Broad Recruiting |

Notas: (1) Disregarded the SEC Auditing Unit for being devoid of auditor.

(2) Disregarded the SEC Auditing Unit for being devoid of auditor.

**Sector/Sectional Auditors' Distribution according to their GRADUATION DEGREE
 Fiscal Year de 2014**

| Position in 14/11/2014 Course - Degree | Secretaries | Autonomous Organs | Autarchies | Public Foundations | Total | % |
|--|-------------|-------------------|------------|--------------------|-----------|-------------|
| Business Administration | 6 | 1 | 4 | 3 | 14 | 24% |
| Economic Science | 3 | 0 | 2 | 1 | 6 | 10% |
| Accounting | 4 | 0 | 1 | 5 | 10 | 17% |
| Science | | | | | | |
| Force Officers | 0 | 1 | 1 | 0 | 2 | 3% |
| Preparation Course | | | | | | |
| FJP Degree in Public Administration | 0 | 0 | 1 | 0 | 1 | 2% |
| Law | 1 | 5 | 4 | 4 | 14 | 24% |
| Engineering | 0 | 0 | 1 | 0 | 1 | 2% |
| Physiotherapy | 0 | 1 | 0 | 0 | 1 | 2% |
| Human Resources Management | 0 | 0 | 1 | 0 | 1 | 2% |
| Journalism | 0 | 1 | 0 | 0 | 1 | 2% |
| Mathematics | 0 | 0 | 1 | 1 | 2 | 3% |
| Odontology | 1 | 0 | 0 | 0 | 1 | 2% |
| Financial Management | 1 | 0 | 0 | 0 | 1 | 2% |
| Technology | | | | | | |
| Other | 2 | 0 | 2 | 0 | 4 | 7% |
| Total | 18 | 9 | 18 | 14 | 59 | 100% |

Notas: (1) Disregarded the SEC Auditing Unit for being devoid of auditor.

**Sector/Sectional Auditors' Distribution according to POST-GRADUATION
 Degrees in audit, internal control, external control, budgetary, financial, public management & controllership
 areas**

| Position in 14/11/2014 Curso | Secretaries | Autonomous Organs | Autarchies | Public Foundations |
|------------------------------------|-------------|----------------------|------------|-----------------------|
| Auditing | 4 | 0 | 2 | 2 |
| Controllership | 1 | 0 | 1 | 0 |
| External Control | 1 | 0 | 2 | 0 |
| Internal Control | 1 | 2 | 0 | 1 |

IA – CM Assessment Results

Considering the State Public Administration and CGE phase of maturity, there is no outlook for the execution of the activities related to Level 5 (Optimizing) KPAs during the management that will be finished in 2018. Regarding Level 4 (Managed) KPAs, there are some activities performed by CGE, but, in the majority of the elements, the organ is in Level 3 (Integrated), as will be showed next:

Element I: Role and Services of Internal Auditing

Regarding Level 4 (Overall Assurance on Governance, Risk Management and Control) CGE, within the boundaries of its competency, has instituted a Risk Based Audit methodology, according to what was predicted in CGE/MG strategic planning. It is now in the implementation phase and considering that the Risk Management is not a reality within the state public administration.

CGE is in Level 3 (Integrated), considering:

- The exercise of the compliance and performance/value for money audits activity is instituted by norms, and its execution is planned and performed by CGE/MG units as well as by the decentralized units, with the use of manuals and road maps, generating audit and effectiveness impact and evaluating report. The recommendation monitoring is also done by means of computerized system.
- Advisory services provided by the CAE in high administration meetings and by CGE/MG units as well as by decentralized audit units, with the presentation of technical documents.

The current strategy consists of the execution of a yearly planned compliance auditing performed by the central organ (CGE/MG) and its decentralized units. In regard to CGE/MG, specific competencies have been established to every board of directors, each of them having its own pre-defined areas of work. The sectional and sector audit units as well as the audit nucleus perform the audit of compliance in the Executive Power organs and entities they are part of. Some works are performed by the central organ in conjunction with the audit units.

The intention is the Internal restructuring of the CGE/MG units as well as of the decentralized units, from a definition of a risk matrix which will lead to the priority audit areas; elaboration and updating of road maps for specific areas (e.g. Biddings, Payrolls, ...); enhance resources in order to enlarge the *in loco* inspections which subsidize the performance/value for money audits; disseminate a Risk-Based Audit Methodology through other audit units and capacity for mapping processes focused on ABR, enlarging its application.

Element II: People Management

There are no performed activities related to the KPAs Workforce Planning/IA Activity Supports Professional Bodies/IA Contributes to Management Development (Level 4).

CGE is in Level 3 (Integrated), with restrictions since:

- The audit activities are identified in norms and to put them into practice it has been instituted the Internal Auditor's career, with its own career plan and job positions provided by public selection process, which requires a degree and specific knowledge about exercising. The norms related to the auditor are stipulated in a manual.
- There is no permanent capacity policy, this being restricted to isolated actions by CGE auditors and managers.
- Annual Planning from the decentralized units and the central organ (CGE) have been set, with no established methodology for defining the number of audit engagements in reason of the number of employees, using empirical criterion.
- There are technically qualified employees whose career improvement happens by progression and promotion and there are institutionalized mechanisms of employee's individual performance evaluation (360º), although it does not contemplate the evaluation of specific audit performing.
- There is a specific unit with the competence in communication and coordination of the decentralized units, as well as there are periodic meetings with the decentralized units and CGE in order to share audit technics and experience besides the presentation of results. The audit engagements are not performed individually and there are supervising and approving competency.

Element III: Professional Practices

Regarding Level 4 (Audit Strategy Leverages Organization's Management of Risk), CGE, within the boundaries of its competency, has instituted a Risk Based Audit methodology, according to what was predicted in CGE/MG strategic planning. It is now in the implementation phase and considering that the Risk Management is not a reality within the state public administration.

CGE is in Level 3 (Integrated), considering:

- There are norms that delimit CGE and the decentralized unit's scope of work, reflecting the audit universe and its priorities, with audit engagement annual planning.
- The audit procedures are defined in Manuals, Resolutions, Norm Instructions and Service Instructions.
- There is no specific code of ethics, formally instituted for the auditor, but it has been established the Government Employee's Code of Behavior Ethics and of the State Senior Administration.
- There is risk evaluation, not institutionalized, in the definition of the engagements to be developed.
- The audit documents are reviewed and approved by high authorities with computerized system monitoring. Currently, the central organ performs the evaluation of the achievement of goals established by the decentralized units audit annual plans.

The intention is to enlarge, by means of legislation changes, the performing of CGE in relation to the state companies, as well as create a matrix of risk contemplating the auditable units and the priority area, keeping hours in the plan for specific demands from the managers; systematize professional practice consolidation process, updating and improving the technical norms; institute matrix of risk contemplating the audit units and the priority areas, keeping hours in the plan for specific demands from the managers; Restructure the responsible board for the assessment of the engagements done by the decentralized units; disseminate a Risk-Based Audit Methodology through other audit units and capacity for mapping processes focused on ABR, enlarging its application.

Element IV: Performance Management and Accountability

CGE/MG is in Level 3 (Internal Audit Management Reports/Cost Information/ Performance Measures), with restriction, since:

- The aims, objectives and competencies of the internal audit activity are provided in norms, as well as the administrative structure that supports it.
- The human resources are formed by internal auditors, with specific career, other career servers and from extensive recruitment.
- The financial resources to be used in the internal audit activity are provided in the year's budget, proposed by the State Governor and approved by the State Legislative Assembly. It establishes the amount to be used in internal audit in the fiscal period and the objects and goals for each action.
- According to the management of the activities developed by the central organ (CGE), until the fiscal year of 2014, the goals and the indicators of its main activities were registered in the Agreement of Results. With respect to the decentralized units, the annual goals are provided in their Audit Annual Plans, whose outputs are evaluated, a report being issued at the end of the time frame. It is noteworthy the elaboration of an Internal Control Report, which is part of the Governor's yearly

accountability, containing chapter that describes the mainly internal audit activities performed. Furthermore, an annual report on the evaluation of the decentralized units is also elaborated.

- There is no measurement of the costs involved in the goals and indicators execution.

The intention is the permanent search for budget increments from the cost analysis and the benefits generated by the audit actions; prepare quarterly reports, consolidating audit activities, carried about in the period, which will integrate the annual report of activities; enhance the quarterly planning process with financial data which allow the calculation of the average cost of the internal audit activities.

Element V: Organizational Relationships and Culture

CGE/MG is in Level 4 (CAE Advises and Influences Top-level Management) and Level 3 (Integral Component of Management Team Coordination with Other Review Groups), with restrictions, since:

- The CAE continuously advises the high administration on strategic matters.
- The exercise of the audit activity is set by norms and the administrative structure established in the central organ contemplates specific competencies. The decentralized units are regulated by this legislation and by other specific ones which deal with the administrative structure of each organ and entity of the public administration, making their competencies explicit.
- The communication with the decentralized units is made through a specific unit which has this activity as one of its competencies, besides meetings for sharing experience and audit techniques as well as the presentation of results.
- The organs and entities, within the internal and external ambit of the Executive Power, with which CGE must relate to, are provided by the Lei Delegada nº 180/11 and the Decreto nº 45.795/11.

The relationship with the TCE/MG is restricted to the situations related to norm accomplishment. Regarding the Public Ministry, is restricted to the answers to requested audit engagements, with no planning shares or cooperation in the engagement carried out. Regarding the Executive Power organs and entities there are information exchanges, including the ones needed for audit engagements, according to established specific competence.

Element VI: Governance Structures

CGE/MG is in Level 4 (Independence, Power and Authority of the IA Activity) and Level 3 (Funding Mechanisms/Management Oversight of the IA Activity), with restrictions, since:

- The CAE continuously advises the high administration on strategic matters.
- CGE is an autonomous organ directly subordinate to the State Governor. Its competencies and aims are expressed in norms. There is no specific strategic plan for the audit activity, but it is contemplated in CGE strategic planning.
- Usually, the information required by CGE is made available by the audited organs and entities.

- However, there is not a formally forecast for unrestricted access to the organization's information. There are no instituted policies related to the free access to the organization's information.
- Although there is explicit budgetary provision for the audit activity in the Annual Budget, there is no structured cost system which allows the evaluation of the sufficiency of resources made available for the effective activity performing.

The intention is the elaboration of specific strategic planning; Institute legal provisions allowing CGE unrestricted access to the organization's systems and information; enhance the quarterly planning process with financial data that enable the calculation of the average cost of the internal audit activities; implement mechanisms and processes that assure the discussion of encountered problems, the joint search for solutions and managers' subsequent feedback regarding to the contributions of the audit engagements to their performance.