

**IMPLEMENTING  
AN ANTI-FRAUD/ANTI-CORRUPTION  
STRATEGY  
IN THE BRAZILIAN COURT OF ACCOUNTS**

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## Executive Summary

Fraud and corruption are major issues around the world. Being involved in the accountability process and in ensuring and promoting the better use of public resources, supreme audit institutions, to a great extent, are responsible for fighting fraud and corruption. The Brazilian Court of Accounts (TCU) particularly, with its attributes, powers, and experience, may have an important role in preventing, detecting, investigating, substantiating, and reporting fraud and corruption and in punishing offenders.

This strategy paper intends to show how important it is for TCU to have a policy for fighting fraud and corruption. It also outlines a strategy for addressing these issues. The central point of this strategy is the creation of a specialized fraud and corruption unit. It also involves adapting fraud methodology, developing and delivering training, and improving inter-institutional relations with other public agencies engaged in fighting fraud and corruption. Although those elements could be implemented without the creation of a fraud unit, it is essential to have a team entirely and exclusively dedicated to fraud and corruption.

Preparing TCU to deal with fraud and corruption will have significant benefits for the Office and the public administration as a whole. Better assessment of internal controls, ethics, and risks will improve our capacity to prevent fraud and corruption. Proper fraud methodology and training will permit TCU auditors to detect, investigate, prove, and report fraud cases properly, ensuring reimbursement of funds and punishment of offenders. Investigation alone has a deterring effect, which is reinforced by punishment. The final result is the promotion of better use of limited public resources, the utmost mission of the Brazilian Court of Accounts.





## Introduction

This strategy paper was produced during my time at the Office of the Auditor General of Canada in 2004-05. It is the result of my three-month assignment with the Forensic Audit Section, the specialized OAG unit responsible for examinations of suspected wrongdoing and fraud.

## Objective

The objective of this paper is to explain why the Brazilian Court of Accounts (TCU<sup>1</sup>) needs to have a policy to deal with fighting fraud and corruption and needs to implement a specific strategy to tackle fraud and corruption. The central focus of that strategy is the creation of a specialized unit concentrated on fighting fraud and corruption. I am convinced that it is absolutely necessary to have a full-time dedicated group of auditors for this task. The strategy also comprises adapting and improving the anti-fraud methodology, developing and providing training, and coordinating the inter-institutional relations with other public bodies engaged in fighting fraud and corruption.

## Conceptualizing: fraud, corruption and wrongdoing<sup>2</sup>

It is very important to have a clear understanding about what wrongdoing and fraud mean and about all the correlated concepts. It is fundamental to perceive fraud as a specific type of wrongdoing – “intentional acts to deceive for the purpose of obtaining some unjust advantage”<sup>3</sup> – and, because of that, as needing a specific methodology to address it. Corruption is a type of fraud involving a public agent that receives a benefit, bribe, or kickback (usually money, but not always) in exchange for providing an undue advantage or benefit for the corruptor.

## Fraud and corruption as major issues

There is a general perception worldwide that fraud and corruption have increased significantly. Whether or not this is true is difficult to know because there are no official data and statistics. This belief, however, is real, and it is related to many factors, such as the growth of public debate and media coverage, the evolvement information technology, the increase in access to information, all of which have given the cases more attention and disclosure. The perceived belief in the increase of fraud and corruption is also related to the expansion of the public sector, and the consequent increase in its revenue and expenditures, raising the opportunities for

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<sup>1</sup> TCU stands for Tribunal de Contas da União.

<sup>2</sup> I just intend to give the general concepts. Further work has to be done to develop them.

<sup>3</sup> “Wrongdoing and Fraud Audit Guidance”, p. 6.

fraud and corruption<sup>4</sup>. As a result, society is demanding a more effective action from the government and especially some public agencies, including supreme audit institutions<sup>5</sup>, in fighting fraud and corruption.

## **Why fraud and corruption need a different treatment**

Because fraud is an intentional wrongdoing that intends to deceive someone else, unlike other criminal offences it is always hidden<sup>6</sup>. That is the main reason why audit examinations where fraud is suspected involve a different and specific methodology. Traditional audit procedures are not designed to uncover fraud. The compliance audit techniques used by TCU auditors intend to verify through the examination of official documents, which we credit as veracious, whether the public expenditure (or revenue) is in accordance with laws and regulations. When those documents are not veracious, the audit manuals don't tell us what to do. In spite of that, it is relatively common for TCU audit teams to work on fraud-related cases.

There are also other important reasons for TCU to give special attention to this matter. Fraud usually involves diverting public money. One of TCU's competencies is to determine the requirement for reimbursement of the money diverted and the amount. However, in order to ensure reimbursement of the National Treasury, it is essential to provide proper substantiation to the ministers who will be involved with the case.

TCU can apply penalties in some specific fraud cases. When there is collusion among bidders, for instance, it can declare the private companies unable to contract with the public administration. However it needs to prove the collusion to do that.

Fraud is usually a criminal offence. Whenever TCU finds a fraud case it has to refer it to the Federal Public Ministry for criminal prosecution. The public prosecutors need to receive a properly substantiated case to be convinced of the crime and to sue the offenders.

All the aspects mentioned above involve specific examination techniques and precise substantiation and reporting knowledge, which can be acquired and developed through fraud methodology. Being able to detect, investigate, and prove fraud and

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<sup>4</sup> Those points were discussed in a meeting with Pierre Martel, the Executive Secretary of the Public Service Integrity Office, an agency created recently to deal with the disclosure of wrongdoing in the federal government.

<sup>5</sup> It is interesting to note that the public knowledge of the Office of the Auditor General in Canada, in the last few years, is associated mainly with its participation in the audit of a recent fraud scandal, known as "the Sponsorship Program". In December 2004, the OAG was the theme of a cover article in "Actualité", the main magazine in French language in Canada, entitled "Les Incorruptibles" [the incorruptible ones], because of its work on that case.

<sup>6</sup> "Principles of Fraud Examination", p. 1.

corruption, TCU will ensure reimbursement of funds, punishment of offenders and more effective communication to the public ministry.

The image or reputation of an individual may be highly damaged simply by investigating them, even if the person is not charged with fraud. Because of that, fraud investigations involve a higher level of care and secrecy, and most of the information concerning a case must be treated with confidentiality during all the investigation stages.

Fraud and corruption are sensitive issues, and, to a great extent, TCU is seen by the Congress and by the public as responsible for fighting them. This means that if TCU is successful in preventing, detecting, investigating, and punishing fraud and corruption perpetrators, its credibility with members of Parliament and society will increase. However it also means that TCU's reputation might be seriously affected if it is not able to detect a fraud that becomes public knowledge at a later date. Therefore, TCU needs to prepare itself thoroughly to deal with this sensitive problem.

## **The two sides of fighting fraud and corruption: prevention and detection**

Fighting fraud and corruption has two different but complementary sides that must be addressed simultaneously by any supreme audit institution and mainly by a court of accounts with the powers of TCU. In short, we could call these two aspects prevention and detection. Both are important and tend to reinforce each other's strength when put in place together.

The most well-known element of prevention is the internal control systems. However, it has become increasingly clearer that internal controls are not enough as a preventive tool. When well designed, they can make fraud and corruption more difficult but not impossible because internal controls can almost always be eluded, as they depend on human beings. Public (and private) organizations also have to foster an ethical culture among their employees. Ethics auditing is a very recent facet of public auditing that TCU has begun to work on, and it has a direct relation to fighting fraud and corruption.

Detection comprises investigation, substantiation, reporting, and punishment. Unlike most other supreme audit institutions, TCU has the power to directly apply penalties on the agents involved with fraud. Besides being able to determine reimbursement of public money, TCU can fine the perpetrators up to the amount of money diverted; it can temporarily remove suspect public agents; it can freeze offenders' assets up to one year; and it can even suspend the execution of a contract or another government act.<sup>7</sup>

Yet, the punishment depends on the previous stages. Without an investigation that uncovers the fraud, an adequate substantiation, and objective, clear, and consistent

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<sup>7</sup> Brazilian Court of Accounts' Organic Law.

reporting, it is difficult, if not impossible, to obtain the punishment of the perpetrators. These are the most critical aspects of fighting fraud and corruption and where the use of fraud methodology can make a substantial difference.

Punishment has many important implications beyond just ensuring justice, restoring the funds and condemning the perpetrators. It is a sign for the whole society that fraud and corruption are not acceptable behaviours in the public service. If the public notices that fraud is not tolerated, the confidence in the public administration and in the government tends to increase. Perhaps the most important aspect is the deterrence. It has been proven that when a specific type of action will be sanctioned, or even a particular kind of crime or transgression (offence) is likely to be investigated, the potential offenders are less willing to commit the misdeed.<sup>8</sup> This also means that the simple presence of TCU fraud examiners will be enough to deter some fraud and corruption. Thus, investigation and punishment have a consequence much beyond the case under scrutiny; they work as deterrents, or prevention mechanisms, as well.

### **Expected benefits for TCU and the public sector**

Despite the lack of proper methodology and training, TCU auditors are constantly facing fraud-related situations. Establishing a specific strategy to address fraud and corruption, creating a specialized unit with a totally dedicated group of auditors, using proper methodology and the adequate training, and improving inter-institutional relation will provide a series of benefits for TCU. These benefits will:

- enable auditors to better assess internal controls and organizational ethics;
- enable auditors to detect, investigate, substantiate and report fraud cases;
- ensure reimbursement of funds in fraud cases;
- ensure more effective punishment for fraud offenders;
- prevent and deter fraud occurrences;
- promote and protect the credibility of TCU; and
- reinforce mutually the work of public bodies engaged in fighting fraud.

The public administration as a whole will profit from TCU's work. Strengthening internal controls and fostering organizational ethics will help to prevent future fraud and corruption. Investigating, substantiating, and reporting fraud properly will permit the treasury to recover money diverted and punish the offenders. Investigating fraud and punishing the perpetrators will increase confidence in public service and deter potential offenders. Better inter-institutional co-operation will improve the whole system responsible for fighting fraud and corruption. The final result will be to promote better use of the limited public resources.

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<sup>8</sup> Principles of Fraud Examination, Criminology, pp. 13-21.

## **Need to sensitize ministers and other authorities in the Office**

The first step to implement this project is to sensitize the Office about the need for a special policy to deal with fraud and corruption-related issues and about the advantages of creating a specialized fraud and corruption unit. There are two groups in TCU that are important for at least accepting the idea: the ministers and the secretaries (principals).

The ministers are the political agents in the Court of Accounts. They report the audits and vote the decisions during court sessions. Although the TCU president (one of the ministers) could decide by himself to create a new unit, he would not likely do that without obtaining approval from the other ministers; he would most probably ask for their formal endorsement of that decision.

Among the ministers, the president is certainly the key person. If convinced, he can present the idea to the other ministers, who should not oppose a project the president considers important. However, if the president is not very sure about the idea, the other ministers may move it forward and influence the president.

The other group of authorities at TCU who may have a substantial role in this project are the secretaries – the heads of the technical units. They are primarily important because they are the link between the auditors and the ministers. In that position they might have a great deal of influence on the ministers. Further, as heads of the technical units, they are responsible for the audits, including fraud-related examinations.

Among the secretaries, it is important to mention two. The secretary general is the chief of the secretaries and is the only one to report directly to the president. There are two secretaries who work closely with him – the secretary of accounts and the secretary of audit (ADFIS). The latter is responsible, among other duties, for developing audit methodology and techniques, delivering audit training, and supervising other units' audit work. Thus, he and the secretary general may have a key role in implementing the project, in convincing the president and the other ministers about the need for a fraud and corruption policy and strategy and creating a special fraud unit.

The present secretary of audit is a former OAG fellow who is currently engaged in a project to develop strategies to deal with risk, fraud, and corruption, and is also implementing audit of organizational ethics. I have been following the main steps of his projects and discussing with him and his team the progress of my work in Canada. As a result, I can affirm that they are very open to the idea of establishing a special policy to deal with fraud and corruption and that this is a good time to launch the idea at TCU.

The Adfis Secretary and his team are the first group I need to convince about the project. Once I have their support, the following action should be to sensitize the secretary general. The next person to be approached will be the president. The strategy is to build consensus among the key secretaries and then to convince the president. Once those three players are engaged in the project, it will be much easier to promote the project to the other ministers and secretaries.

The main risk I can foresee is that the secretary of audit may want to wait for further developments in his own project before advocating a fraud and corruption strategy toward higher TCU levels. His project is still in an early stage and is planned to be finished by July 2006.

## **Creating a specialized anti-fraud/anti-corruption unit**

The main focus of this project is the implementation of a specific strategy to deal with fraud and corruption. The strategy itself, as I am purposing, has four complementary dimensions: creating a specialized unit, using fraud methodology, providing training, and improving inter-institutional relations. Although the fraud methodology could be adapted and improved, the fraud training could be developed and delivered, and the inter-institutional cooperation could be established without a specialized unit, I am convinced that the creation of this unit is the core of the strategy and will bring many advantages.

A specialized unit is essentially a group of auditors dedicated exclusively to fraud-related issues. The complexity of fraud and corruption is such that it is not reasonable to expect that all auditors in the Court will be able to perform at this higher standard. At TCU itself there are a few examples that illustrate how the creation of a specialized unit in certain areas was necessary and had a major role in improving our audits.

The main case is the public works audit unit. Its implementation coincided with TCU's perception that this was a critical area and also with a substantial demand from the Congress. Although almost all the technical units have to carry out audits in public works, it became clear that a specialized unit was necessary to improve the methodology, to deliver training, to supervise the audits in that area, to give assistance to other units, and to co-ordinate relations with the Congress technical commissions. The improvements as a result of the unit are clearly evident.

The situation is similar for a future fraud/corruption unit. Fraud and corruption is the kind of issue that all the units may have to face during their audits. However, none of them are properly prepared to deal with fraud. Even worse, they do not have anyone to ask for support and advice. None of their auditors receive specific training, and there is no methodology available to be consulted at TCU.

## **Main characteristics of an anti-fraud/anti-corruption unit**

One of the main aspects of a specialized unit is that all its members are dedicated full-time to its subject. Another significant characteristic is that the auditors have a propitious environment to exchange experiences, information, and ideas to enhance their handling of cases where fraud and corruption is suspected. Those are essential elements to develop completely the necessary knowledge and skills a fraud examiner needs.

## **Fraud examiner profile**

A specialized fraud unit should concentrate not only on developing methodology and delivering training. Such a unit should also be developing a fraud auditor profile. Technical knowledge is certainly a fundamental component to carry out examinations of suspected fraud, but it is not enough; uncovering fraud requires particular personal skills and characteristics too, such as investigative, analytical, financial, interview, and relationship skills, as well as an inquisitive personality and investigative mindset. Those skills should be improved and stimulated, but we also need to choose people with the best potential to develop these traits.

## **Main roles and responsibilities**

### **Specialized group**

The first mission of this specialized anti-fraud / anti-corruption unit will be to gather a group of experienced auditors, with a suitable profile, to be fully dedicated to fraud-related issues. This group will become the specialized fraud examiners in TCU. The group should increase gradually in size and incorporate new auditors periodically<sup>9</sup>, providing them with the experience, training, and skill development necessary to become a fraud auditor.

### **Methodology<sup>10</sup>**

The primary task of this group will be to adapt and improve methodology for examinations of suspected fraud, as there is currently no such methodology in the Office. The group should produce manuals, guides, and technical notes to support the work of generalist auditors.

The work with methodology will be a major burden in the beginning but will decrease in intensity after the first year. However, the group should continue to identify auditor needs and provide updates.

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<sup>9</sup> For a period of 6 years, starting in 2004, 100 new auditors will be added to TCU staff.

<sup>10</sup> In the next section I show how we can obtain the most relevant available methodologies and the main elements involved.

## **Participate in fraud examinations**

The other main activity for this fraud unit will be participating in fraud examinations. As the specialized unit will not have any entity under its own jurisdiction, in most cases its auditors will work together with other units in the Office. It is worth mentioning that examination of suspected fraud involves not only auditing suspected fraud cases but also assessing internal control systems to prevent fraud, and even auditing organizational ethics, as both aspects relate significantly to preventing fraud and corruption.

## **Assist other units**

In addition to participating in audits, the fraud unit can also assist other units by being an important source for technical support in fraud-related issues, including assessing internal controls and risks to fraud. Audit teams can request advice, discuss findings, debate on internal control weaknesses and possible improvements, or ask suggestions for specific analyses during any examination involving suspected fraud.

## **Information center**

The fraud unit should gather and organize the fraud-related information in the public service, case studies, TCU jurisprudence, and specialized bibliography. This information should be an easy source of consultation for every unit in the office. In addition, this unit should develop methods to analyze the available information, including that on government electronic systems, in order to identify risk areas, internal control weaknesses, and lack of ethics culture, and support the planning of future audits.

## **Training<sup>11</sup>**

The fraud unit will also develop and deliver training to generalist auditors in the Office, to increase their ability to detect, investigate, substantiate, and report fraud cases. In addition, the unit should also identify training possibilities for the specialized auditors outside the Office, offered by public or private organizations.

## **Inter-institutional relations**

The unit should co-ordinate TCU relations with other public bodies engaged in fighting fraud and corruption. Recognizing possibilities of co-operation, organizing joint investigations, asking for technical support, and identifying ways to improve institutional communications in fraud-related areas are activities that need central co-ordination – and the specialized fraud unit is the best fitted to do that.

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<sup>11</sup> Two sections below I explain in more detail what this training encompasses.



## Fraud examination methodology

As mentioned above, traditional audit techniques are not appropriate to uncover fraud. Fraud is a complex matter that demands a proper approach. Fraud examination methodology covers different aspects of fraud, from prevention to investigation, substantiation, and reporting. It involves many subjects, such as fraud theory, internal controls, criminology, legal elements, financial transactions, investigation methods, interview techniques, information analyses, and use of software.

### Available methodologies

TCU does not need to completely develop its own fraud methodology. There are a few options available in the market that we can buy. Of course, they will need to be adapted to our situation, especially to the Brazilian legal context, but it is much easier and quicker than developing and entire new methodology.

Some of the methodology used by the OAG Forensic Audit Section (FAS) was developed by the Association of Certified Fraud Examiners (ACFE)<sup>12</sup> and by the Association of Certified Forensic Investigators of Canada (ACFI)<sup>13</sup>, professional organizations dedicated to fighting fraud and providing methodology and training.

Both organizations have a whole set of materials covering manuals, guide books, CD-ROMs, and video training, from the basics to more specialized topics.<sup>14</sup> During my assignment with the FAS, I analyzed some of that material and I can attest its suitability for TCU, needing only minor adaptations to the Brazilian legal system. These methodology and training materials are sold by the two organizations at reasonable prices.

The main inconvenience is that this material is available only in English. However, considering the language proficiency of most of the TCU auditors, I do not think this will be a major problem. Furthermore, as we adapt the methodology, we will start to produce methodological material in Portuguese, accessible for all auditors in the Office.

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<sup>12</sup> ACFE has over 32,000 members and sponsors more than 100 chapters over the world, not yet in Brazil. See its website: [www.cfenet.com](http://www.cfenet.com).

<sup>13</sup> ACFI is a Canadian non-profit organization. Website: [www.acfi.ca](http://www.acfi.ca).

<sup>14</sup> I am bringing with me back to Brazil some ACFE material.

1) **CFE Exam Prep Course** - a CD-ROM self-learning program, with a guidebook, to prepare for the CFE exam, includes the CD-ROM version of the *2005 Fraud Examiners Manual*;

2) **2005 Fraud Examiners Manual** - a comprehensive guide about fraud examination theory, techniques, methods and procedures;

3) **Introduction to Fraud Examination** - a 10-hour video course, accompanied by a workbook, about the underlying principles of fraud examination.

## **Special topics**

After having assimilated and adapted the general methodology, TCU should develop a specific methodology to deal with fraud in the most critical areas in the Brazilian public administration. It is worth mentioning some of them, such as contract and procurement<sup>15</sup>, IT contracts, outsourcing, public works, public servant pensions, and human resources.

Some of those areas are already under specialized units in the Court of Accounts. For example, public works (Secob) and public servant pensions (Sefip). However, these units are not specialized in fraud examination, and the specialist fraud unit could provide advice and assistance to deal in a better way with suspected fraud cases. It is important to note that in those areas, the fraud unit will have to work together with the other specialized units to develop a specific anti-fraud /anti-corruption approach.

## **Methodology for generalist auditors**

The methodology mentioned above is designed for the fraud examiners, who will be fully dedicated to fighting fraud and corruption in the specialized unit. It is not reasonable to expect that all the auditors in the Office will be able to learn the detailed methodology, having to perform all the other tasks they are committed to. However, it is important, even necessary, to have a methodology fitted for generalist auditors.

In February 2005, the OAG Forensic Audit Section released its own “Wrongdoing and Fraud Audit Guidance”, for all auditors working on performance audits, financial audits, and special examinations. This guidance is accessible on the OAG Intranet site and is designed to be used as an IT tool, with many interlinks and cross-references to make it easily accessible to all auditors at any time.

I examined that guidance after its release and can confirm that it is appropriate for the Brazilian Court of Accounts. It needs to be adapted to the Brazilian context, but it offers the structure and the main content for a future TCU version.<sup>16</sup>

## **Exchange with other SAIs and state court of accounts**

Finally, following what is going on in the field of fraud examination in other supreme audit institutions around the world and even in the state courts of accounts in Brazil might be a beneficial way to keep up-to-date and improve our methodology in the future. TCU should also consider the possibility of giving access to our methodology

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<sup>15</sup> ACFE has already methodology and training material in that topic, although some adjustment to our legal system should be made.

<sup>16</sup> The OAG informed me that they could offer a HTML copy of the guidance, without any charge, after a formal request by TCU. This would incredibly facilitate our work in producing our own guidance for all auditors in TCU. This guidance could also be the base for the general fraud training.

to those institutions, as we are all engaged in the same mission of fighting fraud and corruption.<sup>17</sup>

## **Fraud examination training**

The initial training is certainly the most complicated stage, as there is no other entity that has a complete training program that entirely fits our needs. There may be some public or private institutions that offer some type of fraud-related training, but certainly none that covers all the aspects of TCU work. So, to a certain extent, the training will have to be developed by our own auditors, perhaps with some help from external consultants.

### **Training for fraud examiners**

Again, as with the methodology, the training for the fraud examiners is different from the training that will be delivered to the generalist auditors. The training for the auditors of the specialized unit should develop the fraud examiner profile, as mentioned above.

Training, in this context, does not exclusively mean formal training, as usually run in classrooms by a regular instructor. The training for the fraud examiners should be considered as a whole process involving different types of activities, from self-study to actual practice, from case study discussion to bibliography reading, and, of course, formal classroom instruction as well. In addition, the fully dedicated anti-fraud environment itself will provide favourable conditions for the education of its auditors.

### **Training at other entities, SAIs, and state courts of accounts**

The anti-fraud unit should be aware of courses and training activities in other public or private entities. In the public sector, the Secretariat of Internal Control [the Office of the Controller General] is increasingly committed to fighting fraud activities and may have developed some training for its auditors. Other possibilities are the Federal Police, the Public Ministry and the Brazilian Intelligence Agency.

We also should be aware of what is going on in other SAIs and in the state courts of accounts in Brazil. Exchanging activities and programs might be mutually beneficial.

### **CFE training and certification**

The Association of Certified Fraud Examiners (ACFE) provides educational activities – training, conferences, seminars, and self-learning materials in many countries in the

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<sup>17</sup> Besides the OAG, at least the General Accounting Office in the United States, the Australian National Audit Office, and the Office of the Auditor General of South Africa have specialized fraud investigation units.

world. The Certified Fraud Examiner (CFE) exam is mainly a self-study process and that can be followed any place in the world.

The CFE exam covers four different areas: criminology and ethics, financial transactions, fraud examination, and the legal elements of fraud. A good understanding of those subjects will constitute the foundation of the fraud examiner's knowledge. All the auditors in the specialized fraud unit should have a complete knowledge of those areas, and following the process of the CFE exam seems to be an efficient way of learning.

There are many ways to prepare for the exam, including attending training activities. But the basic process is systematic study of the fraud examination methodology. The ACFE also offers a preparation course in CD-ROM that can be used in any computer. This course is very helpful not only to succeed in the exam but also as a training activity.

Encouraging the auditors to apply for the CFE exam – and even creating a structure to facilitate that preparation – may have many advantages to training the specialized unit team at a very reasonable cost, and it should be seriously considered by TCU.

## **Discussion meetings**

An important training activity is the periodic discussions of the various fraud cases that the different auditors in the specialized audit unit are working on or have concluded. These allow sharing the experiences, increasing sensitivity to fraud, identifying red flags and internal control weaknesses, improving techniques, and recognizing patterns. The discussions will work as a reciprocal quality control, helping to keep the work of the fraud unit in a good standard.

In the beginning, it will be useful and even necessary to collect and discuss the most representative fraud cases that TCU has already examined. This will be an essential step to identify the risk areas and develop suitable approaches to deal with suspected fraud and corruption.

## **Training for generalist auditors**

The training for generalist auditors will not be as detailed and in-depth as the one for the fraud auditors, but it should cover the main areas related to fraud, such as criminology and ethics, financial transactions, fraud examination, and legal elements of fraud.

As new groups of 100 auditors will enter TCU every year in the next four or five years, fraud examination courses should be prepared and delivered to auditors in the training program they have to attend at the beginning of their career.

The fraud unit also needs to deliver periodic training for the current auditors. Special attention should be given to the TCU state units. These units not only are more isolated from headquarters but also deal with a great number of fraud cases.<sup>18</sup>

The units placed in Brasilia, in the initial stage, should have at least one or two auditors who have attended the general fraud training. As the units in headquarters will have easier access to the specialized unit, it is not necessary to train all the auditors at the beginning.

## **Inter-institutional relations**

Although TCU has great powers compared with some other supreme audit institutions, we have some limitations relevant to this project. The Court cannot request personal testimonies nor demand bank, fiscal, or communications secrecy violation, just to name the most frequent constraints. Those capabilities could provide crucial elements of proof in examining fraud. A way to obtain those capabilities would be to work in co-operation with the federal police, the public ministry, and the federal and state revenue agencies. Establishing that co-operation would probably not be too hard to achieve, as these bodies may profit from the results of our work as well. Yet, some effort will be needed in building relations and making institutional connections.

TCU must communicate any suspicious case of criminal offence to the federal publicm. This obligation is set in our own Organic Law. Fraud is always a criminal offence. Even if it is not under our jurisdiction to declare that a criminal offence occurred, we must communicate all these cases to the public ministry. Presently, this is done in an almost mechanical way, through the dispatch of copies of the files. The Office gets no feedback on what happens with those cases after the public prosecutor has received them, and it does not know if the documentation sent is appropriate for a criminal lawsuit. Establishing better communication could impressively increase and ensure the effectiveness of that procedure.

## **Implementing the project**

The central focus of the strategy outlined in this paper is the creation of a specialized anti-fraud unit. The other parts of the strategy – the methodology, the training, and the inter-institutional relations – can be developed without an anti-fraud unit, but I deeply believe that the success of the whole project relies on the existence of a team permanently dedicated to fraud.

Sensitizing the key players in the Office and discussing the project and organizing the precursor anti-fraud group should take around six months. After that, the introduction

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<sup>18</sup> TCU has regional units in all the 26 states in Brazil, and about half of its staff works there.

of a specific policy and the creation of the new unit could occur by early 2006; the precursor team could be formed simultaneously with the first stage. The development of the methodology, training, and inter-institutional relations will take another 6 to 12 months to complete, and continuous improvement will be needed afterwards.

The main cost is by far the dedication of a group of auditors. Initially, this group could be as small as 5 auditors and gradually increase up to 15 or 20, depending on the future demands. Buying the reference methodology entails some cost as well, but this is considerably smaller. Training will consume more resources, mainly in auditors' time and also in travel costs to deliver the training for the regional units. Further, the inter-institutional relation will consume some of our time as well.

We have all the means to implement this project and the costs are reasonable. I think the time is propitious as well, and there are many reasons for that. I have already mentioned some of them:

- Fraud is becoming a big issue in Brazil, we had a couple of major scandals in the last few years.
- A first national fraud conference was organized in Brasilia last December<sup>19</sup>, and two ministers of TCU made speeches and several auditors attended the event, including the secretary general.
- The IV Global Forum on Fighting Corruption will be held in Brasilia in June 2005.
- There is a general sense that TCU needs to be better prepared to deal with fraud.

Furthermore, ADFIS, one of the methodology units, is engaged in a project to identify strategies to deal with risk, fraud and corruption. During my stay in Canada, I had frequent discussions with this team about my experience here, and I noticed a good level of receptivity about this project.

Finally, it is worth mentioning that Jean Saint Marie and Neil Papineau, respectively the Assistant Auditor General and the Principal of the Forensic Audit team of the Office of the Auditor General of Canada are going to Brazil for the Global Forum on Fighting Corruption. Both of them have agreed to visit TCU to discuss the work of the Forensic Audit Section of the OAG. They will explain the benefits of having a dedicated unit specializing in wrongdoing and fraud that provides advice, assistance, and training and specific auditing capabilities to deal with suspected wrongdoing and fraud. This will certainly be a good opportunity for other auditors and the ministers in the Brazilian Court of Accounts to recognize the advantages of a having a specialized anti-fraud and anti corruption unit.

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<sup>19</sup> I myself attended that conference, as it coincided with the winter fellows' holiday.

## Conclusion

The main idea of this strategy paper is that the Brazilian Court of Accounts needs to have a fighting fraud and corruption policy and a specific strategy to address fraud and corruption.

The public and the Congress are well aware of the fraud and corruption problems, and TCU, being responsible for ensuring the good use of public money, has a considerable role in fighting fraud and corruption.

Currently, we don't have the proper structure and technology to deal with fraud and corruption. Something else must be done; a policy to fight fraud and corruption should be developed and a specific strategy is needed to appropriately combat fraud and corruption.

The fraud and corruption strategy outlined in this paper involves the creation of a specialized unit, the adaptation and improvement of fraud methodology, developing and delivering fraud training, and improving inter-institutional relations with other public bodies committed to fight fraud and corruption. Although the other aspects of the strategy could be implemented without the creation of a specialized unit, it is essential to have a group of auditors entirely and exclusively dedicated to fraud and corruption issues.

Having a specific strategy and preparing the Office to deal with fraud and corruption will provide significant benefits for TCU and for the public administration as whole. Better assessment of internal controls and organizational ethics will help to prevent future cases of fraud and corruption. Improving our capability to detect, investigate, substantiate, and report fraud and corruption will ensure more effective reimbursement of funds and punishment of the offenders. Punishment and even detection itself also have a deterring effect, discouraging potential perpetrators from committing misdeeds. And better inter-institutional relations will contribute to strengthening the whole system responsible for fighting fraud and corruption.

The final result will be to promote better use of the limited public resources and a more efficient and effective public service, the utmost mission of the Brazilian Court of Accounts.