

**Inter-American Center of Tax Administrations
CIAT INTERNAL AUDIT MANUAL**

April 2006

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FOREWORD

The importance of internal control for strengthening and improving tax administration has been recognized by the Inter-American Center for Tax Administration (CIAT) member countries, particularly through the adoption of the CIAT charter document on “Minimum Attributes for a Sound and Effective Tax Administration” in 1996. The Charter is focused on three main purposes: achieving the taxpayers’ trust, establishing the integrity and impartiality of tax administration, and ensuring continuous stability through sound human resources and administrative management policies. An important factor for achieving these purposes is the existence and development of an internal control system.

To fulfill these purposes, at its meeting of March 7, 2004, in Cochabamba, Bolivia, the CIAT Executive Council approved the establishment of an internal control working group. Technical coordination was assigned to the State Agency of Tax Administration of Spain and the CIAT Executive Secretariat. Other participants in the group were officials from the tax administrations of Argentina, Bolivia, Brazil, Chile, Costa Rica and the United States.

The **general objective** of this working group is to gather experiences and promote the structuring and development of internal auditing activities so that countries can achieve effectiveness, efficiency, and compliance with tax procedures; improve security, integrity, and quality of tax administration management; and prevent major risks involving illegal or unethical behavior.

To achieve this objective, the working group developed a **CIAT Internal Auditing Manual** that will include the working principles, rules, procedures, and standards that have been identified as best practices by the group for use in tax administrations.¹

¹ Throughout this document, use of the term tax administration also includes the customs administration.

INTRODUCTION

This Manual endeavors to be a reference document, which as stated in the Foreword, that gathers the working principles, rules, procedures, and standards which should guide the activities of an Internal Auditing Agency.

However, the document does not intend to establish a unique model for an Internal Auditing Agency or to set strict principles or rules that are obligatory, **but rather to create a reference framework** that CIAT countries may use as guidance or orientation for establishing or improving their Internal Auditing Agency. This framework should be adapted to the needs of their own tax administration, legal system, and other national practices.

In addition, this document will be used by CIAT to conduct future training programs on internal auditing.

Although it is considered a framework, this model includes some basic principles and illustrates a design for organizing an Internal Auditing Agency.

The first **basic principle** is that a tax administration must exercise effective internal control in its organization by structuring the controls as an **additional managerial element and integrating these controls** within the organization. The Internal Auditing Agency is responsible for ensuring that there are appropriate controls by continuously encouraging controls, monitoring them, and recommending improvement.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model² has been chosen as the organization's internal control model since it is accepted by most enterprises and organizations in the world. The COSO model incorporates risk management into the internal control process. Risk management is being incorporated into most internal control models and is found in the Enterprise Risk Management (ERM)³ COSO II model.

Throughout this Manual, the importance of information technology has been emphasized in all Internal Auditing Agency activities, both in the potential this technology offers for auditing

² See Chapter 1 for additional information on COSO.

³ See Chapter 2 for additional information on COSO II.

techniques and in its use with highly computerized managerial processes within a tax administration.

In this model, the Internal Auditing Agency is responsible for overseeing the behavior of employees and promoting ethical values in a tax administration.

Finally, the auditing standards that have been defined by the primary experts in tax administration have been incorporated throughout the document. These standards include: the United States Government Accountability Office's **Generally Accepted Government Auditing Standards**, the Institute of Internal Auditors' **International Standards for the Professional Practice of Internal Auditing**, the **Control Objectives for Information and Related Technology** (COBIT), and the best practices of different countries identified by the working group.

TABLE OF CONTENTS

This document contains 12 Chapters grouped under 4 sections:

- The first section includes Chapters 1 and 2 which deal with internal control and risk management. These Chapters cover the importance of these factors in tax administration, their components, the officials responsible, and the role of the Internal Auditing Agency.
- The second section includes Chapters 3 through 6 and covers the Internal Auditing Agency: its functions, its relationship with the internal control system, its position in the tax administration, its resources, its organizational structure, and its planning and direction of audit activities.
- The third section includes Chapters 7 through 10 and covers the performance of audit activities from planning and conducting the audit to developing and communicating the results and recommendations and follow-up.
- Finally, the fourth section includes the remaining Chapters on topics related to auditing: Chapter 11 on information systems and Chapter 12 on Internal Auditing Agency activities regarding the ethical behavior of employees.

TITLE I: INTERNAL CONTROL AND RISK MANAGEMENT

CHAPTER 1

INTERNAL CONTROL IN THE TAX ADMINISTRATION

1. INTRODUCTION

The primary objectives of internal control are to ensure efficient and effective operations, accuracy of financial reporting, and compliance with applicable laws and regulations. Therefore, there is a constant demand to provide improved internal control systems and education about them.

For this reason, in 1992 the Committee of Sponsoring Organizations of the Treadway Commission published the **COSO Report** on internal control which has served as a reference guide for other previously published reports on internal control. The report establishes the essential elements of what is understood as Internal Control.

These principles apply to tax administration and any organization that is required to achieve goals and objectives. However, the objectives for public service organizations generally differ from the objectives in private organizations.

2. THE MEANING OF INTERNAL CONTROL

In its broadest sense, internal control is defined as a process carried out by an entity's Board of Directors, management, and other personnel in an entity, designed to provide reasonable assurance regarding the achievement of objectives within the following categories:

- *Effectiveness and efficiency of operations.*
- *Reliability of financial reporting.*
- *Compliance with applicable laws and regulations.*

COSO Report

3. THE ELEMENTS OF INTERNAL CONTROL

The elements of internal control include a control environment, risk assessment, control activities, information communication, and supervision.

- **Control environment:** The control environment sets the tone of an organization, influencing the control consciousness of its people. It serves as a basis for all other components of internal control, providing discipline and structure.
- Control environment factors include: integrity, ethical values and the competence of the employees of a tax administration, management's philosophy and operating style, the assignment of authority and responsibility, and the attention and direction provided.
- **Risk assessment:** Risk assessment is the identification and analysis of relevant risks to achieve tax administration objectives, forming a basis for how the risks should be managed.
- **Control activities:** Control activities are the policies and procedures that help ensure management objectives are achieved. They help ensure that necessary actions are taken to address risks to achievement of tax administration objectives.
- **Information and communication:** There should be information and communication systems that may allow the Tax Administration staff to capture and exchange the information required for carrying out, managing and controlling their operations.

Pertinent information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that makes it possible to run and control tax administration. Effective communication also must occur in a broader sense, flowing down, across, and up the organization.

- **Supervision:** Internal control systems need to be monitored. This process assesses the quality of the system's performance over time and is accomplished through ongoing supervisory activities, separate evaluations or a combination of the two.

4. RESPONSIBILITY FOR INTERNAL CONTROL

The entire organization (management, employees, the Internal Auditing Agency, interested third parties, etc.) is responsible for internal control. All must participate in it with varying degrees of responsibility.

- **Management:** Internal control is a required managerial function in any organization. Management is responsible for establishing policies and procedures that ensure an adequate control environment.

Moreover, management must design a model in which internal control is an integral part of tax administration.

- **Audit Committee:** If an organization has an Audit Committee, this Committee must participate in the design of the organization's internal control system, approve the annual audit plan, follow up on compliance, and decide on the implementation of the audit recommendations, where appropriate.

Argentina: Auditing Committee

Control Committee.

In Argentina, since 1998 and based on the COSO model there is the obligation to establish a Control Committee.

Periodicity of the meetings: Every two months

Objective.

The general objective is to ensure the adequate operation of the Internal Control System and its ongoing improvement. A Committee with such an objective reinforces the Internal Control System and must look after the maintenance of the control environment.

Composition.

It is formed by the Federal Administrator, the top level officials by business unit (General Directorate of Taxation, General Directorate of Customs and General Directorate of Social Security Resources), the Internal Auditor and, as guest, the General Receivership of the Nation through the jurisdictional receiver.).

Functions: Prioritize the functions

- ✓ Propose control policies to be applied in the sphere of the Federal Administration of Public Revenues (AFIP).
- ✓ Ensure adequate operation of the internal control systems through periodic evaluation.
- ✓ Analyze the observations that are most critical or of institutional relevance and follow up the recommendations made by the U.A.I. (Internal Auditing Unit) and the internal and external control entities.
- ✓ Evaluate the corrective actions that would have been implemented with a view to regularizing or minimizing the detected weaknesses in control.
- ✓ Align planning of the U.A.I. (Internal Auditing Unit) with the strategic objectives of the Federal Administration, with a view to making evident the intention to audit specific business areas, processes, etc., that may respond to the objectives mentioned.
- ✓ Review and recommend approval of the U.A.I.'s (Internal Auditing Unit) annual auditing plan based on the organization's risk map.
- ✓ Supervise compliance with the annual auditing plan.

Subject Matters. Agenda.

The topics to be discussed at each meeting are the responsibility of the Internal Auditing Unit that may receive proposals of topics to be included up to five (5) days in advance.

- **Employees of a tax administration:** All employees participate in the internal control system, either by producing information used by the system or carrying out the necessary functions of the control activities.

All staff members are responsible for informing their superiors about problems that may occur in the course of operations.

- **Internal Auditing Agency:** Internal auditors perform an important role in evaluating the effectiveness of internal control systems and contributing to their ongoing effectiveness. Because of its organizational position and authority in tax administration, the Auditing Agency often plays a significant role in establishing and monitoring internal controls.
- **Other interested third parties:** Other third parties are not a part of the tax administration, but provide information, assist in decision-making, and contribute to improved control in the tax administration. Other interested parties may include:
 - Jurisprudence
 - Legislators.
 - Doctrine.
 - Taxpayers.
 - Communications media.
 - Professional consultants.
 - Other internal and external oversight functions.

5. INTERNAL CONTROL INTEGRATED INTO TAX ADMINISTRATION MANAGEMENT

- Internal control is an **inseparable part of management** of the tax administration.
- Internal control must adapt to a changing environment.

- **Control elements should be integrated into management activities** through ongoing actions incorporated into the management process. Some examples include the following actions that assume varying degrees of automation of procedures:
 - Use of standard policies and procedures manuals.
 - Fully computerized procedures that allow for automatically recording all the activities carried out, such as a computerized customs office.
 - Determination of required activities in tax and customs procedures, e.g., the establishment of a “filter systems” analysis of risk associated with a decision such as a tax refund or clearance of goods. The analysis would require an automatic assessment of the risk based on the information available and whose result accomplishes required actions.
 - Automatic alarms in management procedures that warn of potential noncompliance before noncompliance happens, e.g., the establishment of expiration of time periods.
 - Establishment of multiple authorization systems with segregation of functions. Where strict segregation of duties is not possible, compensating controls should be established such as the use of audit trails to record transactions that are later reviewed by an independent party.
 - Implementation of audit trails for information systems.

BRAZIL: Foreign Trade Computerized System – Siscomex

The Integrated Foreign Trade System – Siscomex, is an example of the global computerization of the customs control process, which comprises the activities of the Secretariat of Foreign Trade – Secex, the Secretariat of Federal Revenues – SRF and the Central Bank – Bacen, as regards the registration, follow up and control of the various stages of export operations (since 1993) and imports (since 1997). Operations are registered through the System, and are then analyzed by the entities involved in foreign trade, whether the managing bodies (Secex, SRF and Bacen), or other entities acting in some specific operations (Ministry of Health, Federal Police Department, Army Command and others). Among other benefits, the system allows a high level of internal control in the clearance of goods in imports and exports.

Chile (SII) Integral taxpayer assistance procedure in the Income Operation process

To verify annual taxpayer returns, a series of computer validations and crosschecks have been designed to determine consistency and select those taxpayers that should be notified for a tax review. This process has been called "Income Operation".

For purposes of the effective, efficient and transparent examination of these taxpayers, the Service has designed simple and standardized procedures, based on a computerized system of on-line rectifications, training of officials and a standard guide for reviewing the observations of the income operation.

Through the introduction of management control indicators in the income operation process, logs have been introduced for recording the transactions carried out with the taxpayer and identifying the officials involved in the process. The computerized system of on-line rectification of income returns automatically records in the system's log, all actions, inquiries and authorizations performed by the official in any stage of the examination process. Likewise, it considers multiple authorizations, in the case of refund of taxes withheld by the Service. Depending on the amount, they must be authorized by the Head of the Group, Head of Department and Regional Director.

In practice, the integrated taxpayer assistance procedure of the income operation process is a totally standardized and automated process, which has substantially contributed to reduce taxpayer response time, improve effectiveness of examination, avoid discretionary treatment by officials when reviewing taxpayer returns, and minimize the risks in tax refunds, thus resulting in greater efficiency and effectiveness in compliance with the institutional mission.

CHAPTER 2

RISK MANAGEMENT IN TAX ADMINISTRATION - THE ROLE OF THE INTERNAL AUDITING AGENCY

1. INTRODUCTION

As discussed in the previous Chapter, internal control is an essential and required element in the management of any organization. The method of implementing such internal control has been evolving over time and depends on the type of organization to which it is applied.

Despite these differences, all current internal control reports developed by the main world institutions with expertise on the subject have developed all aspects related to the internal control systems in the management of the organizations' risk, thus becoming an internal control model used to a greater or lesser extent by most organizations and companies.

Because of the importance of internal control, the COSO developed a methodology to manage risks. Such methodology is commonly known as ERM, or COSO II (2004).

ELEMENTS DEFINED IN COSO II

- **CONCEPT OF RISK.**

The potential that an event may occur and adversely affect the achievement of the objectives. The risk is measured in terms of impact and probability.

- **RISK MANAGEMENT**

The risk management process is carried out by the organization's executives, management, and other staff. It is integrated within the organization's strategy and designed to identify, evaluate, manage, and control potential events or situations in order to provide a reasonable assurance that the organization's objectives are achieved.

- **COMPONENTS OF A RISK MANAGEMENT SYSTEM**

- a) **Control Environment**

This is the basis of every risk management system, providing discipline and structure in that system.

This deals with the actions and attitude of management with respect to the importance of control within the organization.

These elements were previously discussed in Chapter 1 under internal control in the organization.

- b) **Establishment of the organization's objectives**

The objectives of the organization must be determined prior to identifying possible events that could prevent their achievement. They must be aligned with the organization's strategy, within the context of the established vision and mission.

- c) **Identification of the events**

Events that could affect achievement of the objectives must be identified. Some events may have a negative effect and thus involve risks; while others may have a positive effect implying opportunities.

- *External Factors: economic, political, technological, or sociological.*
- *Internal Factors: infrastructure, staff, processes, and technology.*

Risks may be grouped as: operational risks, environmental risks, strategic risks, etc.

d) Risk evaluation

Risks must be evaluated from two perspectives:

- *Their impact on the achievement of the objectives.*
- *The probability of occurrence.*

One must evaluate the inherent risk (prior to the controls) and residual risk following application of control measures.

e) Risk response

Management must evaluate the response to the organization's risk based on four categories: avoid, reduce, share, and accept. After determining the most adequate risk response to each situation, a reevaluation of the residual risk should be undertaken.

f) Control activities

This deals with the policies and procedures that are necessary to ensure that the risk response has been appropriate. Control activities must be established throughout the organization at every level and in all of its functions.

g) Information and communication

It is necessary that adequate information on the risk management system be provided to all levels of the organization.

h) Monitoring

Risk management must be monitored to ensure its appropriate functioning and the quality of the results.

2. THE ROLE OF THE INTERNAL AUDITING AGENCY IN RISK MANAGEMENT

The role of the Internal Auditing Agency in risk management will vary depending on whether or not the tax administration has established a risk management system.

2.1. PARTICIPATION OF THE INTERNAL AUDITING AGENCY IN THE IMPLEMENTATION OF A RISK MANAGEMENT PROCESS

The Internal Auditing Agency must encourage the implementation of an adequate risk management process for the tax administration.

- The Internal Auditing Agency must inform management about the importance of adequate risk management for the tax administration by describing the advantages it may provide.
- Once the decision has been made to implement a risk management system for the organization, the Internal Auditing Agency must take a proactive role by collaborating in the initial establishment of the system or assisting with the process. This does not mean that it is the “owner” of the risks since it should be clear that management is responsible for that process.
- The tax administration will select a specific methodology to develop the risk management process.

The Internal Auditing Agency must ensure that this methodology is understood by tax administration management officials who are responsible for executing the methodology.

In addition, the Internal Auditing Agency must ensure that the methodology adopted is directed towards the five key objectives of a risk management process:

1. Identification and evaluation of risks.
 2. Determination of an acceptable risk level.
 3. Organization of activities to reduce and control risk.
 4. Monitoring to periodically reevaluate the risks and the effectiveness of the controls.
 5. Periodic information to management on the results of the risk management process.
- Although the theoretical risk management models cover the entire organization and all its activities, the tax administration may gradually initiate this process by selecting administrative activities where their implementation may be most appropriate.

2.2. PARTICIPATION OF THE INTERNAL AUDITING AGENCY IN THE RISK MANAGEMENT PROCESS

The Internal Auditing Agency must contribute to the improvement of the organization's risk management system by monitoring its operation and coordinating its development.

- Risk management is a key responsibility of the tax administration's management. In addition, responsibilities and activities among the different groups and persons involved in this process must be adequately coordinated to avoid duplications or gaps in control.
- The Internal Auditing Agency must collaborate with management in examinations, evaluations, reporting, and making recommendations for improvement to ensure the adequacy and effectiveness of the risk management process.
- The role of the Internal Auditing Agency may vary depending on the model selected for the organization. Active participation is recommended with the degree of involvement based on the level of implementation of the risk management process

The role of the Internal Auditing Agency will depend on various factors such as the characteristics of the tax administration, the training of the internal audit staff, the Agency's standing in the organization, etc.

- If there is no other specific agency in charge of the risk assessment process, the Internal Auditing Agency should assume coordination of the process.

SPAIN: SECURITY AND RISK AND BIENNIAL SECURITY PLANS COMMISSIONS

In 1997, within the framework of a general security and control policy the Spanish Tax Administration developed two instruments to face this problem: the Security and Risk Commissions and the Security Plans.

1. Security and Control Commissions. There is a Commission for each functional area (examination, collection, management, computerization and customs) and one of a horizontal nature (general security, human resources and economic administration).

Its objectives are: detect and inventory the most relevant areas and points of risk within its sphere, analyze and evaluate, for each of the risk areas determined, the deficiencies and weaknesses of the existing controls; agree and render operational the measures intended to correct the deficiencies observed and reinforce the control and security systems; prepare, as appropriate, the proposals of rules and instructions required for the execution of the agreed measures. To this end, an action plan is prepared every year.

The Commissions are headed by the Director of the Department of the corresponding functional area of the A.E.A.T., while a member of the Internal Auditing Service acts as Vicepresident. Likewise, a member of the Tax Computerization Department and representatives of the Central and Territorial Services of the corresponding functional area are part of the commissions.

They are the fundamental body through which risk management is handled in the Spanish Tax Administration and they have worked satisfactorily on allowing collaboration among managing bodies, central as well as territorial, and internal auditing bodies, each one contributing the information and experience achieved in their work.

2. Security Plans. Also, in 1997, pluri-annual Security Plans comprising between two and three years were established at the Tax Agency. These are strategic planning instruments for the management of risks. The Plans consider a reduced number of measures, in the order of 20, that endeavor to propose solutions or undertake actions in relation to horizontal risks that may affect the entire organization, or else, those which because of their entity and significant repercussion may also be a cause of great concern within the framework of the Agency's strategic planning. They are approved by the Directorate of the State Agency of Tax Administration.

Most measures are handled by the Security and Control Commissions that integrate them in their annual plans, while others are assigned to the functional Departments or the Internal Auditing Service.

3. METHODOLOGIES USED IN RISK MANAGEMENT

- Varied methodologies may be used in risk management and analysis, such as **Risk Maps**, which are relatively simple to use for comparing the results obtained in different organizations.
- Risk Maps are graphic documents providing a visual image of the types of risks by business or activity areas and classified by colors (red, yellow, green) according to their probability or impact.

ARGENTINA: RISK MAP

THE TOOL USED BY THE INTERNAL AUDITING UNIT (U.A.I.) OF THE FEDERAL ADMINISTRATION OF PUBLIC REVENUES (AFIP) TO SYSTEMATICALLY MONITOR RISKS IS THE RISK MAP.

STAGES IN ITS IMPLEMENTATION.

- ✓ **Identification.** Jointly, with strategic areas of the organization the main processes dealing with AFIP's mission were identified, along with the risks inherent in each of them.
- ✓ **Analysis.** The areas responsible for the processes identified were allowed to provide a complete and detailed description of the controls of each of them as well as the computerized systems that support them. After applying such controls, the residual risks were determined.
- ✓ **Evaluation.**

The same areas responsible for the processes were requested to make a self-assessment of their residual risks, expressed as impact and probability. To this end, the basic guidelines that were to be taken into account to achieve a systematized, homogeneous and comparable score were provided.

The U.A.I. also made an evaluation to compare the vision of risks. In cases of significant discrepancies the U.A.I. and the area responsible for the processes and risks came in contact to analyze the difference.

The weighting parameters used were:

- **Probability:** arises from the product of the level of exposure and the level of occurrence.
- **Impact**
- **Level of risk.** Arises from the product between the level of probability and the impact.

In this way each event has been graded according to a "Risk score" and having determined the following scale with respect to the level of intervention required:

Measures. Top management must decide about the treatment of residual risks according to the box in which they are found. In critical situations, the pertinent corrective actions will be implemented in order to ease the impact of the risk and reduce its grade, which will appear in a separate box within the risk map. Annex No 1 shows an example of the already developed map..

TITLE II: THE INTERNAL AUDITING AGENCY

CHAPTER 3

PRINCIPLES AND NATURE

1. INTRODUCTION

Internal control is the responsibility of the entire organization and to achieve it, a tax administration must have a specialized Internal Auditing Agency as one of its fundamental elements of control.

The organizational, functional, and procedural framework of the Internal Auditing Agency should be standardized.

2. PRINCIPLES GOVERNING INTERNAL AUDITING AGENCY ACTIVITIES

1. **Independence and objectivity:** The Internal Auditing Agency should be assigned an appropriate administrative category within the organization. It should have a regulatory framework that ensures the Agency's independence and that ensures it is directly under the most senior tax administration official.
2. **Cooperation:** In exercising its responsibilities, the Agency should cooperate with management of the tax administration.
3. **Sufficient resources:** Human, material, financial, and computer resources should be sufficient.

4. **No limitations for obtaining information:** The Agency should have direct access to all the information in the tax administration.⁴
5. **Professionalism and expertise:** The Agency should have professionally trained, multi-disciplinary, and expert staff.
6. **Planning:** Audit activities, collectively and individually, will be based on a plan.
7. **Communication:** The Agency's results should be communicated based on the objectives included in the plan.
8. **Confidentiality ("Habeas Data"):** The Agency should maintain confidentiality in all audit activities with special attention to investigations and the use of personal information.
9. **Regulatory endorsement:** A set of regulations should be established for the responsibilities and the operations of the Agency.
10. **Preventive and proactive activities:** The Agency's activities should be aimed at promoting compliance with the objectives and goals of the organization.

3. THE NATURE OF THE INTERNAL AUDITING AGENCY'S WORK

The Internal Auditing Agency must contribute to improving the organization's internal control, security, and risk management processes by undertaking direct inspection and verification activities and by encouraging, advising, and monitoring their establishment and maintenance. In addition, the Internal Auditing Agency must promote ethical values in the organization and be alert for irregular behaviors. Finally, the Agency should be one of management's advisory and consulting entities.

1. The Internal Auditing Agency must assist the organization in the **establishment, maintenance, and improvement of effective controls** by evaluating their effectiveness and efficiency.

These controls are established to achieve:

⁴ See Chapter 11, Section 4

- Accomplishment of the established goals and objectives.
- Compliance with the laws, regulations, policies, plans, and procedures.
- The effectiveness and efficiency of operations.
- The reliability and integrity of information.
- The protection of assets.

The tax administration must establish controls over its activities. The Internal Auditing Agency is responsible for ensuring that these controls exist, are adequate for the organization, and operate effectively. If there are no controls or they are insufficient, the Internal Auditing Agency must recommend and assist in their establishment and strive for their continuous improvement.

In addition to its oversight function, the Internal Auditing Agency may also assist with these controls.

2. The Internal Auditing Agency must contribute to the **establishment and improvement of a risk management system** in the Tax Administration and use appropriate methods and instruments for reducing risks.

Risk management is the responsibility of the management of the tax administration, which must establish a plan for identifying, evaluating, and controlling risks.

The Internal Auditing Agency must evaluate the effectiveness of the system and may be an active consultant in its development. If such a system does not exist, the Internal Auditing Agency will inform the organization about its advantages and assist in its implementation.

3. The Internal Auditing Agency must be alert for **security** in the tax administration by promoting the implementation of systems that take into account:
 - The security of facilities and personnel.
 - Physical and logistical security of computerized systems.

BRAZIL : Institutional Security Manual and improvement of effective controls

The Federal Tax Administration in Brazil, the Secretariat of Federal Revenues, SRF, approved by means of internal rule the Institutional Security Manual - MSI that was published in 2003. The MSI consists of a series of measures and orientations intended to prevent and hinder the actions that may result in damages to the staff, documents, communications, information systems and the areas and facilities of the institution. The purpose is to present to the employees the rules and recommendations that may create awareness as regards the risks resulting from actions or external and internal interests against the institution and its officials and the need to safeguard knowledge and data protected by tax secrecy. Specific recommendations are included with respect to activities involving surveillance and repression of the smuggling of goods, examination and search and seizure of documents in the taxpayer's establishment, safeguard of confidential documents, management of accesses to computerized systems, use of electronic mail, care for physical facilities, among other things.

Bearing in mind that the SRF requires mechanisms for protecting the strategic information it has available, by legal force, the main tool for guaranteeing institutional protection deals with creating awareness among officials about the importance of the activity they carry out and the care they should exercise in the performance of their tasks and the security of the physical, computerized or cognitive assets to which they have access. The Manual is a tool that promotes self-control and favors the positive environment of internal control, making the officials feel actually responsible for their security, that of their fellow workers and the institution, for the purpose of guaranteeing the quality of the services rendered and the common welfare. A dissemination process was carried out in 2004 and 2005, with the creation of a series of cartoons that describe situations related to institutional security, followed by the dissemination of questions and answers and objective messages that are obligatorily accessed via intranet.

Some examples of the messages for the dissemination of the contents of the Institutional Security Manual are:

- Do not allow individuals unrelated to the working environment to circulate without functional identification.
- Do you keep your documents in a safe place?
- Do not open unknown e-mail or with suspicious contents.
- Always carry with you the digital certification card.
- Follow up maintenance services carried out in your office.
- Avoid conversations with respect to confidential issues in public areas.
- The institutional electronic mail is a working tool; do not use it for other purposes.
- Do not lose your electronic files; make security copies frequently.
- Follow the instructions of the Institutional Security Manual and help develop a new security culture in the institution.

CHILE: Policy on the use of computer resources at the Internal Revenue Service -SII:

The SII Director deemed it necessary, by means of internal regulations, to update the policies dealing with the use of computer resources, such as: access to Internet, the use of the Institutional Electronic Mail, access to taxpayer information and the use of computer equipment or working stations made available to the officials. The purpose is to guarantee protection of the information according to strict security and confidentiality standards; that the information will only be used to administer the tax system and adequate use of computer resources for the appropriate purposes of the SII function.

This policy covers different aspects and clearly establishes the responsibilities of the different levels of the organization:

a) Internal Revenue Service officials are in general forbidden the unauthorized dissemination of information that may be considered confidential, secret or reserved, either legally or at the exclusive judgment of the SII.

b) It is the responsibility of the official or user that the Web sites to which he has access via Internet be related to the performance of his work; the Institutional Electronic Mail is a working tool and therefore, there are restrictions in the sending of documents or information and likewise, certain recommendations and rules must be followed. Each user must have a personal access password, which should not be disseminated or shared with third parties, internal or external. The mechanisms for the safeguard of the information are the responsibility of all those who have access to it and additionally, confidential information should not be kept in printed form without the corresponding safeguard or displayed in the monitors or screens when moving away or leaving the work station. Likewise, it is essential to adequately protect any means (CD, tapes, diskettes, paper lists, etc.) that may include information, to avoid it from becoming available to third parties.

c) The Deputy Directorate of Information Technology is in charge of administering the computerized platform of the Internal Revenue Service and must ensure its adequate use, maintenance and operation, which includes the computer infrastructure as well as the existing information. To this end, it permanently monitors the adequate operation of the equipment and systems that support the Institution's work.

d) In addition to the actions carried out by the Deputy Directorate of Information Technology to guarantee and supervise the appropriate use of the Service's computer resources, the Internal Auditing Department must incorporate the verification of such policy in its corresponding procedures and plans.

The policy was promoted and disseminated to all officials through the INTRANET and transversally to all SII officials by means of training workshops, with a view to strengthening the institutional attitude that taxpayer information security must be our priority, that the latter should only be used for managing the tax system, and everyone is accountable for the management of taxpayer information.

4. **The Internal Auditing Agency must be alert for the behavior** of the staff working in the tax administration by:

- Overseeing the integrity of the staff.
- Promoting ethical values.
- Detecting irregular behaviors.
- Conducting preventive activities and investigations.

COSTA RICA: Promotion of Ethical Values

In Costa Rica, the Ministry of Finance has an Institutional Commission for the Rescue and Development of Values whose objective is to disseminate and promote institutional ethical values. This task is carried out by sending motivating messages to all officials through Intranet and through workshops with different functional areas for determining the ethical values that each functional area considers essential in the execution of its tasks.

The fundamental tools used are:

- Specialized access for communicating messages to all ministry staff which have been positively accepted by them. To date, some 300 messages dealing with the institution's values have been issued.
- Training at the level of programs and Directorates for motivating values and organizational atmosphere. This task is carried out in response to the request of Program Directors.
- Holding of EXECUTIVE REFLECTION BREAKFASTS with Program Directors, Minister and Deputy Ministers. A subject dealing with value is developed in each of these activities.

5. Finally, the Internal Auditing Agency must be a **consulting and advisory** agency for the tax administration's management.

ARGENTINA: Advising/Consultancy Activities

Activities originating from requests for opinion from other areas of the organization in this modality, the auditing unit's intervention ceases to be exclusively ex post, to act in advance of future problems, by providing advice to the operational areas.

This has been the procedure followed at AFIP on several occasions, based on the following common steps:

- ✓ Detection of need for consultancy
- ✓ Agreement with the owner of the process
- ✓ Acting as facilitating entity of the risk evaluation process and contributing independent vision from the standpoint of the auditing unit and complementing it with the vision of the owner of the process.
- ✓ Counseling in the preparation of the Gantt with the steps of the project
- ✓ Follow up of the pre-established steps and analysis of deviations
- ✓ Preparation of memo for the project Director's approval or corrections.
- ✓ Issuance of consultancy report, with details of actions carried out, results achieved and, as appropriate, course of action for pending aspects.

CASE 1: Administration of Credentials

During counseling provided to the Administration of Credentials project, methodology and knowledge were contributed for the implementation of internal controls and good practices for the process of administering identification credentials. The issues proposed by the Internal Auditing Unit are shown below:

- ✓ Security considerations
- ✓ Internal control considerations
- ✓ Project management considerations
- ✓ Technical considerations

CASE 2: Information Security Policies Collaboration was given to the Systems and Telecommunications area for the development of an Information Security Policies Manual. The tasks carried out are listed below:

- ✓ Establishment of an interdisciplinary working team within AFIP.
- ✓ Compilation of information security policies originating from other National Government Entities.
- ✓ Compilation of information on international standards dealing with the subject matter.
- ✓ Preparation of the draft information security policies document.
- ✓ Consensus on the draft document among the different participating areas.
- ✓ Preparation of the final document and sending to corresponding technical legal area for its analysis.

CHAPTER 4

HIERARCHICAL POSITION AND RESOURCES

1. INTRODUCTION

In addition to counting on an Internal Auditing Agency, the latter's position within the organization's structure, as well as the human, financial as well as computerized resources it may have available are determining factors for efficiently and effectively exercising Control activity. The conditions, qualifies and timeliness in the provision of such resources will influence achievement of the objectives that have been determined.

The Internal Auditing Agency's position within the organizational structure should allow it to conduct auditing activities and comply with the objectives established by the tax administration's management. Audit activities require that the work be conducted without interference or limitations in its scope. To achieve the greatest impact it is essential that the audit reports and recommendations made be appropriately considered within the organization.

To ensure an appropriate position in the organization, the Head of the Internal Auditing Agency should report to the highest level in the tax administration and have the same status or rank as that of the directors of other areas of the organization.

2. HIERARCHICAL POSITION OF THE INTERNAL AUDITING AGENCY IN THE ORGANIZATION

The Internal Auditing Agency should have sufficient material, human, financial, and computer resources to perform its audit activities.

3. RESOURCES.

The Internal Auditing Agency must have available **sufficient** material, human, financial and computerized resources for carrying out the functions entrusted to it.

4. HUMAN RESOURCES

Human resources are an **essential element** in any Internal Auditing Agency. Auditors must have respect and credibility within the organization. They also must have certain individual and collective professional attributes.

4.1 THE AUDITOR

Auditors should have the following attributes:

- **Professionalism:** Auditors should have an appropriate degree.
- **Knowledge:** Auditors should have knowledge and mastery over necessary techniques and disciplines required to conduct their work.
- **Compliance with standards of behavior:** Auditors must be honest, loyal, etc. Compliance with the Agency's or organization's code of ethics facilitates achievement of this attribute.
- **Independence and objectivity:** Auditors must eliminate any obstacles to objectivity and be alert to avoid them.
- **Due professional care:** Due professional care is expected from a sensible and competent auditor, but this does not imply infallibility.
- **Experience:** To the extent possible, auditors should be recognized and appreciated for their professional experience.
- **Confidentiality:** Auditors should maintain confidentiality during audit activities.

4.2 THE INTERNAL AUDITING AGENCY

The staff of the Internal Auditing Agency should collectively possess the knowledge, techniques, and disciplines required to conduct audits. The Agency should have:

- **A professional and multidisciplinary staff** specializing in such subjects as accounting, economics, finance, law, statistics, information technology, taxation, etc. Auditors should also be professionally certified in auditing or have professional experience equivalent to certification.
- **A recruiting and hiring system** that ensures the staff meets basic educational qualifications as well as experience in different functional areas. In keeping with the rules and limitations imposed by legislation on public agencies, the Internal Auditing Agency must determine whether the staff should be chosen from among current employees of the administration or from the outside labor market.

Auditors should be career officials and have stability in their positions as auditors.

- **A training process** that begins when personnel are hired and continues with training in auditing techniques and other functional area subjects.
- Auditors should have **appropriate compensation** that is similar to that of the managers or employees of the organization with a similar level of responsibility and competence and that reflects the type and level of audit experience.

ARGENTINA: Recruitment System

The individual process for the entry of staff in the auditing unit will be governed by the general process which takes into consideration the existing Annual Staffing Plan.

The latter covers the two existing possibilities for the admission of auditing staff which are internal and external recruiting. This Annual Plan will be of a strategic nature and as such, no operational objections may be made to the transfers decided through it.

Regardless of whether recruitment is external or internal, admission to the auditing unit will be preceded by a procedure calls induction, where the individual will be trained in aspects ranging from the general to the particular. Listed below are the stages of the induction for the staff entering through external recruitment, since it is the most encompassing:

General Aspects

- ✓ Introduction to AFIP: the new employee is familiarized with the rules that govern AFIP and the main aspects of its strategic objectives.
- ✓ Basic knowledge of tax issues
- ✓ Basic knowledge of customs issues
- ✓ Basic knowledge of Social Security issues

Specific Aspects

- ✓ Normative framework of governmental internal auditing: the new employee is familiarized with the internal control concepts and regulations of governmental internal auditing.
- ✓ Specific knowledge of the subject to be audited
- ✓ Specific audit techniques on the subject to be audited
- ✓ Practical workshops based on real cases

SPAIN: STAFF OF THE INTERNAL AUDITING AGENCY AND ITS RECRUITMENT

The auditing staff of the Internal Auditing Service of the Spanish Tax Administration consists of Service Inspectors and Auditing Collaborators.

The profile of a candidate for Service Inspector is that of an official with experience in economic and fiscal affairs, belonging to group A of staff classification (bachelor's degree, 5 years of career) and who has achieved a managerial professional level in the administration. To become a Service Inspector he must obtain a specific Diploma, which requires that he may have passed a merits contest and a selective course at the School of Public Finance where written tests dealing with Public Finance and the auditing activities are applied, and concluding with the preparation by the candidate of an Audit Report that is submitted to a public assessment process by the rest of the participants in the course.

The Service Inspectors are in charge of the auditing teams that are formed by several Auditing Collaborators.

The Auditing Collaborators that comprise the aforementioned teams, usually belong to the Tax Administration's Technical Body, group B of staff classification (diploma level, 3 years of career), body specialized in tax and customs issues and in order to be given the job they must excel in a merits contest.

The Service Inspectors as well as the Auditing Collaborators, once recruited, are given specific and permanent training in tax as well as auditing issues.

UNITED STATES: Recruiting and Hiring -

TIGTA auditors are required to have a college degree with a minimum of 24 semester hours in accounting or equivalent subjects. During the recruitment process, candidates are required to provide a narrative description of how they meet certain pre-defined Knowledge, Skill, or Ability (KSA) competencies. These KSAs represent attributes that are necessary for success within the audit environment.

TIGTA recruits auditors with a diversity of background, experience, and skills to ensure the organization has the

collective ability to perform a broad variety of audits. For example, TIGTA has hired college graduates with strong analytical skills who have little or no auditing experience who then acquire specific TIGTA and IRS program knowledge by mentoring and working as a junior auditor on a seasoned audit team. TIGTA has also hired auditors with many years of experience both from other Federal Government agencies and the private sector who can immediately step into a position and provide a particular skill (e.g., Information Technology audit specialist or leadership in managing or directing audit teams). This recruitment strategy ensures TIGTA has a good mix of talent, experience, and personnel at various career stages.

TIGTA has a robust training program to ensure TIGTA auditors comply with the Government Accountability Office's Government Auditing Standards (GAS) general standard that the staff assigned to perform an audit collectively possess adequate professional competence for the tasks required. Specifically, GAS requires auditors responsible for planning, directing, conducting, or reporting on government audits to obtain Continuing Professional Education (CPE) that directly enhances their professional proficiency to perform audits. As such, each auditor must complete:

- ✓ At least 80 hours of CPE within a 2-year reporting period. The Office of Audit's (OA) reporting period ends on September 30 of even-numbered fiscal years.
- ✓ At least 20 hours of CPE in any 1 year of the 2-year period.
- ✓ At least 24 of the 80 hours should be in subjects directly related to the government environment, government auditing, or the specific environment in which the audited entity operates. The TIGTA designates this as type "G" training.

TIGTA's training program satisfies the GAO GAS general competency standard and specific CPE requirement by addressing the following areas:

- ✓ Identification of training by position; e.g., new employees, more experienced auditors, and a leadership development program.
- ✓ Delineation of auditor responsibilities by position; e.g., starting with the auditor and moving up through the management chain.
- ✓ Training classes offered by outside vendors.
- ✓ CPE seminars by one of TIGTA's four business units.
- ✓ Onsite outside vendor training presentations.
- ✓ In-house training presentations.
- ✓ Self-study courses.
- ✓ Encouragement to obtain professional certifications.
- ✓ Details between other OA business units, within a unit, or with other TIGTA units based on the value added to the organization and with consideration to an employee's career goals, experience, and developmental needs.

5. MATERIAL RESOURCES

The buildings, premises and facilities of the Internal Auditing Agency must be appropriate for the activities conducted and in keeping with the hierarchical position of the agency and its employees within the organization.

6. COMPUTER RESOURCES

Modern auditing techniques are based on managerial and information analysis procedures. This information analysis requires significant technical and computer support that includes computer equipment, systems, and programs.

- The level of computerization achieved by any tax administration and its future growth require an additional effort by the Internal Auditing Agency since the Agency must use the same electronic, computer, and data transmission techniques as the rest of the organization.
- The Internal Auditing Agency must have an **information technology structure** that will allow it to effectively conduct its functions. To accomplish this, the Internal Auditing Agency must:
 - Receive **sufficient computer support** from the organization's information technology section.
 - Participate in the design and planning of computerized instruments, in particular, applications used for developing the functions entrusted to it.
- It would be advisable that the Internal Auditing Agency count on a **specialized Information Technology Unit**, which in addition to the conventional functions of departmental information technology (maintenance of networks and equipment, support to the user, etc.) would be capable of developing contents and preparing information that must be used by the auditing teams.
- The Internal Auditing Agency should promote and use advanced information technology techniques that may facilitate auditing actions, improving the quality of the result obtained and the productivity of the auditors and promoting knowledge within the Internal Auditing Agency and the entire Tax Administration. (Examples: data warehouses, control panels, data mining, etc).

7. FINANCIAL RESOURCES

The Internal Auditing Agency must have a certain degree of financial autonomy and have **sufficient financial resources** to ensure the performance of its responsibilities in the organization. In particular, financial resources are needed to:

- Pay the salaries and wages of the staff.
- Pay and anticipate expenses related to travel and accommodation per diem.
- Develop an ongoing training program.
- Maintain and renew equipment according to generally accepted criteria.
- Hiring of specialized services

CHAPTER 5

ORGANIZATIONAL STRUCTURE

1. INTRODUCTION

Which units comprise the Internal Auditing Agency? What is the structure of each team, their functions and objectives and which are the characteristics and profiles of the human resource required in each of these units? The material, financial and computerized resources that each Unit and the Internal Auditing Agency, in general, should have, are the fundamental element for achievement of their objectives. Nevertheless, one cannot disregard the characteristics and structure of the Tax Administration organization to which this Agency belongs, since the latter should be set up by taking them into account.

2. BASIC STRUCTURE

The Units comprising the basic structure of the Internal Auditing Agency are described below. However, the human and financial resources available may condition or recommend other structures, where the functions of the units described may be carried out differently.

- **Management:** Depending on the size of the Internal Auditing Agency and its responsibilities, the Internal Auditing Director may be assisted by a support staff.
- **Planning Unit:** Will carry out the annual planning tasks of the Agency and oversee their accomplishment. It may participate to a greater or lesser extent in planning actual audits that are included in the annual Action Plan of the Internal Auditing Agency.
- **Auditing units:** Audit teams will include a manager or supervisor and auditors with diverse professional qualifications and administrative levels. They can be organized into larger Units that include auxiliary staff.

- **Human Resources and Economic Management Unit:** Will carry out the human resources and financial management tasks of the Internal Auditing Agency.
- **Information Technology Unit:** In addition to the usual computer infrastructure of the organization, this unit can be organized into a computer support and information analysis center.
- **Legal Assistance Unit:** Will interpret the legal framework to support internal auditing. If it is not possible to have a legal team of its own, the Agency may use the one available for the organization.

Depending on the extent of the responsibilities assumed, the Internal Auditing Agency may include other units, particularly a **Unit specialized in dealing with staff behavior**.

3. ORGANIZATIONAL MODELS - LOCATION

The organizational model adopted by the Internal Auditing Agency will be based on factors such as size, structure, geographic dispersion, and responsibilities of the tax administration as well as the availability of sufficient and competent audit staff in the different functional areas.

The Internal Auditing Agency may have a centralized structure, located exclusively at the headquarters of the tax administration, or have a network of offices throughout the country.

The Internal Auditing Agency is considered a single division of the organization. It has an integrated activities plan approved by management or the Audit Committee with standard auditing procedures throughout the country and with similar systems for obtaining and analyzing the information.

4. ORGANIZATIONAL MODELS - SPECIALIZATION

The following are some possible models for an Internal Auditing Agency:

An organization specialized by functional areas:

- The Internal Auditing Agency can be organized by large functional areas managed by the tax administration (tax management, examination, customs, etc.). Audit teams would be assigned to each area and would specialize in that area.
- The managerial staff and leaders of the audit teams should be familiar with all functional areas.

An organization specialized by territorial zones:

- The Internal Auditing Agency can be organized by assigning audit teams to specific territorial zones. These audit teams would be responsible for audit activities and internal control oversight for all the functional areas of that territorial zone.
- The main advantage of this work division is a more integral control of the territorial administration. The disadvantage is the need for expert or at least highly qualified staff in all areas, which may be difficult to achieve and may lead to different treatment of functional areas.

Mixed organization:

- This type of organization is a combination of the two previous types. This model is often established because of the need to optimize scarce human resources while at the same time conducting audits from areas that are distant from common knowledge of the organization, such as the information technology area.

ARGENTINA: Organization specialized by functional areas.

For its internal auditing unit, AFIP adopted segregation by functional areas, thus replicating at a lower scale the functional division that governs the structure of the entire Administration. The internal auditing unit does not reflect the territorial division and therefore, any aspect under its responsibility, regardless of the geographical sphere where it takes place is entrusted to the same functional unit. The structure of AFIP's internal auditing unit comprises Directorates in charge of the following functions:

- ✓ Directorate of Operational Procedures:
 - Customs Auditing
 - Internal Revenue and Social Security Auditing
 - Counterchecks
 - Operational evaluation
- ✓ Directorate of Central Operations
 - Resources Management Auditing
 - Legal Auditing
 - Information Systems Auditing
 - Planning, Risk and Control

- Auditing Scheduling

SPAIN: ORGANIZATION OF THE INTERNAL AUDITING AGENCY – MIXED ORGANIZATION BY TERRITORIAL ZONES AND BY FUNCTIONAL AREAS.

The structure of the Internal Auditing Agency of the Spanish Tax Administration consists of the following elements: Directorate, Planning Unit, Human Resources and Economic Administration Unit, Information Technology Unit, Auditing Units and Behavior Unit.

The organizational model responds to the type of centralized model with respect to location and mixed organization as regards specialization.

Location: The Internal Auditing Service staff is stationed in Madrid, and from there they move to the auditing services throughout Spain to carry out their examinations.

Specialization: Every auditing team is assigned to a territorial zone and a functional area (customs, collection, examination, information technology, human resources and tax management). The team in each territorial zone is responsible for its permanent follow up and monitoring in all the areas and among other controls, it follows up compliance with the objectives determined in the different planning instruments. To this end, use is made of specific information technology tools such as control panel, data warehouse, etc.

It is also in charge of ensuring adequate examination of all services and/or areas of the zone which, according to the risk analyses should be subject to auditing, even though said team may not be the one actually carrying out the examination.

Verifications of a more general nature are carried out by the zone team itself, while those requiring more specific knowledge are carried out by the teams in the corresponding area.

The area teams supervise and control said area throughout the national territory and may undertake examinations in any territorial zone of their area.

The model calls for coordination between the zone and area teams in the initial planning of actions as well as in their development. Besides, given the number of auditing teams available and the fact that there are more territorial ones than functional areas, generally there are two or three teams for each functional area and one team for each territorial zone, except for those of greater territorial importance or population where there may be more than one.

Example of Organizational Structure – United States

In the United States, the Internal Revenue Service (IRS) is organized around operating divisions, each of which serves specific groups of taxpayers with relatively similar needs. This organizational structure reduces the management layers, centralizes management of key functions, and increases support for customer education and assistance programs. In addition, each operating division has clear, end-to-end responsibility for serving the specific group of taxpayers. The needs and problems of the taxpayers served by each operating division are very different, and consequently, each operating division determines the best internal structure and business practices. In turn, the Treasury Inspector General for Tax Administration (TIGTA) Office of Audit (OA) has aligned its program areas around the IRS' core business activities.

Each of the four OA audit units is headed up by an Assistant Inspector General for Audit (AIGA). The AIGAs, who report to the Deputy Inspector General for Audit (DIGA), are responsible for providing executive leadership and direction for evaluating the vulnerability of IRS and related entity activities and for conducting reviews that are sufficient in scope to provide a basis for constructive management action by responsible officials.

5. SIZE OF THE INTERNAL AUDITING AGENCY

The size of the Internal Auditing Agency, and in particular the appropriate number of audit teams and their optimal size, is difficult to determine because of the many factors involved, such as the size of the administration to be audited and budgetary limitations. However, the Auditing Agency may:

- Assign at least one operational team to each one of the relevant functional areas and territorial divisions of the organization.
- Have sufficient resources available to conduct audits in each management office with a frequency to be determined by the tax administration.
- Cover those activities that are identified through risk methodology as critical for the organization.

Under these conditions, it is reasonable that 0.5 to 1 percent of a tax administration's staff be assigned to an Internal Auditing Agency.

CHAPTER 6

MANAGEMENT OF THE INTERNAL AUDITING AGENCY

1. INTRODUCTION

The managerial function of the Internal Auditing Agency primarily involves establishing and accomplishing a general audit **plan, implementing and complying with policies and procedures** for audit activities, and **assuring the quality** of audit activities through supervision, evaluation, and review of the work performed.

2. PLANNING

The Internal Auditing Agency's work must be planned in such a way as to comply with its commitments.

The planning process includes the establishment of different plans with varying levels of objectives and scope:

- Action Plan of the Internal Auditing Agency.
- Specific plans for the audit teams.
- Plans for follow-up reviews.
- Indicators of compliance with the objectives of the Internal Auditing Agency

3. ACTION PLAN

The audit activities of the Internal Auditing Agency should be documented in an annual **Action Plan**. The Action Plan is the basic planning document that includes general audit tasks.

The Planning Unit, if any, will actively participate in the development of the annual Action Plan and oversee its execution.

3.1. CONTENTS

The Action Plan includes:

- The activities to be audited.
- How and by whom the activities will be audited.
- The date for scheduled audit activities.

3.2. APPROVAL

The Action Plan must be approved by a competent authority, which could be management of the tax administration or the organization's Audit Committee, if the organization has one.

3.3. CREATION

In general, the priorities of the annual Action Plan should be established in accordance with the results of the **analysis of risks** affecting the organization.

The requirements to be considered in creating the Action Plan include the following:

- Focusing on the strategic objectives of the tax administration.
- Responding to the areas of concern identified by the tax administration.
- Concentrating audit activities in previously detected risk areas.
- Ensuring an ongoing presence throughout the organization through recurring audits.
- Inspecting every large, small, central, and territorial entity and every functional area in the organization.

General planning will also consider factors such as:

- Audits conducted in previous years and their results.
- Information available to the Internal Auditing Agency on the organization's activities, accomplishment of its objectives and plans, and other relevant documents.
- Relevant changes in regulations and activities within the organization being audited.
- Allegations and complaints received from taxpayers.

ARGENTINA: General guidelines for the development of the annual auditing Plan

Below is a summary of the steps taken to carry out the task:

1. General Survey: consists of preliminary study through:

- ✓ Survey of areas that may be audited through questionnaires or lists sent to the top level officials of the Organization to indicate the risky subjects and those they may consider of interest to be audited.
- ✓ Interaction with operational auditing areas, with respect to projects, observations and risks perceived during the audits.
- ✓ Compilation of statistical information on systems in force and under development, AFIP's management Plan, human resources and budget for the following year.
- ✓ Risk map of the Organization: analysis of the result achieved as a consequence of the self-assessment of risks in their own processes undertaken by the top officials in charge.

2. Identification of risks: at this stage, the Auditing Risk Matrix will be developed on the basis of the methodology described in the pertinent item. In its development, one takes into account the results obtained in the audits made as well as the consolidated result of the Organization's Risk Map.

3. Identification of auditing projects: Based on the results obtained in the preceding items, the auditing strategy is fixed, to in turn determine the various projects that should be carried out under the annual plan being developed. For such purpose one must also take into account: the projects that have not been carried out in recent years, those that are permanently executed and those requested by the external control entity (SIGEN).

4. Follow up of reports and recommendations - Audits pending from previous years: at this stage, one determines the hours that should be devoted to this task in the plan being developed.

5. Hours available: determination is made of the number of hours to be scheduled considering:

- ✓ The number of auditors and supervisors, their profiles and number of working hours per year.
- ✓ An average number of hours corresponding to regular leaves of absence and training are subtracted (it is estimated at 100 hrs. annually per agent).
- ✓ 5% absenteeism over net leave hours is subtracted.
- ✓ Determination is made of the hours that will be assigned to the obligatory intervention according to the number of agents carrying out said task and they are subtracted from the total of net hours.
- ✓ The remaining 70% is planned, estimating 30% of hours for contingencies or special requests.

6. Hours by project: Hours applicable to each project are individualized and the hours required for the preparation of reports are also shown separately.

A list is made of total audits to be performed during the year.

7. Schedule of activities: auditing projects time schedules are prepared, taking into account those having fixed periods and completing them with the rest. The time involving field work and the preparation of reports is shown

3.4. AUDIT PROGRAMS

The annual Action Plan must **classify** audit activities according to some criteria that may offer the organization an ongoing presence with a view to obtaining seasonal comparability. This **stability**, which does not infer immobility, results from the fact that the mission and the goals of the organization, as well as the structure and resources of the Internal Auditing Agency, usually do not undergo radical changes.

Activities are usually grouped into what are known as **audit programs**. An audit program pursues objectives that are developed for each audit. Activities in the same program usually have common characteristics.

Below are some examples of the types of **programs** that would fit into the Internal Auditing Agency's planning.

1. Programs to review controls and follow up on territorial agency activities:

- Hypothesis: The Internal Auditing Agency conducts control and follow-up reviews of the activities of territorial agencies.
- Planning is based on ongoing follow-up reviews of the territorial entities.
- The audit teams conduct audit activities using appropriate computerized programs.
- Controls in each territorial zone can be assigned to specific audit teams.

SPAIN: Group of territorial agencies control and follow-up programs types of action of a group of this nature.

Within the annual Auditing Plan, the Group of Territorial Agencies Control and Follow-up Programs aims to verify the performance of the integrated services in the territorial entities of the Tax Agency by means of permanent control instruments.

The Internal Auditing Service continuously follows up the situation of the territorial entities of the Agency through management and risk planning and control instruments used by the entire organization, such as the system of objective indicators or by the SAI specifically, such as the Data Warehouses and the Control Panel designed by the internal auditing agency itself.

As a result of the permanent follow up activities, a selection is made throughout the year of audit actions from the territorial services with the following standardized forms

- General verification of a large regional unit (Special Delegation) focused on compliance with the objectives and the internal control and risk analysis mechanisms.
- General verification of the services in a medium or small unit at the provincial or local level, such as, for example, a provincial examination dependency or a local customs office, focused on the evaluation of its efficiency, effectiveness and compliance with the standards.
- Verifications in any unit, of the causes of deviations evidenced, evaluating their reasons and the measures proposed for their correction. Audits are performed within brief periods and corrective measures are applied immediately.

In the analysis of deviations, use is made of a self-designed instrument that adopts the form of a control panel that includes a series of indexes or ratios relative to compliance with the objectives scheduled, quality standards adopted, execution of specific tax fraud prevention plans, priority risk areas or situations, etc.

The analysis of indexes or ratios may refer to different parameters, such as the national mean, comparisons between territorial areas, percentages or pre-established intervals, etc.

2. Functional area programs:

- Hypothesis: The Internal Auditing Agency has specialized units in functional areas.
- Planning must be based on an evaluation of risks, centering on creating programs to audit an activity or functional area having the greatest risk for the organization.
- An examination of the activities of the audited entity does not need to be extensive.

BRAZIL: Functional areas auditing programs

The Secretariat of Federal Revenues – SRF develops specific auditing programs by functional areas that are part of the auditing planning activity, which include obligatory verifications in the audited procedures, such as:

- a) Tax management (collection and recovery) – Taxpayer File, issuance of Tax Clearance Certificate, rectification of documents involving payments, tax current accounts, tax administrative procedures, installment payments, refund and compensation and others.
- b) Customs - Clearance of goods in imports and exports, special customs systems, customs transit and others.
- c) Examination – Auditing of the examination working plan (allocation of human resources and compliance with the goals), selection of taxpayers and preparation of the examination activities (“examination file”), request for information on financial transactions and others.

For implementing the auditing programs and the recording of obligatory verification there are audit guides and auditing working papers that are standard and manual documents that are systematically updated. In the working papers, the auditing team records the analyses, inspections and verifications in the development of the

UNITED STATES: Programs by functional areas

TIGTA is aligned with the IRS, the AIGAs (Assistant Inspectors General for Audit are responsible. For reviews in the following areas of the IRS's organizational program.

- ✓ Information Systems Programs
 - Systems Modernization and Operations.
 - Systems Security.
- ✓ Headquarters Operations and Exempt Organizations Programs
 - Tax Administration (Appeals, Counsel, Taxpayer Advocate, IRS Oversight Board, Planning Evaluation and Risk Assessment, Criminal Investigation).
 - Agency-Wide Shared Services (Contract Oversight, Procurement, Human Resources, Facilities Management, and Communications).
 - Government Performance and Results Act of 1993.
 - Tax Exempt and Government Entities/Taxpayer Bill of Rights.
 - Financial Management/ Criminal Investigations.
- ✓ Wage and Investment Income Programs
 - Customer Service.
 - Compliance.
 - Submission Processing and Earned Income Tax Credit.
- ✓ Small Business and Corporate Programs
 - Small Business Compliance.
 - Mid and Large Business Compliance and Customer Service.
 - Submission Processing.

The AIGAs advise the DIGA on the major risks facing the IRS in their respective program areas. The result is a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses.

Activities described in the national audit plan address fundamental goals related to the IRS' mission to administer its programs effectively and efficiently. Emphasis is placed on mandatory audit coverage imposed by and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. Major information systems modernization efforts are also closely monitored to identify problems in implementing important programs and improving customer service.

The balance of audit work is discretionary and focuses on the major management issues facing the IRS, the IRS' progress in achieving its strategic goals, eliminating previously identified material weaknesses in its operations, and in addressing areas of concern to the IRS Commissioner, the IRS Oversight Board, the Secretary of the Treasury, the Congress, and other stakeholders.

activity.

3. Financial and budgetary control programs:

- Hypothesis: The Internal Auditing Agency reviews financial and budgetary control activities in a customs and tax administration entity.

- This type of control, by its nature and tradition, is generally carefully regulated. The Internal Auditing Agency usually gives priority to audit programs dealing with the legality of controls and whether financial controls comply with regulations.

BOLIVIA: Group of Financial and Budgetary Control Programs

The National Tax Service, Bolivia's Tax Administration uses as good control practice for examining the reliability of the financial statements and budgetary control, the Audit Guide for Examining the Reliability of the records and Financial Statements whose most relevant aspects are:

- ✓ Legal and professional provisions (NIC), related to the reliability of auditing.
- ✓ The scope of the audit (Financial statements to be examined and records subject to verification).
- ✓ Audit planning memorandum (The scope, standards in force for the examination).
- ✓ Evaluation of the information, accounting and control systems (Objective, survey of controls, identification of potential key controls, classification of controls, relationship with the procedures and working programs).
- ✓ Auditing Risk (determining the existence of inherent risk of control and detection).
- ✓ Report of internal auditor (reports to be issued, mandatory presentation of the report, term for the presentation of the report and contents of the report).
- ✓ Report model (procedure of general application and procedure for each item).

The Internal Auditing Unit also has an Internal Auditing manual, which has a special chapter that emphasizes the evaluation of the reliability of the financial statements by describing in detail and attaching models on audit planning, working programs, report models, etc. These models are enunciating and not limiting.

ARGENTINA: Financial and Budgetary Control Program: Audit Program in decentralized entities

Purpose: Evaluate, in relation to the accounting, administrative and financial aspects, the control environment prevailing, compliance with the internal and external standards and procedures, operational effectiveness and efficiency and safeguard of assets that are under the responsibility of the Regional Directorate.

WORKING PROGRAM – CRITICAL POINTS

1. CLOSING OF BOOKS AND RECORDS.

- ✓ Verify the unalterability and integrity of the means of recording.
- ✓ Payments made by check are credited to the correct period, are duly authorized and checks are issued in a cross fashion and “not to the order of”.
- ✓ Checkbooks fulfill the integrity requirements and the custody of checks is adequate.

2. REVOLVING FUNDS AND FIXED FUNDS – PETTY CASH.

- ✓ Balances reported are consistent with respect to amounts deposited, support documents and assigned amount, there being no overages or shortages.
- ✓ Restrictions on availability are adequately disclosed.
- ✓ The support documentation entities fulfill the requirement of integrity and verifiability.
- ✓ Expenses incurred are framed within the restricted description of concepts expressed in the “General Conditions” of the norms applicable and are duly authorized and this situation is verifiable.
- ✓ All outgoing funds are duly supported by duly authorized vouchers and according to legal requirements.
- ✓ The documents supporting expenses are provided once in original, expressly attest to due receipt of goods and services, payment of the obligation and is duly registered with the FFI number with which it was presented, it is not apocryphal nor is it crossed out or amended

3. CONTRACTING.

- ✓ The contracting of goods and services is duly justified.
- ✓ Contracts are entered into by taking into account the most convenient offer and the process of selection is transparent, not affecting the free participation of bidders.
- ✓ Contracts are approved by officials with the appropriate rank.
- ✓ The rendering of services or delivery of goods is adequately controlled and there is express evidence of such controls.
- ✓ The physical, documentary or analytical evidence of compliance of the contracts is competent, relevant and useful.
- ✓ The files are correctly paged and structured so as to trust their integrity.

4. BUDGET

Amounts budgeted for each expenditure have not been exceeded, or in their stead, there is due authorization. Expenses incurred are allocated to the correct item.

4. Programs related to staff behavior:

- Hypothesis: The Internal Auditing Agency actively participates in the prevention, detection, and investigation of illegal or unethical staff behavior.
- Programs include those related to prevention, detection, and investigation of illegal or unethical behavior.
- The Internal Auditing Agency establishes ongoing audit programs dealing with the most common risks associated with staff behavior. For example, this includes:
 - Strictly professional use of information available in files and databases.
 - Compliance with provisions regarding incompatibilities or conflicts of interest
 - Conflicts of interest.
 - Treatment of allegations.

CHILE: Programs dealing with staff behaviors.

Net Worth Operation through computerized application in INTRANET

The purpose of the net worth operation through computerized application in Intranet is to ensure that all SII officials, whether permanent or through contract, file their annual declaration on personal, family and net worth history to better guarantee compliance with the duties, obligations and prohibitions of the officials and especially, to render their performance transparent.

It also allows for developing an automated review process, regarding statutory and organic compliance by the officials, generating a series of observations related to possible non compliances with the rules that may be detected through the personal, family and net worth declaration, such as non filing of the declaration; incompatibilities; conflicts of interest and also allows a prompt and expeditious review of the information declared, as well as the development of a permanent verification program for preventing or detecting inappropriate situations in the official's behavior.

5. Other programs:

- Programs related to international activities.

- Collaboration with other internal and external audit agencies.
- Special tasks requested by tax administration's management.
- Follow-up of strategic programs of the Tax Administration

SPAIN: Programs related to strategic plans

In 2004, the government approved a Tax Fraud Prevention Plan whose execution was entrusted to the Tax Agency.

The purpose of the Tax Fraud Prevention Plan is to improve effectiveness and efficiency in the struggle against fraud, fundamentally based on operational measures, while also incorporating a broad range of organizational, training and procedural measures.

Actions to be carried out by the Internal Auditing Service not only deal with those involving the execution and/or development of measures of the Plan for which the service itself is responsible, but also with actions related to significant measures of the Plan, with a view to analyzing the activities carried out for its implementation, evaluating possible deviations or dysfunctions observed and when appropriate, proposing measures within term for their adaptation to the objectives anticipated.

4. POLICIES AND PROCEDURES

The Director of the Internal Auditing Agency is responsible for establishing the **policies** and **procedures** followed by the Agency when performing its functions: conducting audits, preparing and processing reports and recommendations, and other activities.

These procedures must be **documented** for use by Internal Auditing Agency staff and may be discussed with tax administration management.

The policies and procedures can refer to either required or voluntary **standards**, such as regulations, national or international manuals or codes, and cover different subjects such as auditing, quality, behavior, etc.

Other agencies and employees in the organization may be provided access to the part of this documentation if this facilitates audit tasks.

5. QUALITY ASSURANCE

The Internal Auditing Agency must establish and maintain a quality assurance program that evaluates audit activities.

The quality assurance program should incorporate **supervision** and **internal review** of audit activities. The program should also include **external reviews**.

6. SUPERVISION

Audit work must be supervised to ensure that the work is performed according to established standards and the policies and procedures of the Internal Auditing Agency. The following must be clearly established:

- Who must supervise audit activities.
- The role of the Director of the Internal Auditing Agency in the supervision process.

- How such supervision should be documented.

Supervision is needed for the annual Action Plan and each audit or activity covered in the Plan.

Supervision should include following up on the annual Action Plan, recommending creation of periodic activity reports on activities conducted and deviations from the Plan, and explaining the causes of deviations and recommending corrective measures.

Supervision of each specific audit will be performed by the manager or team leader or auditing unit performing it, regardless of the possible supervision by the Auditing Directorate. The contents are described in detail in the chapters corresponding to the Auditing Activity.

COSTA RICA: Institutional Internal Control Commission

In Costa Rica, the General Internal Control Law provides that the greater responsibility for the establishment, evaluation and improvement of the internal control system falls on the unipersonal or collegiate authority of the institution and its subordinated incumbents

The Minister of Finance, making use of his powers, established a Commission called CICI (Institutional Internal Control Commission) formed by representatives of each Directorate, whose mission is to advise the Minister on Internal Control matters and propose guidelines to be followed on this subject, in order that the organization may fulfill its mission. This Commission is formed by representatives from all Directorates comprising the Ministry of Finance and the Office of the Minister and submits reports on institutional results directly to the top level institutional authority.

Likewise, and for the purpose of strengthening the internal control systems and improving management as regards the protection of public net worth and achievement of the institutional objectives and commitments toward society, a self-assessment of the internal control system must be obligatorily performed each year.

This Commission must propose to the Minister the instrument to be used in the internal control self-assessment process and must also develop the mechanisms for determining the level of knowledge and application of the rules associated to each internal control functional component: control environment, evaluation of risks, control activities, information and follow-up systems.

This task is carried out throughout the institution on an obligatory basis for 100 % of the officials. The Microsoft Outlook and Intranet systems are used and the data are tabulated by means of a computerized program especially designed for such purposes. The results duly analyzed are informed by the Minister to each of the Directors, requesting the corrective measures deemed appropriate.

7. INTERNAL REVIEWS

- Internal reviews are activities periodically conducted by auditors of the Internal Auditing Agency to evaluate the quality of the work.
- Internal reviews can take a variety of forms. For example:

- **Evaluation** by a trained audit team from the Internal Auditing Agency's staff selected by the Director.
- Extensive reviews of a **sample of audits** by the Director.
- Sending a questionnaire or conducting a survey to obtain the **opinion of those audited**. This could be done systematically after each audit or periodically on a sample of audits. These inquiries should allow for suggestions on how to make audits more effective and sensitive to the needs of the organization.

8. EXTERNAL REVIEWS

- External reviews are activities conducted by an external agency or review team intended to evaluate the quality of the work performed by the Internal Auditing Agency.
- External reviews can be done in different ways; however, the review should include the following:
 - The external review staff should be **qualified** and **independent** from the organization.
 - The **periodicity** for these reviews should be established.
 - **Procedures for limited reviews** should be established.
- External reviews must ensure the confidentiality of tax information.

For certain internal reviews requiring specialized knowledge and techniques that the Internal Auditing Agency cannot obtain on its own, outside specialists may participate in specific tasks.

TITLE III: INTERNAL AUDITING ACTIVITY

CHAPTER 7 AUDIT PLANNING

1. INTRODUCTION

Audit activities include two processes: **conducting** the audit and **following up** on the corrective actions taken for audit recommendations.

This Chapter and the following chapters discuss the different audit phases: audit **planning**, **conducting the audit**, and **communication** of audit results and recommendations.

2. AUDIT PLANNING

The auditor must plan every audit.

When planning the audit, an auditor must develop a work plan that includes the **objectives and scope** of the audit and the **methodology** for achieving those objectives.

3. OBJECTIVES AND SCOPE OF THE AUDIT

- The **objectives** define what the audit intends to achieve. The **scope** defines the material and provisional limits of the audit.
- In every audit, the objectives and scope must be precisely and clearly defined and should not be generic.

- The objectives and scope determine the audit steps to be performed during the audit. There is interdependency between the objectives and scope and the type of audit steps performed.
- During audit planning, a risk analysis must be performed to identify the most significant **areas of risk** that should be given priority in the audit.
- During planning, the auditor should also consider the **interests and needs of those receiving the report**, general as well as specific in relation to the audit that is planned.

4. AUDITING PROCEDURES - METHODOLOGY

- The **auditing procedures** are the methods applied to achieve the objectives of the audit and include the methods for **obtaining and analyzing information**.
- During planning, auditors must determine the methodology to use to obtain sufficient⁵ relevant, and competent evidence for achieving the audit objectives.
- The methodology includes not only the **type** of the auditing procedure used but also the **factors** necessary for its application. For example, the use of a random sampling method requires identifying the sample size, the manner in which it is selected, treatment of incidences, etc.

5. ACTIVITIES PERFORMED DURING AUDIT PLANNING

5.1. OBTAINING INFORMATION ON THE ENTITY AND ACTIVITY TO BE AUDITED

During the planning phase, the following must be obtained:

1°) Background information on the audited entity or activity that includes identifying and understanding the facts, actions and practices performed. This information should include:

⁵ See Chapter 8, Section 5 on Evidence

- Policies, plans, procedures, laws, and regulations that affect the audited entity or activity.
- Information on the entity's organization (human resources, printed materials, recent changes, etc.).
- Nature and volume of the activity performed.
- Objectives set for the audited entity's activities and programs.
- Budget and financial data.

2°) Background on activities performed by the audited entity that relate to the objectives and scope of the audit. This information could include:

- Information obtained from **analysis of the information systems** of the organization. An analysis of relevant information contained in the entity's databases should be done to determine what verification needs to be performed. Such information may be obtained through the use of specialized software.
- Information on the **organization's internal control system**, including the organization's internal control methods and their application to the audited entity.
- Reports from **previous audits**, including the work of external auditors and any other background information available.

5.2. ESTABLISHING THE AUDIT PERIOD

During the planning phase, the **time period, duration, and time schedule** for performing the **audit** should be established.

5.3. RESOURCES NEEDED AND DISTRIBUTION OF WORKLOAD AMONG TEAM

During the planning phase, the necessary resources (human, material, and financial) to conduct the audit should be determined. The workload should be distributed among the audit team members based on their experience and level of knowledge.

6. RESPONSIBILITY FOR AND SUPERVISION OF PLANNING

The **responsibility** for planning an audit must be assigned to the person responsible for the audit team performing the audit or the next level manager.

A Planning function may participate in the audit preparation tasks.

Planning must also be **supervised** to ensure that the audit team clearly understands the work to be done, why it is to be done, and the objectives to be accomplished.

7. WORK PLAN AND AUDIT SCRIPT

The result of the planning process must be included in a work plan and audit script.

- A **work plan** should be prepared with the time schedule of audit activities.
- An **audit script** must be prepared. The script includes greater details on the audit activities than the work plan and is useful for drafting the report.
- The preparation and use of an audit script has some of the following **advantages**:
 - Improves the quality of the planned audit work.
 - Standardizes audits performed by different audit teams that audit similar entities or activities.
 - Expedites the development of audit activities.
 - Facilitates report preparation, particularly if the script structure is similar to the report structure.

- An audit script should include the following **elements**:
 - The objectives and scope of the audit.
 - The period audited, the duration, and the dates of the audit.
 - The identification of technical aspects, risks, processes and activities that must be improved.
 - The nature of the evidence required.
 - A clear definition of the auditing procedures that must be used to capture, analyze, and interpret information.
 - Documents to be used in the audit activities, particularly the samples that must be taken and how they are obtained.
 - Detail on the coordination of audit activities to be performed jointly with audit team members.
- The task of preparing an audit script for audit activities having similar characteristics can be accomplished more easily if standardized **scripts** are developed by specialized teams or by a Planning Function.

BRAZIL: Standard auditing script

Considering that execution of the audit consists of planning, development and communication of results, it is necessary, in the planning phase to document the process through a general working plan and audit script that requires more detailed planning. In the case of the Secretariat of Federal Revenues – SRF, for each audited procedure in the functional areas auditing programs a standard audit script is applied. It indicates the purpose and main stages in the execution of the specific audit activity. Below are the main aspects of the standard script:

- ✓ Objectives of the audit: priority issues of the audit are listed, considering the annual audit plan, the risk analysis of the working processes, the results of the institutional management indicators, requests from top management, taking into account the principles of timeliness and relevance.
- ✓ Scope of the audit: indication is given as to the administrative unit, the sectors to be audited and the period of reference of the audit.
- ✓ Aspects to be audited: indication is given as to the operational procedures that correspond to the rules and/or events carried out in the computerized systems that will be subject to auditing.
- ✓ Auditing stages and time schedule: in the case of the SRF, the auditing stages classified are the remote phase (use of computerized control systems that allow for auditing events carried out in the computerized systems), and the local phase (which implies the visit to the audited unit). Also indicated is the time schedule for each of the stages, with the anticipated time duration, period of execution, facilities and auditing staff assigned to each task.
- ✓ Documents used: The auditing working papers, duly standardized and manual allow for indicating the nature and extent of the verifications required. The Working Questionnaire (CT) is the key document of the audit script, which includes specific questions that guide the auditor's analysis. The other working papers allow the

identification and description of the procedures and events to be audited.

- ✓ The source of data used – internal (interviews, managerial reports, data from the strategic planning systems, information systems, etc.) and/or external sources.
- ✓ Methodology for data compilation and analysis: methods are indicated for the compilation and analysis of data, which vary according to the type of verification. Data are compiled through different techniques: written and oral interviews, documentary analysis, use of computerized tools for the storage and extraction of information that is relevant and useful for auditing, confirmation with external sources, examination of records, correlation between the information obtained, physical inspection and others.
- ✓ Name and identification of the Auditor in charge and identification of the auditing team.
- ✓ Date and place

UNITED STATES: AUDIT PLAN

After an audit team has conducted sufficient planning work using survey techniques to assure an understanding of the area being audited and the related control systems, TIGTA auditors are required to complete an Audit Plan using the TeamMate electronic workpaper software program. Generally, TIGTA auditors are allowed 30 calendar days to complete the survey process. The Audit Plan is, in essence, a proposed and approved plan for conducting an audit including the rationale, objective, methodology, expected outcomes, and audit resources needed.

The Audit Plan includes an Introduction section that provides background information on why TIGTA is initiating the review, specific risks associated with the area to be audited, a summary of the results from the audit survey, and a summary of the results of discussions with IRS management that are relevant to the scope and objectives of the review. The Audit Plan then describes the proposed Audit Methodology (e.g., electronic data sources, sampling plan, methodology for measuring outcomes, methodology for selecting audit sites, and validation of computer-processed data); Expected Outcomes; the overall Audit Objective(s); Audit Milestones that address estimated milestone completion dates, staff days, calendar days, and a travel budget; and an Audit Plan Approval section that documents the official review and approval of the Plan. TIGTA Audit Plans should be signed within 7 calendar days of the issuance of an engagement letter to IRS management. The Audit Plan elements should be updated, as necessary, to reflect any significant changes including, for example, staff changes, expansion or reduction of audit scope, and IRS organization and management changes or management requests.

Subsequent addenda to Audit Plans should be approved by the Director and Assistant Inspector General for Audit. Auditors are required to document in the workpapers when a section of the Audit Plan is removed or amended. Any unusual situations, such as not fully meeting the final objectives because of changes, should be documented.

Annex 3 includes an example of an audit program.

CHAPTER 8

CONDUCTING THE AUDIT

1. INTRODUCTION

Auditing requires a series of essential sequential steps and stages in order to be successful. The follow through of each of them will not only ensure success of the work but also the soundness and consistency of the resulting report.

2. INITIATION OF ACTIVITIES

Every audit requires the issuance of an action order (sometimes called a service order, an equivalent express authorization, or an engagement letter). This action order specifies the entity to be audited, the objectives and scope of the audit, and the responsibilities for conducting the audit.

The action order will be initiated by the Director of the Internal Auditing Agency.

The action order or its contents must be **provided to the entity being audited.**

BRAZIL: initiation of the auditing activity

Communicating the initiation of the audit formalizes the beginning of the audit action. The communication is signed by the head of the auditing team and is sent from the Auditing Unit to the top level authority of the entity to be audited within a minimum term of 15 days prior to beginning the activity. The term of initiation includes the following information: Aspects of the audit, period to be audited, identification of the unit, type of Audit Program, fiscal administrative procedures, necessary documents and information requirements for the audit, name and functional identification of the auditors, signature of the auditors and notification to the Head of the entity to be audited. At the time of the visit to the audited unit, the first action is an initial meeting with the participation of the auditing team, the head of the entity and representatives from the sector to be audited, for the formal presentation of the officials in charge, ratification of the information in the initial communication and show the transparency of the work, along with the presentation of a summary on the methods and procedures to be used in the audit.

CHILE: Initiation of activity: Transparency and professionalism

The Internal Auditing Agency existing at the Internal Revenue Service must abide by the protocols of communication and interaction with the business or support units of the institution subject to auditing. For purposes of transparency, the Head of the respective Department coordinates the initial meeting of the field audit with the Regional Director or the Deputy Director of the Unit to be audited, to explain the objectives, scope, time frame, introduce the working team, the auditors' information requirements and control requirements of the managers of the Unit to be audited, in order to added it to the audit.

3. OBTAINING INFORMATION - SOURCES

During the audit, the information that supports the results of the audit must be **obtained, analyzed, and documented**.

Information obtained must pertain to all aspects of the audit objectives and scope.

The information may originate from **internal or external sources of the organization such as:**

- **Information obtained from computer systems:**

An organization's databases are the main source of computerized information.

This information may either be obtained during the audit planning phase (see Chapter 7 on Audit Planning) or be obtained during subsequent phases of the audit.

During the development of the audit, verification must be made of the validity and reliability of the information obtained from the computer system by reviewing supporting documents.

The quality of the information available in computer systems is an important factor, particularly the existence of control points in computerized processes, such as data entry processes.

- **Documentary information:**

Information may be obtained from reviews of every type of document: contracts, tax returns, files, assessments, etc.

- **Direct inspection:**

The direct observation of specific processes or situations during the visit by the auditor should be documented in reports, photographs, maps, physical samples, etc.

- **Attestation:**

Attestations include interviews with managers or staff in the audited entity, taxpayers, surveys, questionnaires, etc.

4. OBTAINING INFORMATION - SAMPLING TECHNIQUES

Extensive analysis of information may be difficult unless sampling techniques are used. Sampling generally results in saving time, human and material resources, and improves the quality of each verification performed. However, sometimes the complete verification of computerized information systems is easier.

Samples may be random or judgment samples. When a sampling technique is used, **the technique must be documented**, indicating whether or not it is random and including its essential characteristics.

- **Random Sampling:**

This sampling method relies on probabilities. This type of sampling allows an auditor to quantify statements made on the basis of a sample. These statements are called inferences, and their margin of error contributes to conclusions on the reliability of a scientific method.

Random sampling introduces precision but is not exempt from restraints, such as the need to calculate the sampling error, control the entire process to avoid errors unrelated to the sampling, substitute sample elements with criteria similar to those of the initial selection, or verify the hypothesis.

- **Discretionary or judgment sampling:**

This selection method is not based on probabilities. This type of sampling is used most frequently in the following circumstances:

- The random sample size cannot be determined.
- The elements that must be reviewed are predetermined by their qualitative or quantitative relevance.

- The audit only seeks to verify the procedure followed by the audited entity under different assumptions.

Discretionary or judgment sampling does not support projections from the sample results to the entire population.

5. EXAMINATION AND EVALUATION OF INFORMATION

The examination and evaluation of information, data, and test results during the planning and development of the audit may include the following analytical procedures: models, indexes, series, trends, profiles, comparisons between periods, comparisons with the results projected or budgeted, comparisons with the results obtained by other entities with similar functions, etc.

When unexpected results are obtained, additional analysis methods and new verifications must be done to accomplish the audit objectives.

6. EVIDENCE

Information, data, and test results gathered during the audit must be examined and evaluated in order to obtain **sufficient, relevant, and competent** evidence on which to base conclusions and recommendations.

AUDIT EVIDENCE

- **SUFFICIENT:**
Evidence is sufficient if it can support the results of the audit. Sufficient evidence is real, adequate and convincing, so that a sensible and informed person can reach the same conclusions as the auditor.
- **RELEVANT:**
Evidence is relevant if it is logically and sensibly related to the conclusions and recommendations of the audit and is consistent with its objectives.
- **COMPETENT:**
Information is competent if it is reliable and consistent with the facts and is the best that may be obtained by using the appropriate audit techniques.

GAO (GOVERNMENT AUDITING STANDARDS)

- The sufficiency, relevance and reliability of the evidence must be carefully considered, particularly those derived from oral statements made by the Directorate or the officials in charge of the audited entity. When the statements made by the Directorate or the officials in charge of the audited entity refer to matters of importance, they should be confirmed, whenever possible, by obtaining evidence from other different sources.
- Evidence obtained from third parties without any direct interest is generally more reliable than evidence provided by the party being audited.

7. WORKING PAPERS

All work performed during the different audit phases must be documented in audit **working papers**.

- The **purpose** of the working papers is to:
 - Serve as support for the final report.

- Document evidence of the work performed and internal or external evidence obtained from the tax administration.
- Assist in the performance and supervision of the audit.
- Allow for reviews to determine the quality of the audit.
- **Elements** that must be documented in the working papers are:
 - Planning.
 - Auditing procedures used and information and evidence obtained.
 - Supervision.
 - The report.
 - Follow-up.
- **Retention** of work papers:
 - The Internal Auditing Agency must retain its working papers based on Agency requirements. Retention requirements should indicate the length of time to retain the working papers. The working papers should be retained for as long as they are useful for the organization.
 - Backups of the working papers must be adequate. The working papers should be backed up electronically.
- **Signature:** The working papers should be signed by the officials responsible for the audit.

8. SUPERVISION

The development of the audit must be supervised to ensure its quality and compliance with the objectives.

Supervision of the audit includes:

- Verifying that the audit script is followed and the established audit steps are performed.

- Ensuring compliance with all the audit objectives included in the audit script.
- Ensuring that the steps established in the schedule of tasks have been followed.
- Verifying that the working papers have supporting evidence for facts reflected in the report.

Supervision must be documented.

UNITED STATES: Evidence review program

TIGTA uses a standardized electronic software tool, TeamMate, that was developed by the public accounting firm PriceWaterhouseCoopers, to document audit evidence gathered by auditors. The software also allows auditors and managers, on a day-to-day basis, to review and approve all new work papers used as supporting evidence.

In summary, the TeamMate software helps auditors and managers to control all phases of the audit, including:

- Planning and organizing audits.
- Managing audit documentation.
- Replicating files and segregating assignments.
- Providing for managerial review and approvals, which includes electronic signatures.
- Cross-referencing and indexing of audit reports to supporting documentation.
- Inputting and tracking administrative and management information system information.
- Standardizing audit program and enterprise applications.
- Allowing for audit project backup and restoration.
- Integrating Microsoft Office applications.
- Serving as a central repository for standardized programs and staff resources.

TeamMate software allows for standardized work paper preparation, thereby ensuring better organization of work. Software usage also: leverages efficiency with consistent numbering and cross-referencing of audit documentation; standardizes folder structure to ensure uniformity; and, allows for easier location of audit results and the review of work papers. The software also contains standardized templates for reports and other documents which are maintained in TeamMate libraries and which can be updated easily and used nationwide.

Managers who use TeamMate have better control and accountability over team members assigned to an audit and better control over their work. Managers are able to immediately determine the status of an audit and, as a result, can provide quick and continuous direction to their staffs. Managerial reviews are documented in the work papers and are in a standardized format which facilitates the use of staff “coaching” notes.

When using TeamMate, standardized document formats permit easy work paper indexing. Referencing procedures are standardized by using Microsoft Word features within TeamMate. As a result, travel costs may also be reduced when document referencing is assigned to independent auditors who are located at different work sites.

The use of TeamMate provides for the organization of audit work and security over the audit files. Team members can access audit work papers simultaneously and from different offices. The auditors share information and documents across a wide area network that connects to local area networks (LAN). Managers and auditors use LAN servers to store and otherwise manage current and prior audit files which include documentation vital to substantiate information presented in audit reports.

Documentation of audit work is nearly paperless because all documents necessary to support audit results may be prepared in or imported (e.g. scanning) into Teammate. The integration of current Microsoft Office software simplifies work paper preparation. With TeamMate, work paper organization is improved by ensuring work papers

are properly prepared, indexed to supporting documents, and signed by auditors and reviewers. TeamMate file security limits access to authorized team members and reviewers.

CHAPTER 9

COMMUNICATING THE RESULTS: THE REPORT

1. INTRODUCTION

The Internal Auditing Agency must **communicate** the results of its work timely.

The results of audits conducted by the Internal Auditing Agency will be documented in **audit reports**. The report should include the conclusions and recommendations based on the audit results.

The audit report is the final product of the audit.

2. TIME FRAME FOR ISSUING THE REPORT

The Internal Auditing Agency must issue reports timely to the audited entity and others interested in the report.

3. CONTENTS OF THE REPORT

1. Todos los informes de auditoria deben incluir necesariamente:
 - A **title** and a **reference** identifying it, as well as an **index**, a **time schedule** of the works carried out and the composition of the auditing **team**.
 - The **objectives** of the audit
 - The **scope** of the work to be carried out
 - The **methodology** used
 - A **summary of the actions carried out** and the **observations or significant facts** verified with sufficient evidence that may support the conclusions and recommendations.

- When providing the auditing observations one must indicate the effects or consequences of this situation and their impact on the organization if the situation observed is not corrected.
- Also to be included are the **positive aspects** and most outstanding achievements of the audited entity, especially if improvements made in an area may be applied to the others.
- The **conclusions** of the audit
- The **recommendations** intended to correct the problems detected and improve the audited activity.
- The **explanations or opinions** of the audited entity made during the procedure.
- The **annexes** to the report that are also part thereof.

In order to contribute to the standardization of the report and facilitate its reading, part of the information or documents included in the report may be compiled in Annexes inasmuch as they are relevant for understanding it. For example: copies of documents or reports, detailed data of actions summarized in the body of the Report, statistical charts, etc.

2. It is advisable to prepare a “**summary report**” or “**executive summary**” addressed fundamentally, to the Tax Administration authorities. By means of a synthesis of the objectives, scope and methodology, as well as the most significant conclusions and recommendations, it should allow, through a quick reading of a reduced number of pages, for knowing the actions carried out in the audited entity, area or service.

4. QUALITY OF THE REPORT

Reports must be **accurate, credible, objective, clear, concise, useful, complete, and timely.**

- **Accurate:** Reports must be free from errors and the evidence presented must be credible and reliable. Data and evidence obtained must be evaluated and summarized and should be presented carefully and precisely.

The credibility of the report must be assured. Inaccuracies may cause doubts as to the validity of the work and distract attention from the main issue.

- **Objective:** Reports must be fair and impartial, the result of a balanced evaluation of all relevant facts and circumstances. Conclusions and recommendations must be expressed without bias, partialities, personal interests, or third party influences.
- **Clear:** Reports must be easily understandable and logical. Therefore, unnecessary technical language must be avoided and all relevant and significant information must be provided. If technical terms or abbreviations are used, they must be previously defined.
- **Concise:** Reports must go straight to the facts, avoid unnecessary wordiness or superfluous details, and highlight important aspects.
- **Useful:** Reports must be useful for the tax and Customs Administration audited entity and lead to necessary improvements. Contents and tone must be positive and well intended to facilitate a favorable reaction to the recommendations and conclusions. Language that generates unnecessary opposition and defensive attitudes must be avoided.
- **Complete:** Reports must include all information and significant and relevant observations to support conclusions and recommendations. A few examples of a deficiency are not sufficient to support a diagnosis. All that it supports is that a mistake, a deviation, or a weakness existed in the system.
- **Timely:** Reports must be timely. They must be presented timely to allow for quick and efficient action.

**Standard 2420 for Professional Exercise of
Internal Auditing of the Institute of Internal Auditors.**

5. STANDARDIZATION OF THE REPORT.

- It is advisable for the Internal Auditing Agency to standardize the auditing reports.
- Standardization affords the following advantages:
 - Ensures a specific quality of the reports.
 - Facilitates reading by those for whom it is intended.
 - Speeds up supervision.
 - Simplifies incorporation to the organization's documentary data bases.
- Among others, the following aspects may be standardized:
 - The structure.
 - The extension.
 - The obligatory sections and their contents.
 - The type of presentation.

Standardization will be applied to the different types of reports each Internal Auditing Agency may have established.

BRAZIL: INTERNAL AUDITING REPORT

Bearing in mind the importance of the phase for communicating the results, conclusions and recommendations of the audit, it is believed that the audit report is the most important document of the activity. Development of the document should be based on objective criteria, which calls for standardizing the structure and, in the case of the Secretariat of Federal Revenues – SRF, it has resulted in the creation of internal audit type reports. The report should include the most relevant information for the effective communication of the results to the addressees and it is recommended that the working papers and other documents that may allow for describing in detail the main verifications, conclusions and recommendations be attached. A standard audit report should have the following structure:

1. Executive report – is an executive summary generally addressed to top management to make it aware of the main results of the audit. It lists the initial objectives of the audit, the results achieved and the main conclusions and recommendations.
2. Introduction –date of initiation and closing of the audit, audit program, audited procedures, audited entity, date of preparatory meeting and summary description of the objectives of the audit.
3. Auditing team – identification of the auditors of the auditing team.
4. Scope and objectives of the audit – Auditing program and specific procedures that have been audited.
5. Methodology used – reference to working papers that have been used, by type of procedure. Working papers follow standard models and must be identified.
6. Development of the audit – main information and evidence obtained from internal and external sources, before and during the audit.

7. Main conclusions and recommendations – is a summarized presentation of all conclusions and recommendations by type of audited procedure, either through computerized systems or documents and other evidence. The conclusions also refer to the positive aspects of the entity and the procedures audited.
8. Final observations – main allegations or opinions of the audited body.
9. Conclusion of the audit –Date of closing and signature of the auditors and Head of the Auditing Team.

Annexes – Synoptic charts of the audited procedures: identification of the Program, period, audited entity, verified procedures, working papers with description of the procedures and events selected and the main occurrences identified. Description of the recommendations.

6. SUPERVISION OF THE REPORT.

The report should be supervised to guarantee its quality and compliance with the objectives.

Supervision in this phase of the audit includes:

- Ensure that the objectives of the audit have been fulfilled.
- Guarantee that the audit reports are precise, objective, clear, concise, constructive and timely.
- Verify the coherence of the data contributed.
- Verify the coherence of the recommendations and conclusions with the objectives of the audit.
- Determine whether the evidence is sufficiently reflected in the report.

The supervision of the report should be a responsibility assigned to the head of the team or unit that performed the audit.

Supervision must be documented.

UNITED STATES: Guarantee of Quality Audit Reports –

To ensure consistently high-quality audit reports, TIGTA uses many processes including supervisory reviews, standardized report formats, checklists, an independent referencing process, and an independent group within the Office of Audit that reviews all draft and final reports for quality, consistency, and compliance with TIGTA requirements. Specifically, up-front discussions, at every auditor level, regarding what the report should convey allows for a better quality product. The Assistant Inspectors General for Audit (AIGA) will participate in these discussions to ensure concurrence and “buy in” at every level. Documentation of the AIGA’s involvement in message conferences will be maintained in the audit workpapers. This “frontloading” practice is also required to ensure the report information provides the proper tone and factual presentation. This message conference is required unless the AIGA decides that one is not necessary and this decision is documented in the workpapers.

1). Message Conference: The method or techniques used to meet the message conference requirement will be left to the respective AIGA’s discretion. In general, the message conference addresses the conclusions reached, the

elements of a finding, who are the stakeholders and what will the reaction to the findings be. Documents prepared for discussion in the message conference may be deemed by the AIGA to be sufficient and a meeting will not be required. If a meeting is not deemed necessary by the AIGA, this decision must be documented and will satisfy the message conference requirement.

2). The Report: Auditors work closely with their Manager to prepare an initial draft audit report. Once satisfied with its content, tone, and message, the Audit Manager submits the draft audit report to the Audit Director and AIGA for review and comments. During these processes, the audit teams use a standardized electronic report template, guidance document, and checklist that are updated quarterly to ensure consistency in report format and also compliance with *Government Auditing Standards* reporting requirements.

a) A key component of ensuring report quality and accuracy is the report indexing and referencing processes. Using TeamMate (TIGTA's automated workpaper software), auditors electronically index all factual statements, conclusions, and results in the audit report to supporting workpapers and/or detailed schedules. This process helps to ensure accuracy and facilitates referencing. Generally, one auditor references an entire report.

In accordance with GAS () on professional judgment, the referencer should assure that findings and conclusions in the reports are fully supported by sufficient, competent, and relevant evidence obtained and developed during the audit. The referencer should also assure that findings and conclusions are based on an objective evaluation of pertinent evidence. Referencers are fully responsible for evaluating all aspects of documents assigned.

b) Review and quality control process: After the draft reports have been referenced, they are sent the OA's Office of Management and Policy (OMP), which serves as the Deputy Inspector General for Audit's quality control point. OMP reviews each draft report for conformance with TIGTA's report format and reporting standards outlined in the GAS, as well as for clarity.

c) Final Report: After a draft report has been issued and IRS management comments have been received, the audit team incorporates management's response into the audit report and the report is issued in final. However, the final report goes through the same quality review process as the draft report; i.e., any changes to the report are re-indexed and referenced, a standard format and checklist are used for the final report, and all final reports are sent again to OMP for a final quality review before being forwarded for signature to the Deputy Inspector General for Audit.

7. TYPES OF REPORTS AND THEIR PROCESSING

The contents of the auditing reports, their extension and format vary and will depend, among other factors, of the types of audits dealt with, the time of processing the audit and the person to whom they are addressed.

- Thus, depending on the type of actions carried out they may be, among others:
 - ✓ of financial control,
 - ✓ of computerized auditing,
 - ✓ of behaviors,
 - ✓ of auditing of results or compliance, and within those:
 - o according to the functional or territorial area dealt with in the audit,

- tax management,
 - customs, examination, etc., or else,
 - integral verification of an entity.
- Depending on the phase of processing of the audit to which they refer, reports may be:
- ✓ preliminary or
 - ✓ definitive.
- According to the level of extension or specificity, they may be:
- ✓ Regular or
 - ✓ executive. The latter are generally a summary of the previous ones intended for the Directorate.

ARGENTINA: Types of Report

In the Internal Auditing Unit (U.A.I.) of the Federal Administration of Public Revenues (AFIP) standardized reports are issued, regardless of the area performing them. However, they do differ, depending on whether they are planned audits or not.

➤ **For planned audits.**

Since the beginning of the audit up to the definitive file of actions, the reports are:

- *PRELIMINARY REPORT*. Draft sent to the audited area on concluding the field tasks for comments or observations.
- *INTERNAL AUDITING REPORT*. Considers the opinion of the audited area.
- *FOLLOW-UP REPORTS*. Relates to observations from previous reports that have not been modified.
- *FINAL FOLLOW-UP REPORTS*. Final conclusion of the results of the auditing and follow up measures taken by the audited area. Filing of actions.

See Annex 4

BOLIVIA: Standard Report

On concluding all reports, prior to their issuance, whether they be draft or preliminary reports, they must be explained to the officials in charge of the audited areas, so that they may give their opinion or clarifications to the results of the audits or follow-ups made. To this end, a document called “validation” is issued and signed or endorsed by the competent authority of the audited area and the authority of the Internal Auditing Agency.

With the observations and/or clarifications given, the Internal Auditing Agency issues the final or complementary report, including the comments of the public workers responsible for the audited sectors, in relation to the results achieved by the Internal Auditing Agency.

The validation document is maintained as part of the working papers of the corresponding audit.

On the other hand, the processing of the report requires the following conditions:

- There should be a **procedure** to regulate the processing of the report.
- The procedure may be different depending on the type of report. For example, reports pertaining to staff behavior or reports pertaining to a limited verification of specific aspects may have different processing procedures.
- A **draft report** should be prepared with all the elements, particularly the auditor’s conclusions and recommendations, which are discussed in item 3 of this Chapter.
- The draft report should be provided to the audited entity, through the head of the office, for response by the official responsible for taking the corrective action, if any.
- The purpose of this process is to ensure that the auditor has correctly interpreted the fundamental facts and has not included any inaccurate information and to give the audited entity the opportunity to provide its response.
- Once the response to the draft report has been received, its contents will be evaluated, after which it may be modified or maintained according to said evaluation.
- The final report must be signed by the Director of the Internal Auditing Agency.

8. RECOMMENDATIONS

1. Recommendations made by the Internal Auditing Agency are mainly intended to assist the organization in the strengthening of its control environment and achieving its objectives by improving the quality of the public service it provides.

The recommendations should flow logically from the observations and conclusions in the report. Their immediate objective is to resolve deficiencies identified during the audit and improve the organization's operations.

2. The official responding to the recommendations will vary depending on the type of deficiency to be resolved, the operation to be improved, or the scope of the proposed recommendation. The auditor must clearly state the recommendations in the report. In general, the recommendations should be addressed to:

- The **audited entity and/or the head of office** who can take corrective actions, or
- The **appropriate oversight authority** with a copy to the audited entity and/or its head of office when corrective actions can only be taken by this authority.

3. The Internal Auditing Agency must state in its report the corrective action that should be taken for the recommendations involving critical problems.

4. A procedure should be established whereby tax administration management or the Audit Committee will ensure that the appropriate official agrees to comply with the recommendations, or assumes the risk of not taking action.

BOLIVIA: Recommendations

At the National Tax Service of Bolivia a best control practice regarding recommendations originating from the audits, instructs the top level executive of the Tax Administration to issue a written opinion on the contents of the entire report of the auditing unit with recommendations to correct deviations detected, apply legal and normative provisions and/or improve the executive, administrative or operational management of the entity and send it to the Auditing Unit within ten working days as of the date of receipt of the report. Such statement must refer to the acceptance of each one of the recommendations made by the Internal Auditing Unit.

SPAIN: RECOMMENDATIONS, INSTRUCTIONS AND MOTIONS. FROM THE INTERNAL AUDITING SERVICE

The result of the auditing actions of the Internal Auditing Service is documented in Reports, called Inspection of the Services Reports. The Draft Report or preliminary report is subjected to a procedure where the managing center, the hierarchical superior of the audited unit and/or the audited unit itself may make observations or allegations. There are three types of proposals for improvement, Recommendations, Instructions and Motions depending on the entity to whom they are addressed, their obligatory nature or not and their contents.

The Reports include RECOMMENDATIONS THAT endeavor, beyond the correction of the deficiencies detected, to contribute improvements to the organization in all its spheres of action. The recommendations must not be obligatorily fulfilled.

However, when the Internal Auditing Service considers it essential to ensure compliance with the recommendations by the audited unit, due to the scope or seriousness of the circumstances or the risks that must be reduced or eliminated, the latter adopt the form of INSTRUCTIONS, that are sent together with the final Report to the AEAT General Director for his ratification.

Once ratified by the AEAT General Director, the Instructions are transmitted for their compliance to the official in charge of the audited unit and to his hierarchical superior and they are subject to follow up, having to inform the Internal Auditing Service within a maximum two-month term about the application of the measures ordered in the instructions or, instead, of the difficulties that may have occurred for their effective implementation.

Another type of recommendations developed by the SAI are the MOTIONS, that deal with proposals made to the managing centers (central services) of the AEAT, that go beyond the territorial scope and may require, for their execution, a greater scope intervention. The Motions are generally derived from audit actions that have been carried out in different spheres and, on occasions, by different auditing teams. By way of example, the Motions make manifest to the managing centers to which they are addressed, those aspects where there is need for greater coordination of the services, or promote the unification of criteria or the establishment of organizational, procedural or normative adaptations that may allow for improving the quality, effectiveness and economy of management.

The Motions, approved by the Director of the Internal Auditing Service and sent to the managing centers must be acknowledged by the latter and are also the subject of follow-up by the Internal Auditing Service.

UNITED STATE : Recommendations

Importantly, TIGTA recommendations are designed to be practical, cost-effective, and directed at the underlying reasons or causes that resulted in the deficiencies, thereby eliminating or reducing the likelihood of their recurrence. IRS management may agree, partially agree, disagree, or propose alternate corrective actions to address TIGTA recommendations. If IRS management disagrees with a TIGTA recommendation(s) and TIGTA believes the recommendation is warranted and needed to correct a significant deficiency, then TIGTA can chose to elevate the disagreement to a higher authority in the U.S. Department of the Treasury (Treasury) for resolution. Both TIGTA and the IRS must present Treasury with their respective positions.

9. DISTRIBUTION OF THE FINAL REPORT

- The **distribution** of the reports may vary in each country according to its regulatory framework. The reports should be distributed to the highest level officials including:
 - Tax administration management.
 - Audit Committee, if any.
 - Appropriate parties involved in control, security or risk issues, if any.
 - Audited entity.
 - Head of the office and/or oversight authority responsible for corrective action.
- The Director of the tax administration or the Audit Committee may agree, to promote achievement of the mission and objectives of the organization to the distribution of the report to other **interested parties** such as:
 - Other internal or external oversight officials.
 - Other internal or external interested parties.

Reports provided to other interested parties must be authorized by law or regulation and should be limited to summarized or abstract versions that do not contain privileged or confidential data.

10. CUSTODY AND RETENTION OF THE REPORT

- The Internal Auditing Agency should retain reports during **the term and in the security conditions** to satisfy legal and administrative requirements of the tax administration or as long as they are useful to the organization.
- It is recommended that there be a **computerized file** with progressive generalized maintenance of reports in electronic support. If reports are kept as computerized files, the Agency should ensure that the reports are capable of being accessed during the retention period.

The establishment of a **documentary database** of reports that is accessible to report recipients may be used for planning and follow-up actions.

CHAPTER 10

FOLLOW-UP

1. INTRODUCTION

Internal audits help the tax administration achieve its objectives through the recommendations made for continuous improvement of the processes and activities of the organization.

The **value** of audits will increase with adequate follow-up reviews. Adequate follow-up reviews increase the **impact** the Internal Auditing Agency seeks to achieve with its audits by ensuring compliance with recommendations and the implementation of best practices.

The creation of a **consensus environment** favorable for the adoption of corrective measures by the audited entities and the **verification** of compliance with the recommendations, must be part of Internal Auditing Agency's regular activities.

2. MEASURES TO ENSURE THE IMPLEMENTATION OF RECOMMENDATIONS

An audit activity should have procedures to ensure implementation of recommendations. These procedures should include:

- The **commitment to solve situations and problems** acquired by the audited entity as soon as they are made known by the auditors.

ARGENTINA: “Obtaining consensus” and “Letter of commitment for corrective actions” used by the Argentine Tax Administration.

At the Federal Administration of Public Revenues (AFIP) of Argentina, the Internal Audit Unit applies methods intended to achieve the greatest possible consensus between the audited entity and the auditor on corrective actions that should be undertaken.

The auditor must ensure that the affected personnel and their superiors essentially agree with the observations reported or clearly state their objections.

The prompt reporting of the observations identified during the audit to the persons involved will expedite decisions on corrective actions without the need to wait for the auditor’s report.

The auditors should obtain from the audited party a formal commitment to take corrective action on problems identified. For this purpose, a “letter of commitment for corrective actions” is drafted. This letter includes details on the resolution of the condition observed, how it will be resolved, and a tentative date for it to be resolved.

The letter is signed by both parties and documented in the working papers. The report contains the commitments of the audited party as well as the dates agreed upon for their resolution.

- Tax administration management, the Audit Committee, or other appropriate officials should **approve the recommendations** since the model considered in this Manual assumes that the Internal Auditing Agency does not have the authority to give executive instructions to the Tax Administration entities.

3. FOLLOWING UP ON RECOMMENDATIONS

- **Follow-up** is defined as a process for determining the adequacy, effectiveness, and timeliness of the corrective actions taken for the recommendations made.
- Follow-up reviews should be done to **facilitate compliance** with the recommendations and **will allow** the organization’s management to **be aware** of the impact of the audit.

In this process, the Internal Auditing Agency should perform a follow-up review of the corrective actions taken for recommendations and should determine compliance by:

- Gathering additional information from the agencies involved in taking corrective actions, and/or
- Performing audits designed to verify such compliance.

Follow-up reviews must be performed even if recommendations are not mandatory for the audited entity.

- The **follow-up procedure** and **responsibility** must be established in the Internal Auditing Agency's procedures. The audited entity to which the recommendations are addressed will inform the Internal Auditing Agency about corrective actions taken for recommendations received and whether they were taken timely and effectively.
- The Internal Auditing Agency must determine if the corrective actions taken from the recommendations resolve the problems reported, inform management about the **results of the follow-up review**, and document significant noncompliance.

ARGENTINA: Follow Up of Observations SISIO (Integrated Observations Follow-Up System)

For each observation, one enters the effect, recommendation, its status (regularized, cannot be regularized, no corrective action, in process, not shared, no knowledge UAI) and its impact (high, medium or low).

This data base is useful for an adequate follow-up of individual observations, thus contributing to feedback of eventual residual risks, with a view to their possible incorporation in the Annual Audit Plan.

See Annex 5 for example of the screens appearing in SISIO.

BOLIVIA: Follow-up of Recommendations

Within the ten working days following the date of acceptance of the recommendations, the audited unit will submit to the Internal Auditing Unit a schedule for their implementation, by assigning the responsibilities corresponding to each of them so that it may constitute a referential base for said unit to effectively follow up compliance with all the recommendations.

A copy of said documents should be provided to the General Comptrollership of the Republic (Control Entity in Bolivia).

Noncompliance with the aforementioned terms will be the exclusive responsibility of the top level authority of the Tax Administration.

Regardless of the above, all the reports, prior to their issuance, must be explained to the officials in charge in the audited areas so that they may give their opinions or clarifications with respect to the results of the audits or follow-up. The minutes of the meeting will be signed as evidence.

TITLE IV: OTHER RELATED TOPICS

CHAPTER 11

INFORMATION SYSTEMS AND INTERNAL AUDITING

1. INTRODUCTION

As stated in Chapter 4 and other sections of the Manual, information technology has revolutionized work processes, particularly in **obtaining and processing information** and in **communication channels** established within and outside of organizations.

The challenge for an Internal Auditing Agency is to decisively adapt to the so-called “**electronic government**” as well as to **changes in control and internal auditing procedures**.

Furthermore, this new auditing reality has new methods and risks that must be managed and combined with more traditional activities.

This Chapter has three independent sections dealing with information and its new technologies and the use of technology by the Internal Auditing Agency. The Chapter includes auditing of computerized systems, establishing systems for controlling the use of taxpayer data by the tax administration, and establishing adequate Internal Auditing Agency access to information.

2. AUDITING OF COMPUTERIZED SYSTEMS

The **auditing computerized systems** is also called computerized auditing or systems auditing. This type of auditing consists of the examination of an organization’s information systems and computer operations to ensure the tax administration achieves its objectives and strengthens its internal control.

The Internal Auditing Agency must be capable of conducting audits of the computerized systems of the tax administration.

The Internal Auditing Agency's computerized audit activities should include all **information technology resources** (application systems, information, infrastructure and individuals.)

INFORMATION TECHNOLOGY RESOURCES

Data: *In the broadest sense they are structured and nonstructured objects, graphs, sound, etc. (for example, external and internal).*

Applications: *Application systems consist of the sum of manual and programmed procedures that process the information*

Information: *In their broadest sense, they are input as well as output and process data, in any of the forms in which they are used by the business.*

Infrastructure: *The technology and installations that allow the processing of applications, including hardware, operational systems, data base management systems, networks, multimedia, etc., as well as the resources that lodge and provide support to the information systems.*

Persons: *Refers to the staff required to plan, organize, acquire, implement, deliver, support, monitor and evaluate services and information systems.*

COBIT 4.0
CONTROL OBJECTIVE
MANAGEMENT GUIDELINES
MATURITY MODELS
NOVEMBER 2005

The Internal Auditing Agency's computerized audit activities include, but are not limited to, the following:

- **Verify risks associated with information systems** by proposing the adoption of technical measures that may lessen the risks. This includes verifying:
 - The effective implementation of contingency plans that ensure continuity of service, particularly the use of backups and the operation of support centers.
 - The validity of physical and logical measures that protect information from intentional or unintentional destruction or from internal or external attacks.
 - The adequate segregation of duties in different working environments, particularly between application development areas and systems operations.
 - The security of internal and external communications.
 - The administration and management of corporate information systems and local area networks.
 - The system for recording and storing events and access to relevant data through system functions or specific audit tools.
- **Verify compliance with rules and standards** in force in the organization, such as:
 - Provisions related to the use of computerized files containing taxpayer data.
 - Information security, normalization, and conservation protocols.
 - Rules on the publication of the use of electronic information technology and techniques in tax procedures.
- **Promote and evaluate the implementation of an Information Security Management System (SGSI)** or specialized information security to reduce risks and threats. The **ISO/IEC 17799:2000 standard** offers a practical international standard for information security management.

The ISO/IEC 17799:2005 standard offers an international code of best practices for the management of information security. The ISO/IEC 27001:2005 standard specifies the requests that should be found in SGSI, whose objective is to create trust in the information systems. The procedure for the certification of such standards is subject to an SCSl audit.

- **Verify compliance with business requirements for information** in all its phases, including data entry and processing, to ensure information quality and effectiveness and efficiency in tax procedures.

BUSINESS REQUIREMENTS FOR INFORMATION

Effectiveness: Refers to information being relevant and pertinent to the business process and delivered in a timely, correct, consistent, and usable manner.

Efficiency: Refers to supplying information through the optimal (most productive and economic) use of resources.

Confidentiality: Refers to the protection of sensitive information against unauthorized disclosure.

Integrity: Refers to the accuracy and adequacy of information and its validity in accordance with business values and expectations.

Availability: Refers to the availability of information when required by the business process, now and in the future. It also refers to the safekeeping of necessary resources and associated capacities.

Compliance: Refers to compliance with the laws, regulations and contractual agreements to which the business process is subjected. For example, business criteria imposed externally or internal policies.

Reliability of information: Refers to the use of appropriate information so that the management can operate the entity and exercise its financial and compliance reporting responsibilities.

COBIT 4.0
CONTROL OBJECTIVE
MANAGEMENT GUIDELINES
MATURITY MODELS
NOVEMBER 2005

- **Promote computerization and electronic communication of tax procedures** to reduce risks.

To perform these activities, the Internal Auditing Agency must have a sufficient number of professionals who are qualified in specialized computer audit techniques and have sufficient knowledge of tax procedures and the operations of the tax administration.

BRAZIL: Remote auditing of computerized systems

The Federal Tax Administration of Brazil, SRF, has developed, with the direct participation of the internal auditing team, the Systems Audit and Control system - Arco, which is a system to support audits and control the SRF's computerized systems. It uses the *Datawarehouse technology* with the *Microstrategy* tool. Information on inquiries and changes made by the officials in the corporate information systems are extracted from the data banks that originate in the computerized systems. The information extracted is added and classified, with the selection of the most critical events for audit, which results in a new data bank: the Arco system. Inquiries have been structured with respect to previously combined events, whose combination is a high risk indicator. An example of a high risk event is the updating of the tax situation by an official from a fiscal jurisdiction other than the taxpayer's fiscal jurisdiction.

The system is a risk management tool since it classifies events stored by level of impact in tax control (low, medium and high) and supports the remote auditing stage. The remote audit is defined as the stage of the audit procedure performed without the need for physical presence in the audited unit or documentary conference, since it is based on information obtained from the Arco system or other computerized support systems available. The purpose of the use of computerized tools is to increase the reliability of the evidence and to reduce the time of execution of the audit at the local unit.

3. INFORMATION SECURITY

The Internal Auditing Agency must encourage the implementation of **systems to control the use of taxpayer data** in computerized files, verify that the controls exist, and recommend improvement if they do not exist or are insufficient. These systems should include:

1. An auditable system to manage users of the information systems that:

- Ensures the effective operation of tax procedures.
- Designates access according to the type of work performed.
- Establishes procedures for highs, lows, modifications, and cancellations.
- Ensures any external users are prevented from making unauthorized disclosures.

2. An auditable system to control accesses to information systems that:

- Independently records all accesses to any system used.
- Allows for identifying accesses made, together with direct or indirect behavior patterns.

- Assesses the risk associated with access.

BRAZIL: INFORMATION SECURITY POLICY

The information security policy consists of a series of internal regulations whose objective is to guarantee availability, confidentiality, and integrity of the data and information used by the Tax Administration.

The current regulations of the Secretariat of Federal Revenues – SRF are grouped in three main levels:

- Strategic: includes the guidelines of the security policy. They are the legal proceedings signed by the Director of the SRF.
- Tactic: contains the general regulations of each of the computerized environments of the SRF. They are the legal proceedings generally signed by the Heads of the Central Services (Corodinations) of the SRF.
- Operational: contains the details of the instructions and procedures used in each of the computerized environments.

The following aspects are considered for the implementation of the information security policy:

- *“Top-down” policy following effective commitment of management.*
- *Participation of the different areas of the organization in all phases of the process (diagnosis, implementation, management, and review).*
- *Dissemination and staff training.*
- *Feedback of security system in case of eventual occurrences.*
- *Periodic risk analysis of the environment to identify the vulnerabilities and ensure a continuous improvement process.*
- *Permanent updating of technologies and procedures.*
- *Adequate human and material resources.*

- Identifies a selection of accesses with the highest risks to determine their justification.

The Internal Auditing Agency must encourage a corporate culture that is committed to information security, in cooperation with those agencies responsible for the organization’s information technology systems.

SPAIN: Control of accesses to information systems

The rules in force regarding security of automated files containing data of a personal nature forces the Tax Agency to approve and implement a Security Document which must be obligatorily complied with by all staff with access to the information systems.

The document regulates the entities that intervene in the Agency’s computer security system, its responsibilities and functions, as well as of the main users of the security system, those who provide authorizations, controllers and security administrators.

The security systems’ computerized management is based on two applications, Users and Control. The first allows for determining the users’ access profiles or specific authorizations for accessing areas of the various computerized applications of the Agency in such a way that the information available to each user will only be that necessary for the performance of his work.

The Control application allows control of user access to the system, as regards inquiries about tax information as well as transactions dealing with tax returns, examination, customs or enforced collection, among others.

The Control application automatically selects the access which should be supervised to request explanations and/or

propose disciplinary actions, if appropriate, based on pre-established and weighted criteria of various factors or circumstances of access. Accesses to be justified are also selected based on their inclusion in lists of special risk accesses, in relation to family or economic circumstances of the staff that accesses the system. The external users, from other organizations that access the data bases of the Agency are also subjected to the same control system. The Internal Auditing Service supervises its operation, as regards internal as well as external users, in addition to undertaking actions directly or by order of the responsible entities.

4. ACCESS CONDITIONS AND USE OF INFORMATION BY THE INTERNAL AUDITING AGENCY

The Internal Auditing Agency's **access** to information must be established in a required policy.

The tax administration must incorporate technological developments that allow auditors access to required information.

The conditions for use of information by the Internal Auditing Agency may be specified in the following ways:

- **Autonomous and immediate access to all information** available at the tax administration, regardless of the support and modality of access.
- **Functional independence and technical self-sufficiency in the analysis of individual or statistical information** found in the organization's information systems.
- **Structuring of the information** received so that it is useful for audit planning, sample selection, and follow-up reviews of the results obtained in audits.

CHAPTER 12

BEHAVIORS

1. INTRODUCTION

Risk analyses show the importance of human behavior in an organization. The Internal Auditing Agency should actively participate in the prevention, detection, and investigation of irregular behaviors.

With respect to irregular behaviors, the Internal Auditing Agency must:

- 1) Encourage ethical values within the organization.
- 2) Promote the establishment of a system for the prevention and detection of irregular behaviors.
The Agency should verify that the system operates adequately, detect its deficiencies, and recommend improvements as needed.
- 3) Conduct activities for preventing and detecting irregular behaviors.
- 4) Investigate irregular behaviors.

The audit model in this Manual does not include the participation of the Internal Auditing Agency in disciplinary or administrative action proceedings for correcting illegal or unethical behavior.

2. THE ROLE OF THE INTERNAL AUDITING AGENCY IN PROMOTING ETHICAL VALUES IN TAX ADMINISTRATION

- **Introduction of the Declaration of Ethics:** the CIAT member countries, gathered in Buenos Aires, Argentina, in April, 2005 and on the occasion of the XXXIX General Assembly promulgated the “Declaration for the Promotion of Ethics in the Tax Administration”. The Declaration emphasizes the need that the tax administrations have integrity programs aimed at the promotion of Ethics that may take into account the following key factors: **Leadership and commitment** of the top level managers

of the Tax Administrations; Existence of a **Legal framework**; **Fairness** of the tax system; **Computerization** of the tax functions; **Institutional autonomy**; Existence of **Effective control mechanisms**; Development and Acceptance of **Codes of conduct**; and **Human resources management practices**.

Likewise, to support its member countries in the promotion of ethical values and ensure the transparency of the tax administrations, CIAT developed a Model Code of Conduct through a Working Group that was technically coordinated by the Executive Secretariat and Canada, as co-sponsoring country.

- The Internal Auditing Agency must actively participate in these actions, by counseling the Directorate of the organization to act in the sense indicated and promoting activities that may strengthen the institutionalization of these values.

CHILE “Institutional Ethics and Integrity Program”

The Directorate of the Internal Revenue Service is currently carrying out an Institutional Integrity Program, covering a series of univocal initiatives and actions tending to reinforce employees abidance and respect for the laws, values and objectives of the Service.

Among its duties and obligations the Administrative Examination Department must play a fundamental role for purposes of planning, organizing, executing and supervising the actions inherent in the institutional integrity program.

A key element of the program has been the development, publication and acceptance of a Code of Conduct, whose main objective is to provide a reference framework with respect to the expected standards of behavior.

Likewise, within the actions of the integrity program, training workshops for ethical strengthening have been conducted for all Service officials, such as, for example: Workshop on tax information privacy policies; ethics and integrity workshop; ethics management workshop for managerial teams and induction workshops for new officials.

Another action has been the dissemination of administrative law of summary proceedings in INTRANET that will allow employees permanent and timely access to the information for their convenient analysis and feedback. In Internet there is a link: “give your opinion about the quality of the service”, whereby officials as well as taxpayers may pose their doubts and ethical dilemmas.

The institutional integrity program has contributed to improve the institutional ethical standard, there currently being awareness among the various levels of our Institution, about the importance of ethics for institutional management, However, what is even more important is that it has created the conviction and commitment for continuing to promote an institutional culture that enhances public ethics as a fundamental value of our permanent activity which contributes to improve institutional performance and the quality of service.

UNITED STATES: Promotion of Ethical Values

TIGTA carries out presentations for Tax Administration employees to create awareness about integrity/fraud and educate them regarding warning signals of taxpayers who attempt to bribe or threaten them or commit other types of offenses. Tax Administration employees are provided real-live examples and informed about ways of making known any suspicious activities.

3. PREVENTION, DETECTION, AND INVESTIGATION OF IRREGULAR BEHAVIORS

- The prevention of irregular behaviors is the responsibility of the organization as a whole and is not limited to the Internal Auditing Agency or another specialized agency. Consequently, the tax administration should establish a system for preventing and detecting illegal or unethical behavior as part of the control activities in each function.
- With respect to this control activity, the Internal Auditing Agency will have the same review and monitoring functions it normally performs in other areas of internal control of the organization:
 - Encouraging its establishment.
 - Verifying its effective application and its effectiveness in the prevention and detection of irregular behaviors.
 - Recommending improvements when necessary.
- To complement the organization's activities for preventing and detecting illegal or unethical behavior, the Internal Auditing Agency should **coordinate and conduct prevention and detection activities**, particularly when more information is needed and it is not possible or desirable that this work be performed by other agencies.

This coordination of activities must ensure the effectiveness of the organization's control system, standardize the methods and procedures applied in the organization by providing legal certainty, and perform preparatory tasks, especially those related to accessing its own or other outside information systems.

- The Internal Auditing Agency may also conduct **investigations** of irregular behaviors. The

investigations may be of an administrative or law enforcement nature, depending on the legal system applicable to a particular country.

4. REQUIREMENTS FOR PREVENTION, DETECTION, AND INVESTIGATION OF IRREGULAR BEHAVIORS

For the Internal Auditing Agency to perform the functions of prevention, detection, and investigation of illegal or unethical behavior, the following requirements must be met:

A) Requirements related to the administrative system.

- The legal system must **classify and sanction irregular behaviors** by the staff working for the organization.
- The legal system should grant the Internal Auditing Agency the power to use all **information available in the organization**, including tax information, for conducting prevention, detection, and investigations of irregular behaviors. This power should include unrestricted access to the information existing in computerized databases.
- The legal system should grant the Internal Auditing Agency the power to obtain **information outside** the organization either by allowing use of other databases or through investigative activities directly intended for this purpose.

B) Requirements related to the Internal Auditing Agency's staff.

- If the Internal Auditing Agency were to investigate irregular behaviors, the staff should have the adequate knowledge and experience required for doing so (for example, interview techniques....).

C) Requirements related to the Internal Auditing Agency's means.

- The Internal Auditing Agency should have available the specific **material means** to perform investigations of irregular behaviors if needed.

5. DEALING WITH COMPLAINTS

- The tax administration should establish a system that will ensure that it records and processes all complaints involving alleged irregular or unethical actions by the organization's staff.
- The Internal Auditing Agency should actively participate in dealing with any such allegations.
- The Internal Auditing Agency's participation will depend on the conditions or requirements stated above. The involvement of the Internal Auditing Agency in dealing with complaints will depend on their number and significance.
- In regard to complaints to be investigated, the Internal Auditing Agency should use the following protocol:
 - Receive and confirm complaints, keeping the complainant's identity confidential.
 - Investigate and verify the complaint without the need of any additional authorization.
 - Recommend appropriate action based on the results of the investigation.

Chile - System for receiving and dealing with denunciations.

At the Chilean Tax Administration (SII), there are formal mechanisms to report irregular behavior of the officials. To this end, citizens may file their denunciations at the Regional Directorates or the National Directorate and do so, on paper or via Internet. In general, citizens are required to identify themselves, although their identity is kept confidential. If the denunciation is filed before the Regional Directorates, the Regional Directors send it to the Deputy Internal Comptroller, along with the related background information to be evaluated and the officials may determine whether there is merit to initiate an administrative disciplinary process. If the denunciation is filed through the existing application in the Service's Web page, it is then sent to the Administrative Control Department to proceed with the pertinent investigation.

This system has implicit management control, as regards response time, derivation to the respective areas, solution of the case, etc., that is administered by the Taxpayer Assistance Department, which controls the corresponding feedback of all Regional Units or Directorate and in this way reviews the level of progress, the time it has remained in the last stage, among other data. Likewise, the system has a log that provides reports on feedbacks entered, those transacted, under study and processed.

United States: Denunciations System

The Treasury Inspector General for Tax Administration (TIGTA) operates a toll-free telephone line (hotline) and a central post office box where anyone can anonymously report suspicions of fraud, waste, abuse or misconduct by either tax administration employees or taxpayers. The allegations are received at TIGTA's Complaint Management Division, which acts as a national center to process and track allegations of wrongdoing. All complaints or denunciations are issued a number and tracked through disposition.

ANNEXES

Annex N° 1 : Argentina's example of Risk Map. Location of quadrants according to score obtained in the evaluation.

Probability	Impact			
	Low	Moderate	Average	High
Almost certain	25	75	150	250
Probable	16	48	96	160
Possible	9	27	54	90
Rare	4	12	24	40

Example of location of the quadrants of risks A, B and C, shortly after their evaluation and prior to top management's decision with respect to corrective actions to be implemented.

Probability	Impact			
	Low	Moderate	Average	High
Almost certain			B	A
Probable				
Possible				C
Rare				

Example of location of the quadrants of risks A, B and C following the top management's decision.

Probability-	Impact			
	Low	Moderate	Average	High
Almost certain			B	A
Probable		B		
Rare				

- A. Corrective actions managed to lower the risk of this process from High to Moderate.
- B. Corrective actions managed to lower the risk of this process from High to Moderate.
- C. Top management decided to assume this risk, which remained as Average.

Annex N° 2: Templates used by Argentina
Hours budgeted by projects:

INTERVENCIÓN OBLIGATORIA	PROYECTOS	CANTIDAD AUDITORES	DÍAS (*)	HORAS						APLICACIÓN HORAS POR PROYECTO			PORCENTAJE HS POR PROYECTO	
				TAREAS DE CAMPO		INFORMES		CANTIDAD DE AUDITORES	AUDITOR	SUPERVISOR	TOTAL			
				AUDITOR	SUPERVISOR	DE AUDITORIA INTERNA	DE AUDITORIA INTERNA					DE AUDITORIA INTERNA		DE AUDITORIA INTERNA
	TAREAS A		251						52.144	6.166	58.580	100%		
	TAREAS B								3.083	770	3.853			
	TAREAS B								3.083	771	3.854			
	SUBTOTAL								6.166	1.541	7.707	13%		
	SUBTOTAL HS. PROGRAMABLES								46.248	4.625	50.873			
AUDITORÍAS	Proyectos Gestión áreas sustantivas													
	Proyecto A	6	15	1720	72	80	120	8	12	1.012	3	2.760	276	3.036
	Proyecto B	5	10	400	40	80	120	8	12	660	4	2.400	240	2.640
	Proyecto C	4	8	256	28	80	120	8	12	502	10	4.560	460	5.020
	Proyecto D	6	13	624	62	80	120	8	12	906	2	1.648	164	1.812
	Proyecto E	7	15	4.200	420	80	120	8	12	4.840		4.400	440	4.840
	Proyecto F	3	75	1.800	180	80	120	8	12	2.200	1	2.000	200	2.200
	Proyecto G	4	15	480	48	80	120	8	12	748	1	880	88	748
	Proyecto H	2	70	1.120	112	80	120	8	12	1.452	1	1.320	132	1.452
	Proyecto I	2	70	1.120	112	80	120	8	12	1.452	1	1.320	132	1.452
	Proyecto J	2	15	1.200	120	80	120	8	12	1.540	1	1.400	140	1.540
	Proyecto K	6	90	2.400	240	80	120	8	12	2.880	1	2.800	280	2.880
	Proyecto L	2	15	240	24	80	120	8	12	484	1	440	44	484
	Menos Auditorías que finalizan en el 2007													
	SUBTOTAL										27	25.408	2.540	27.948
2) PENDIENTES DE AÑOS ANTERIORES	Proyecto AA													
	Proyecto AB													
	Proyecto AB													
SUBTOTAL										2	806	61	867	
TOTAL AUDITORÍAS											26.014	2.601	28.615	49%
	SUBTOTAL 1. (HS. PROGRAMABLES - AUDITORÍAS)									20.234	2.024	22.258		
SEGUIMIENTO	1) AUDITORÍAS AÑOS ANTERIORES													
	2) AUDITORÍAS PLANIFICADAS AÑO 2006													
	3) CARGA SISTEMA DE SEGUIMIENTO DE OBSERVACIONES													
	TOTAL										6.380	638	6.996	12%
	SUBTOTAL 2. (SUBTOTAL 1 - SEGUIMIENTO)									13.874	1.388	15.262		
IMPRESITOS	Horas destinadas a Impresitos (30% del total de Horas Programables)													
	SUBTOTAL 3. (SUBTOTAL 2 - IMPRESITOS)									0	0	0	0	

(*) Corresponde a días de relevaramiento inicial, tareas de campo y paquetes de trabajo.

Example Time Schedule:

Código Tipo proyecto	DEHOMINACIÓN R(*)	FECHA ESTIMADA DE INICIO Y FINALIZACIÓN DE LOS INFORMES												CANTIDAD DE HORAS ESTIMADAS		
		Ene	Feb	Mar	Abr	May	Jun	Jul	Ago	Sep	Oct	Nov	Dic			
TOTAL HORAS HOMBRE NETAS POR AÑO													58.580			
INTERVENCIÓN OBLIGATORIA	TAREAS A														3.853	
	TAREAS B														3.854	
SUBTOTAL													7.707			
AUDITORÍAS	1) PROYECTOS DE REALIZACIÓN SELECTIVA	Proyecto A				IAI							IAI			3.036
		Proyecto B						IAI					IAI			2.640
		Proyecto C														5.020
		Proyecto D														1.812
		Proyecto E														4.840
		Proyecto F														2.200
		Proyecto G														748
		Proyecto H														1.452
		Proyecto I														1.452
		Proyecto J														1.540
		Proyecto K														2.860
		Proyecto L														484
		Menos Auditorías que finalizan en el 2007														-136
		SUBTOTAL														27.948
PENDIENTES DE AÑOS ANTERIORES	R Proyecto A.A													403		
	R Proyecto A.B													264		
SUBTOTAL													667			
TOTAL AUDITORÍAS													28.615			
SEGUIMIENTO	1) AUDITORÍAS AÑOS ANTERIORES													5.016		
	2) AUDITORÍAS PLANIFICADAS AÑO 2006													1.320		
	3) CARGA SISIO													660		
TOTAL													6.996			
IMPRESITOS	Horas destinadas a Imprevistos (30% del total de Horas Programables)													15.262		

R(*) Identificar cuando se trate de un proyecto del año 2005 reprogramado para el año 2006

Annex N° 3: United States´ example on Auditing Plan

Review of the XYZ Project
National Audit
Audit Number - 200520030

INTRODUCTION

This plan presents the objectives and tests for an audit of XYZ Project. We are initiating this review based on -----
. This audit will also provide input for the statutory requirements of ----. This review will be conducted in
accordance with Government Auditing Standards.
(Narrative of other relevant introductory material.)

Specific Risks

Without adequate management controls over system development activities, the organization risks developing a
system that does not meet user expectations, does not work effectively or efficiently, and encounters cost and
schedule overruns. Also, the lack of an effective and efficient processes may result in a substantial amount of
revenues being loss to various schemes.

Survey Results

(A narrative of the results obtained during the survey of the audit area.)

Results of Discussions with Management

(A narrative of the results of discussions with management that are relevant to the scope or objectives of the
review.)

AUDIT METHODOLOGY

To accomplish the objective and audit tests, we will -----

Electronic Data Sources

(Discussion of what computer extracts or other resources that will be used during the audit.)

Methodology for Selecting Audit Sites

On-site audit work will be conducted in (list the offices and locations where audit work will be conducted. If
relevant, also include the logic for selection of these sites.)

Validation of Computer-Processed Data

(Explain how you will validate the accuracy of the computer generated information reviewed or analyzed during the
audit.)

EXPECTED OUTCOMES

Expected outcomes for this review are ----.

AUDIT OBJECTIVE

(This section provided the objective and the audit test that will be included in the audit.)

The overall objective of this review is to determine ----- . To accomplish this objective, we will:

AUDIT MILESTONES

(This section included the estimated milestone dates, staffdays, calendar days and costs for completion of the audit work)

Planned Baseline Date Information

Begin Planning:	01/11/05
Issue Engagement Letter:	03/08/05
Hold Opening Conference:	03/28/05
Complete Audit Plan/Start Fieldwork:	04/20/05
Report Message Conference with Director:	05/02/05
Draft Report to Director:	05/10/05
Summary Paper to IRS Management:	05/16/05
Draft Report to Referencing:	05/17/05
Fieldwork Completion:	05/02/05
Discussion Draft Report to AIGA:	05/31/05
Discussion Draft Report Issued:	06/06/05
Draft Report to Quality Review:	06/06/05
Draft Report Issued:	06/20/05
Final Report:	08/01/05
Calendar Days (start planning [01/11/05] to final report issuance [08/01/05]):	203
Audit Activity Staff Days	

(This section presents the estimated staff days to perform each of the audit objectives)

Estimated Staff Days:	348
-----------------------	-----

Activity/ Sub-objective	STAFF DAYS	Auditor	Completion Date
Planning/Survey	124	Smith	04/08/2005
I.A. - I.D.	29	Jones	05/13/2005
I.D. – I.E.	35	Smith	05/13/2005
I.F.	10	xxx	04/22/2005
II.	35	xxx	05/13/2005
III.	5	xxx	04/22/2005
IV.	10	xxx	04/29/2005
Sub-total	248		
Management	45	xx	08/01/2005
Reporting	55	xxx	08/01/2005
Total	348		

Cost Data

Estimated Travel Costs:.....
\$11,718

Destination	Purpose	No. of Days	No. of Auditors	Total Cost
Washington, DC	Planning/Survey	4	3	\$3,368
Washington, DC	Opening/Fieldwork	4	5	\$5,560
Washington, DC	Follow-up Fieldwork	3	2	\$1,627
Washington, DC	Closing Conference	2	2	\$1,163
			Total	\$11,718

Internal Control Matrix

(Attach copy of internal control matrix that was completed as part of the survey process)

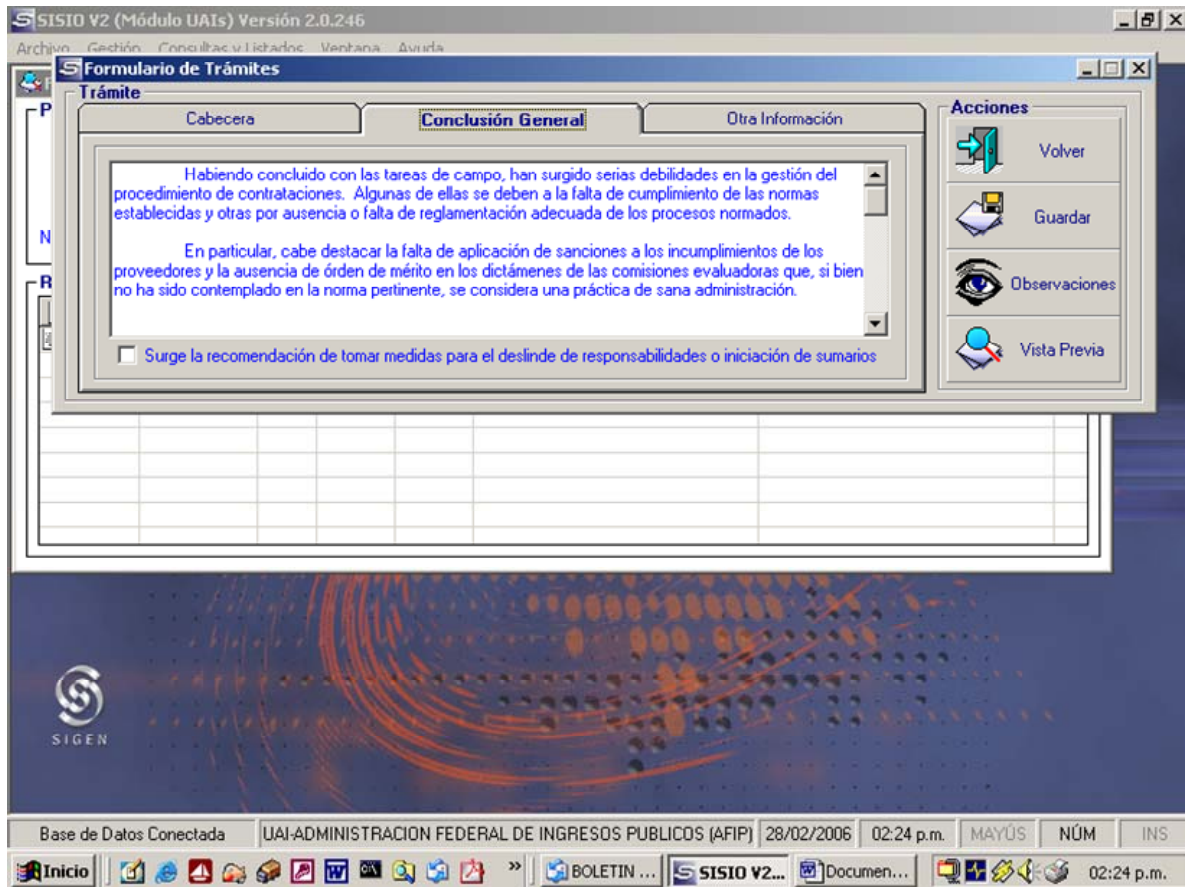
AUDIT PLAN APPROVAL

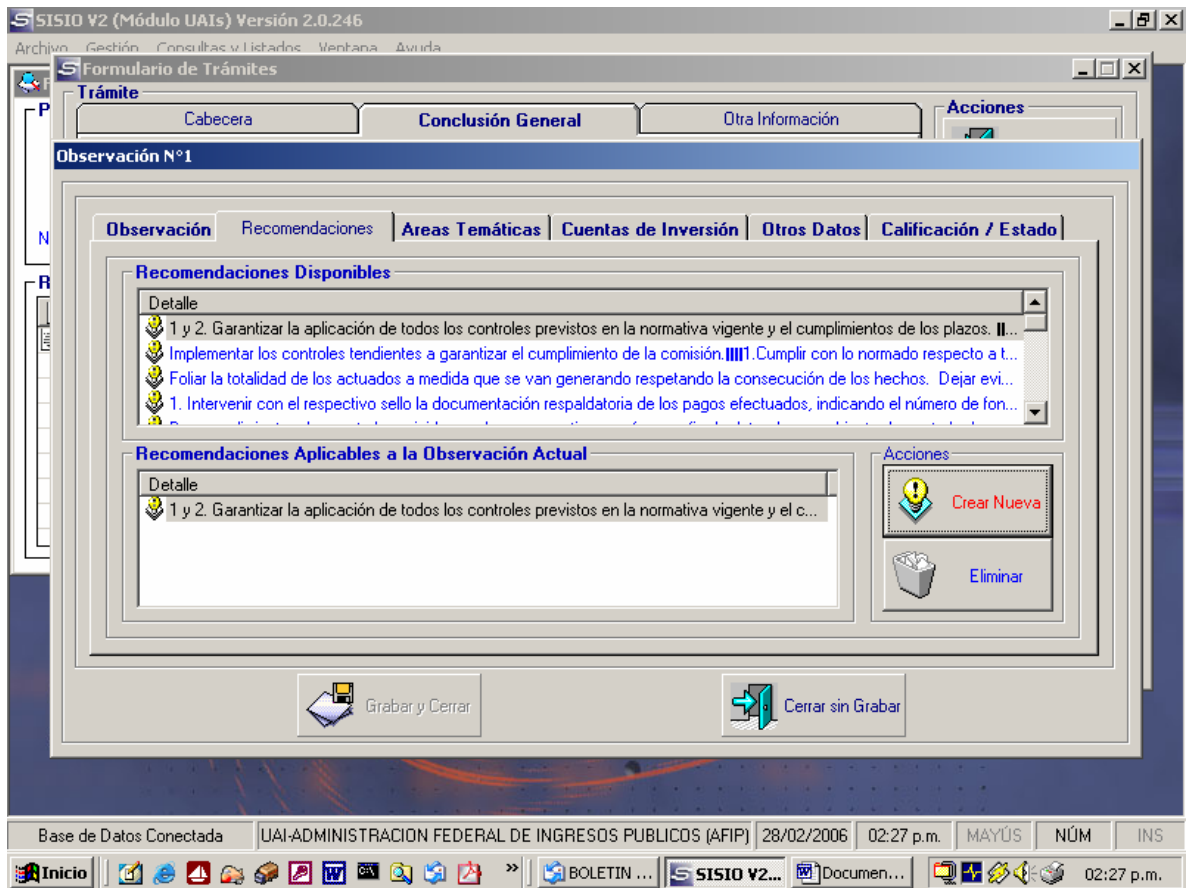
Submitted: (signature of first-line manager)	Audit Manager	Date: 4/18/05
Reviewed: (signature second-line manager)	Director	Date: 4/20/05
Reviewed: (signature second-line manager)	AIGA	Date: 4/25/05

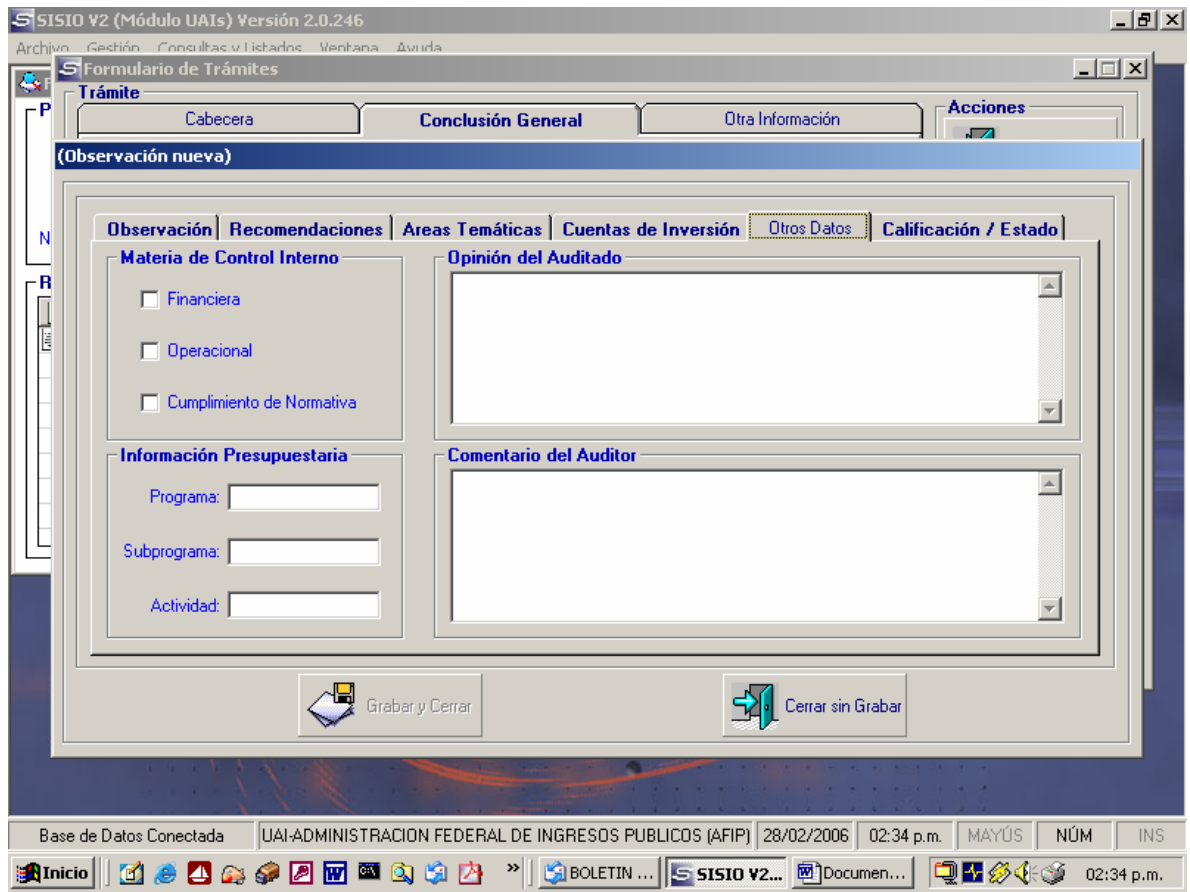
Annex N° 4: Argentina's example on Types of Report

TYPE		NAME	CHARACTERISTICS
A. Source.	<ul style="list-style-type: none"> • Selective. 	Preliminary Report. Internal Auditing Report. Follow-Up Report.	Up to conclusion of field tasks. Covers response from audited area With respect to observations that have not been regularized in
	<ul style="list-style-type: none"> • Obligatory intervention. 	Auditing Report. Internal Report.	Reports for verification of Files To ensure integrity of institutional responses
	<ul style="list-style-type: none"> • External Follow-ups. 	Control Committee Follow-Up Report. General Comptrollership of the Nation's Follow-up Report. SIGEN Follow-Up Report.	Includes follow-up of observations ending regularization.
B. Timeliness.	<ul style="list-style-type: none"> - By specific request, urgency or else change of auditor 	Progress Report.	Due to seriousness of issues, it is timely to communicate results
	<ul style="list-style-type: none"> - Audits in the country's inland 	Preliminary executive report.	Communicate and warn about main observations.
	<ul style="list-style-type: none"> - Report to Federal Administrator. 	Monthly executive report.	Greater criticism arising from every IAI.
C. Extension	<ul style="list-style-type: none"> • Listing of main findings. 	Executive Report.	Main observations from an audit.
	<ul style="list-style-type: none"> • Detailed / Complete. 	Analytical Report.	Detail of findings, effects and recommendations from an audit.
D. Thematic	1. Central areas.		Refers to management support processes.
	2. Operational areas.		Refers to management's operational processes (tax, customs and provisional).

Annex N° 5. Example of SISIO of Argentina (Integrated Observations Follow-Up System)







GLOSSARY

AATT: Tax Administrations_

A.E.A.T: State Agency of Tax Administration of Spain. Public entity in charge of the tax and customs system.

AFIP: Federal Administration of Public Revenues

AIGA: Assistant Inspector General for Audit

ARCO: Systems Control Audit. Computerized System that uses the Datawarehouse technology: which is a system that supports computerized systems audit in Brazil.

Bacen:-Central Bank of Brazil

CICI: Institutional Internal Control Commission of Costa Rica

CIAT: Inter-American Center of Tax Administrations

COSO: Committee of Sponsoring Organizations of the Treadway Commission

CobIT: Control Objectives for Information and related Technology

CT: Working questionnaire. It is one of the documents used in auditing in Brazil, which includes specific issues that guide the Continuing Professional Education – CPE analysis.

DIGA: Deputy Inspector General for Audit

e.g.: For example

ERM: Enterprise Risk Management

“G”: (Training- Government Training)

GAS: Government Auditing Standards

GAO:Government Accountability Office

IIA : INSTITUTE OF INTERNAL AUDITORS

IRS: Internal Revenue Service of the United States of America

KSA: Knowledge, Skill or Ability

NAG: Government Auditing Standards

OA: Audit Office

OMP: Office of Management and Policy

S.A.I: Internal Auditing Service of the A.E.A.T

SECEX: Secretariat of Foreign Trade

SIGEN: Receivership General of the Nation

SII: Internal Revenue Service of Chile

SISIO: AFIP Integrated System for the Follow-Up of Observations

SISCOMEX: Integrated Foreign Trade System

SRF: Secretariat of Federal Revenues. Federal Tax Administration entity directly subordinate to the Ministry of Finance

SGSI: Information Security Management System

TIGTA: Treasury Inspector General for Tax Administration

U.A.I.: Internal Auditing Unit of AFIP

List of Country Experiences Appearing in the Manual and Information for contacting Internal Control Agencies

Chapter	Section	Experiences	Country	Annexes
1	4. Responsibility for internal control	Auditing Committee	Argentina	NO
	5. Internal control integrated in Tax Administration management	Foreign Trade Computerized System – Siscomex	Brazil	NO
		Integral procedure for taxpayer assistance in the Income Operation process(SII)	Chile	NO
2	2. Role of Internal Auditing Entity in Risk Management	Security and risk commissions and biannual security plans	Spain	NO
	3. Methodologies used in Risk Management	Risk map	Argentina	YES
3	3. Nature of work of Internal Auditing Entity	Institutional Security Manual and improvement of effective controls	Brazil	NO
		Policy on use of computer resources in the Internal Revenue Service, on access, use and responsible and transparent management of tax information	Chile	NO
		Promotion of Ethical Values	Costa Rica	NO
		Advisory/Counseling Activities	Argentina	NO
4	3. Human Resources	Recruitment Systems	Argentina	NO
		Staff of Internal Auditing Entity and its recruitment	Spain	NO
		Recruitment and Hiring	United States	NO
5	3. Organization models: specialization	Specialized organization by functional areas	Argentina	NO
		Organization of internal auditing entity - combined organization by territorial zones and by functional areas	Spain	NO
		Organizational Structure	United States	NO
6	3. Action Plan	General guidelines for the preparation of annual Audit Plans	Argentina	NO
		Group of territorial entities control and follow-up programs –types of actions of a group of this nature	Spain	NO
		Audit programs for functional areas	Brazil	No
		Group of programs for functional areas	United States	NO
		Group of Programs for Financial and Budgetary Control	Bolivia	NO
		Financial and Budgetary Control Program	Argentina	YES
		Programs dealing with Staff Behavior	Chile	NO
	Programs linked to strategic plans	Spain	NO	
6. Supervision	Institutional Internal Control Commission	Costa Rica	NO	

7	7. Work plan and audit script	Model audit script	Brazil	NO
		Audit plan	United States	YES
8	1. Initiation of actions	Initiation of audit activity	Brazil	NO
		Initiation of activity: Transparency and professionalism	Chile	NO
	7. Supervision	Evidence review program	United States	NO
9	6. Supervision of report	Quality Guarantee for Audit Reports	United States	NO
	8. Processing of reports. Preliminary and final reports	Types of Report	Argentina	NO
		Model Internal Auditing Report	Brazil	NO
		Model Report	Bolivia	NO
	9. Recommendations	Recommendations	Bolivia	NO
		Recommendations, instructions and motions of internal auditing service	Spain	NO
		Recommendations	United States	NO
10	2. Measures intended to guarantee compliance with recommendations.	"Obtaining consensus" and "Letter of commitment of corrective actions" by the Argentine Tax Administration	Argentina	NO
	3. Follow-up of recommendations	Follow-up of Recommendations	Bolivia	NO
	3. Follow-up of recommendations	SISIO Example	Argentina	YES
11	3. Security of Information	Remote auditing of computerized systems	Brazil	NO
		Information Security Policy	Brazil	NO
		Control of accesses to information systems	Spain	NO
12	2. Role of internal auditing entity in the promotion of ethical values in the Tax Administration.	"Institutional Integrity Program on Ethics and Integrity":	Chile	NO
		Promotion of Ethical Values	United States	NO
	5. Treatment of denunciations	System for the receipt and handling of denunciations	Chile	NO
System of denunciations		United States	NO	

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