



Managing with Transparency

Brazil's Audit Court (Tribunal de Contas da União) and regulatory agencies are adopting best practices to enhance the reliability of information

By Edileuza Soares

Several organizations are facing a push towards adopting Risk Management practices to enhance the security of their internal processes, ensure the continuity of their operations in the event of a disaster, and operate with transparency. This is one of the requirements of the corporate governance plans being currently implemented by Brazil's regulatory institutions, such as the Central Bank (Bacen), the Private Insurance Commission (Superintendência de Seguros Privados or Susep), Brazil's Securities and Exchange Commission (Comissão de Valores Mobiliários or CVM), and the Brazilian Audit Court (Tribunal de Contas da União or TCU).

Corporations and Regulatory Agencies have turned their attention to Risk Management as a result of the new laws and regulations. Andrés Ricardo Holownia, the Brazilian Risk Management Association's director-president, cites Sarbanes-Oxley (SOX), the guidelines issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Basel II as well as the ISO 31000 – the Risk Management standard that can be adopted by companies.

OPERATING RISK

Among Brazil's regulatory agencies, Bacen is the one that has been pushing companies hardest to adopt Risk Management practices due Basel II. The goal is to prevent incidents that may potentially lead to a widespread industry crisis, such as the ones that took place in the 90's, which showed that banking activity was not only subject to credit and market crises, but also to operating risks.

At first, Bacen required – through Resolution #3380 released on June 29, 2006 – that all Brazilian banks should create a department for managing operating

risks. These were defined as IT systems failure, fraud (internal and external), inadequate processes, as well as human resource issues.

Compliance with this resolution was to take place in two phases. The first phase included the definition of the policies guiding the creation of the new Risk Management structure. Subsequently, a December 31, 2007 deadline was issued for effectively implementing the department, which was later postponed until July 1st.

Bacen's authorities went on to release Resolution #3490 on August 29, 2008. The resolution details the criteria and formulas for calculating capital requirements associated with the exposure to market risk factors.

As an addendum to Resolutions #3380 and #3490, the institution released on April 30, 2008 the publication 3383, which establishes the guidelines for calculating the Required Reference Equity (Patrimônio de Referência Exigido or PRE) related to the operating risk (POPR). This calculation can be performed using three different methodologies: the Basic Indicator Approach, the Standardized and Alternative Approach, and the Standardized and Simplified Alternative Approach.

Brazil's banking institutions may choose which of these methodologies they will adopt, but must communicate their choice to the Financial System and Information Management Monitoring Department. The deadline is July 1st, 2012, following the Basel II adoption timeline.

The following is a case study from a regulatory agency – the Brazilian Audit Court (Tribunal de Contas da União or TCU) – which has conducted a risk analysis of its internal structure in order to be able to externally monitor government resources more efficiently and with greater transparency.

CONTROLLED ACCOUNTS

TCU has adopted an internal IT governance model in line with its strategic plan in order to monitor government accounts more efficiently.

As the agency charged with auditing Brazil's government resources applied to individuals or companies – public or private – the Brazilian Audit Court (TCU) leverages information and knowledge in order to externally audit these financial resources. Since this is its core business, the institution

has started a project to improve Information Security risk management, and align its IT assets to those of international institutions. Its objective is to increase the use of technology solutions in order to play its constitutional role with greater transparency.



TCU's Headquarters in Brasilia

This initiative is in line with the institution's objectives and guidelines laid out in the 2006-2010 Strategic Plan. Two of the pillars that make up the strategic plan serve as guidelines for the institution's role: improving public management and fighting corruption, thus preventing financial resource misuse and fraud. In order to achieve this specific technology-dependent target metrics have been established.

The Brazilian Audit Court (TCU) also aims at improving its business processes as well as enhancing and upgrading its legal structure that supports the external control of the government finances. "We're currently investing in IT in order to reduce process time, increase our response capability, and achieve the results expected by the TCU", states Mauro Giacobbo, who is in charge of the TCU's Information Technology Department (Setec).

IT GOVERNANCE

Setec's Secretary says that TCU has been continually building an IT strategy over the past few years which is in line with the institution's business objectives. "With the widespread use of IT, we now have to revisit our governance and operating models so as to render our processes more efficient and effective", says Giacobbo. The institution has kicked off three workstreams focused on implementing international leading practices. The initial proposal is to conduct a thorough diagnostic of the overall IT environment so as to comply with the ISO/IEC 17799 as well as the ITIL (Information Technology Infrastructure Library) and Cobit (Control Objectives for Information and Related Technology) models.

The ISO compliance project, which involved an assessment of Information Security (IS) related issues, was carried out by Modulo with the assistance of their proprietary Governance, Risk and Compliance (GRC) software – namely, Modulo Risk Manager. Modulo's assessment presented a snapshot of TCU's IS, and recommended a set of improvement opportunities that will be implemented over the next six months.

Up until the beginning of the year, IS related topics had been restricted to the IT department. These are now shared with other TCU business units. This shift in approach has brought about greater reliability and focus on IS related issues. The Office of the President (Secretaria-Geral da Presidência or Segepres) has put together a team that will have oversight of all of the institution's initiatives and actions related to IS and IT governance.



Giacobbo: Setec's Secretary: "Information Security goes beyond the boundaries of the Data Processing Center"

“IS goes beyond the boundaries of the Data Processing Center. It encompasses technology, people and business processes. It focus more on the cultural aspects than on technology. Risks are equally inherent to IT equipment, operations and people's behavior ”, concludes Giacobbo. He goes on to add that up until recently, the responsibility over IS was a grey area. He believes that with centralized oversight, clearly defined roles and responsibilities, together with the appropriate socialization of the initiatives, this subject matter will gain greater relevance and widespread acceptance throughout the institution.

One of the first steps to be undertaken by Segepres is the improvement of the TCU's IS policies. Following Modulo's diagnostic, they will define specific initiatives for each area: “Setec will be in charge of specific action plans to achieve this objective, which will be included in the IT Master Plan. These actions encompass different technology solutions, such as the use of network, e-mail, equipment, and information and database access rules”, says the Secretary.

INTERNATIONAL MODEL

Simultaneously to the IS diagnostic, TCU has also analyzed its business process compliance with the requirements set out by the ITIL best practices. With this information, the institution plans to start implementing this model in three processes: Demand Management, which will prioritize IT activities; Incident Management, including actions to work around IT systems failure; and Change Management, which controls the changes to the technology environment, among other activities that can ensure the continuity of the TCU's operations.

Demand Management will be the first process to be transitioned into the ITIL framework. According to Giacobbo, the implementation will take approximately five years. Another workstream that is underway during this period is the assessment of the governance practices based on the Cobit model.

According to Setec's Secretary, the three assessments will contribute to increase the institution's maturity level with regard to IS and IT governance practices. In addition, these projects will enhance IT's response capability as well as the alignment of its activities with the needs of the TCU. “With these improvements, the institution will in a better position to face the ever increasing challenges inherent to IT, such as law suits, the speed of changes, and the technological dependency”, believes Giacobbo.

TCU's Role

Headquartered in Brasilia, the Brazilian Audit Court (TCU) is the national institution responsible for the government's accounting, budgetary, operating and asset oversight. It also oversees the directly and indirectly government-managed entities. Any individual or company – be it public or privately owned – that uses, collects, stores or manages Federal government's moneys or assets is subject to its jurisdiction. The institution was founded in 1890 and had its role significantly increased with the 1988 Constitution.

The TCU is part of the Legislative Branch of government and its roles and responsibilities can be found in paragraphs 70 through 74 of the country's Constitution. It is made up of nine Ministers appointed by the President. Two thirds are nominated by the Congress and one third by the President himself. Among the three nominated by the President, one can be a free choice, and the other two must be chosen from among TCU's auditors and members of the Public Ministry.

- Annually audit the President's expenses
- Analyze the accounts of those managing moneys, assets and other public valuables with direct or indirect government oversight, which includes the Federal government's Foundations and other Associations
- Audit the accounts of those entities that have caused financial loss, embezzlement or other irregularities affecting the Federal government's assets
- Assess and report on the legal compliance of the recruiting process of those holding any positions within entities under the direct or indirect management of the Federal government, including its Foundations and Associations
- Conduct accounting, budgetary, operating, or asset audits or investigations of the administrative units under the Legislative, Executive and Judiciary government Branches. These can be initiated unilaterally or by request of the Chamber of Deputies, the Senate, or the technical Commission, or any other formal inquiry
- Audit the domestic accounts of those multinational corporations in which the Federal government holds interest, whether directly or indirectly
- Investigate any irregularities pointed out by society with regard to the use of public finances