SUCCESS CASES OF CONTINUOUS AUDIT IMPLEMENTATION

CIA. HERING & BRAZILIAN NAVY

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Cia.Hering

HERING HERINGKIDS DZARM

716 retail stores in Brazil and 20 abroad

8 industrial plants (manufacturing)

5 thousands employees + US$ 345 millions in 2019

140 ANOS Cia Hering

“ a Brazilian textile and retail clothing company”

The largest clothing franchise chain in Brazil

Brazilian Tax System

- One of the **most complex** in the world;
- Intensive **labor and manual** work from tax departments;
- Different **regulations**: **federal**, **state** and **municipal governments**;
- **However**… the **digital tax system is modern**;
- SPED – **Public Digital Bookkeeping System** (created in 2007);
- In 2010, almost **every organization** were using **electronic invoices** in XML;
- Tax compliance involve significant **risks** in Brazil

Opportunities & Motivation

- Shift from **detective** audit to **preventive** audit;
- Manually invoice review process (sampling): Cia. Hering and internal auditors **couldn`t know exactly how many invoices were yet to be recorded** (or other problems);

- Challenges in the **monitoring process** (have relevant, consistent and updated information)

Continuous Audit Implementation Process

Follow up

Definition of indicators for continuous monitoring in conjunction with the business area

Project Maintenance and Execution

(i) Adjusting the script; (ii) Project Execution.

Alignment with the Business Area

i) Treatment of exceptions; (ii) Follow up process

Pilot Test

Script writing and Testing application.

Planning

Establishing priority areas based on risk assessment

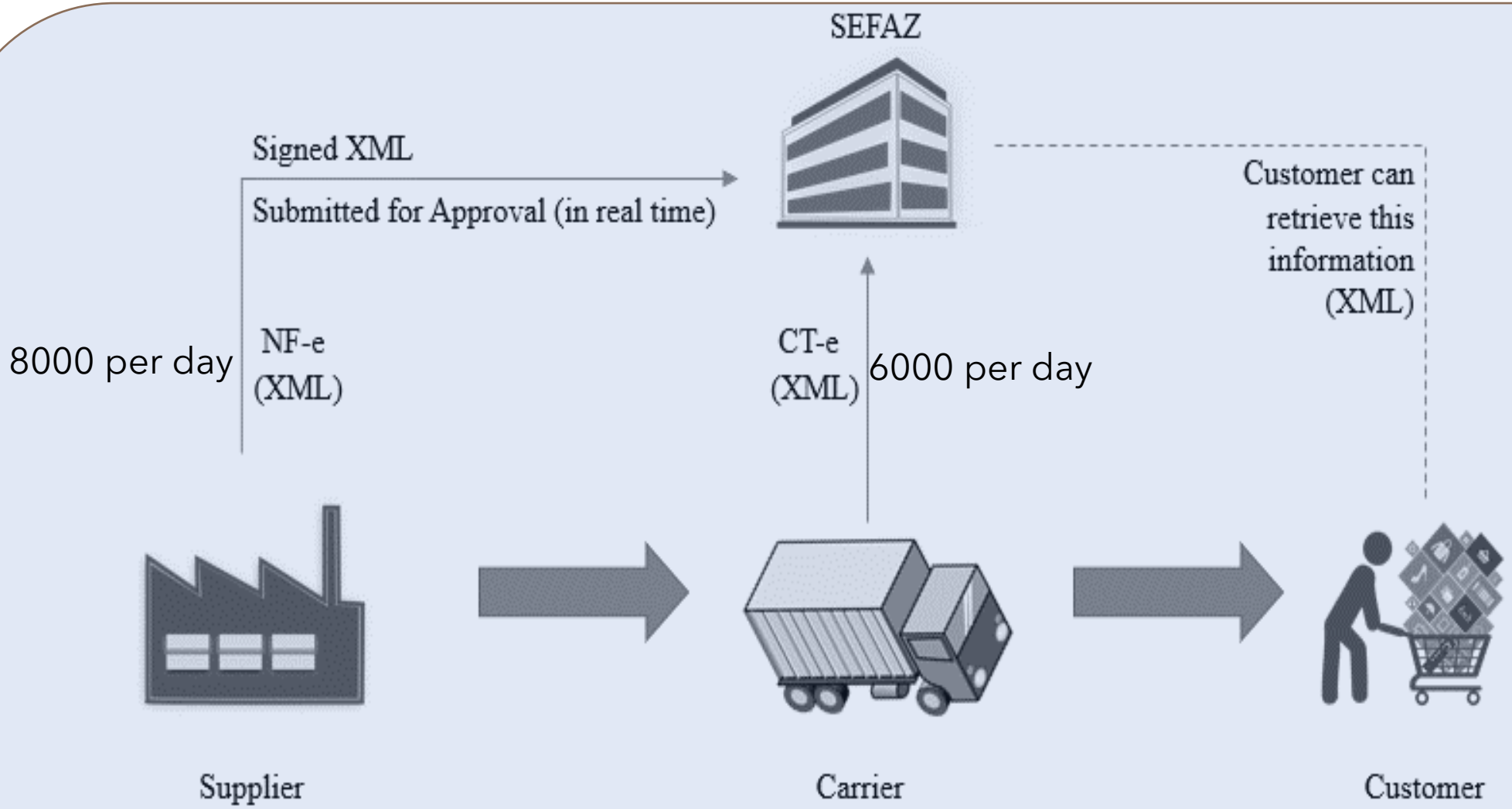
Process Evaluation

i) Evaluating routines and procedures used by the department; (ii) Identifying controls already implemented; (iii) Understanding if the department has sufficient systemic data

Scope Definition

i) Limitations and risks; ii) Frequency of the audits; iii) Opportunities; iv) Crosschecking definitions

Flow of tax bookkeeping process until SPED submission



Creates a big, **open government database of the real-time transaction**, which became the **exogenous** database that Cia. Hering used for its external data validation

Flow of tax bookkeeping process until SPED submission

SEFAZ

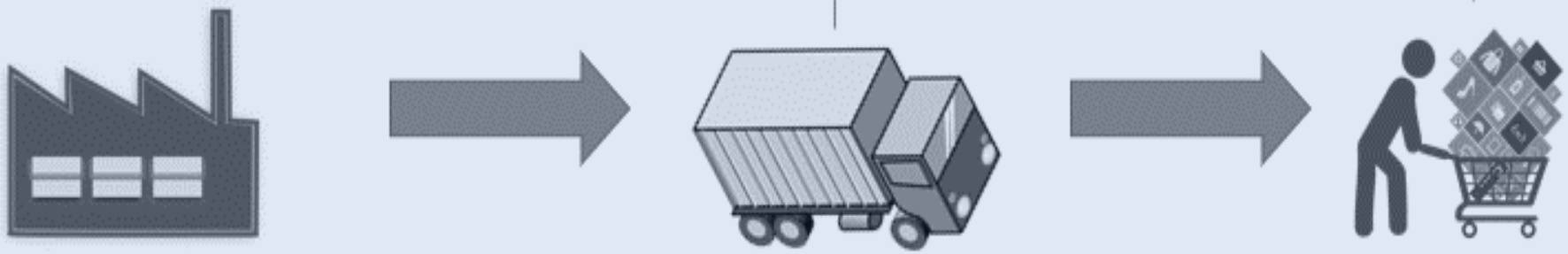
Signed XML

Submitted fo

8000 per day

NF-e (XML)

stomer can etrieve this nformation (XML)



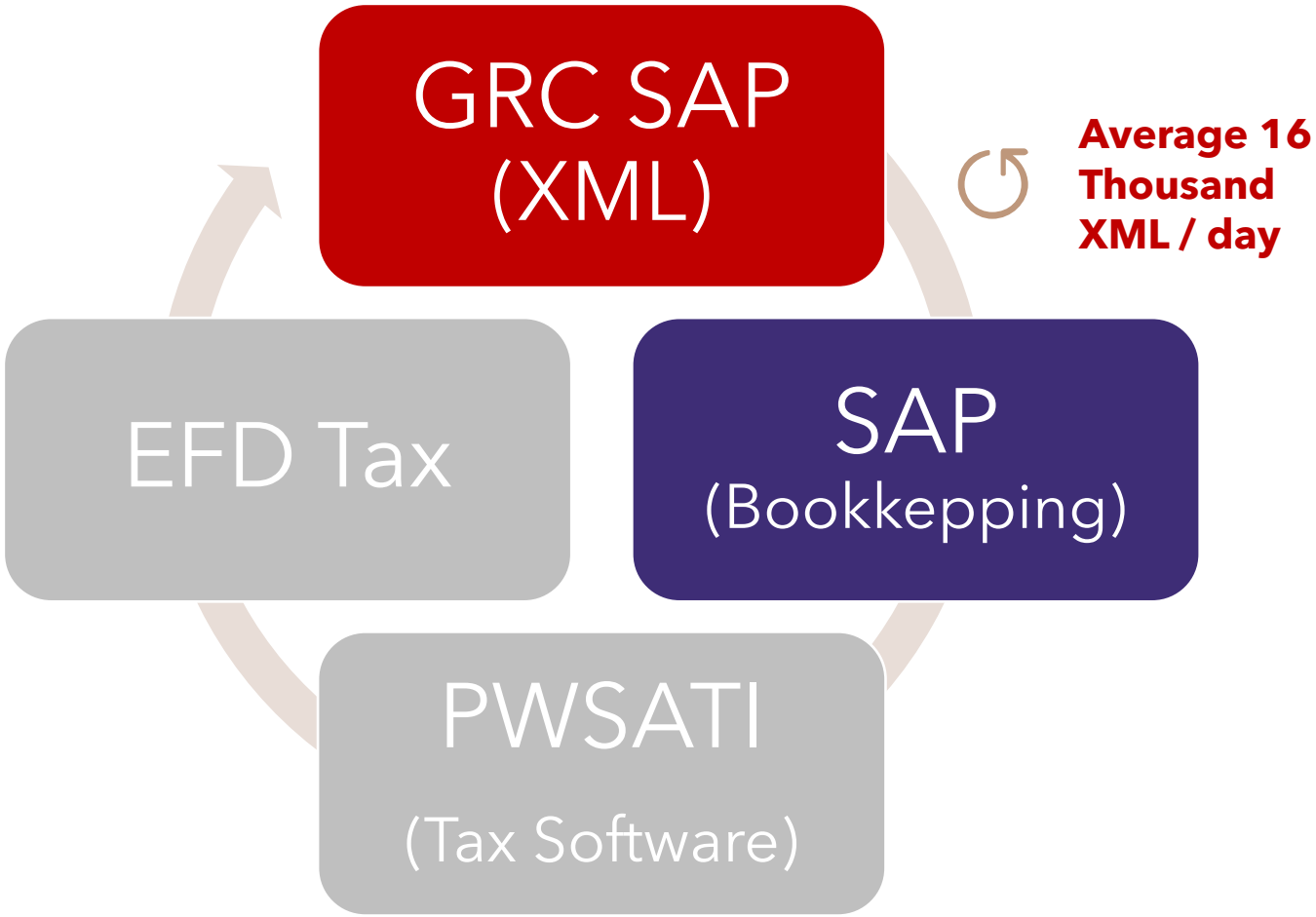
Supplier

Carrier

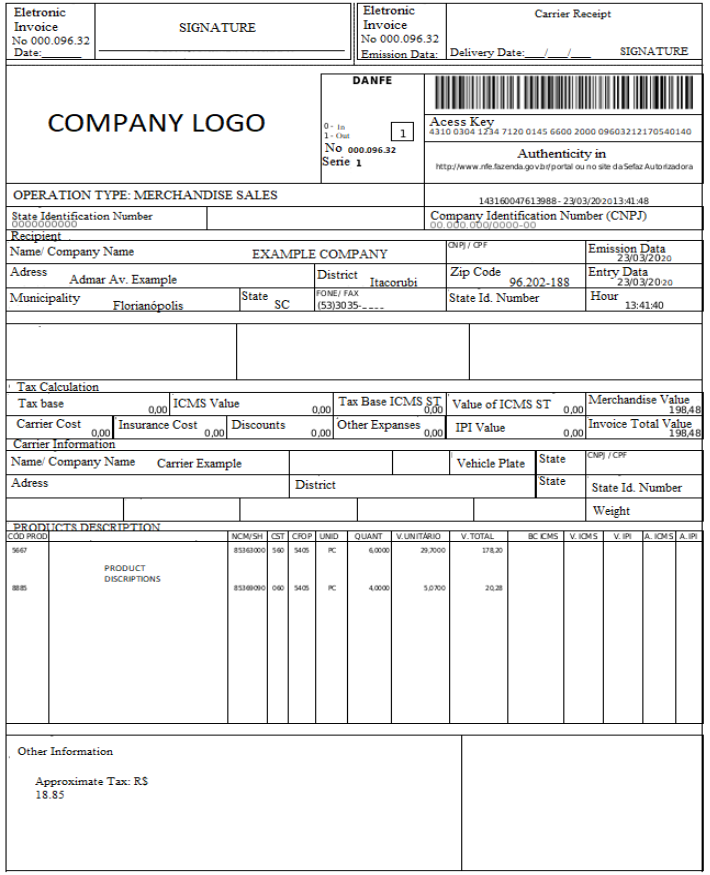
Customer

Creates a big, **open government database of the real-time transaction**, which became the **exogenous** database that Cia. Hering used for its external data validation

Continuous Audit



Average 16 Thousand XML / day



XML Summary

```
<nfeProc versao = “3.10”>
-<NFe>
 -<infNFe versao = “3.10” Id = “43100(...)54010”
  -<ide>
     <cState>43</cState>
     <cNF>0009632</cNF>
     <natOp>MERCHANDISE SALES.</natOp>
     <indPag>1</indPag>
     <mod>55</mod>
     <serie>1</serie>
     <nNF>9632</Nnf>
     <dhEmi>2020-03-23T13:41:40-03:00<dhEmi>
     <dhEntry>2020-03-23T13:41:40-03:00<dhEntry>
     <tpNF>1</tpNF>
     <idRecipient>1</idRecipient>
     <cMunFG>4315602</cMunFG>\
```

Highlights

- Tax **risk reduced** in 57% (2016 – 2019);
- 100% **population** review;
- **Preventive** control;
- **Automated** review;
- Business area (tax department) using as a **monitoring system**;

CHALLANGES

Collaboration between IT, tax department and internal audit

Data extraction (layout and data access)

Script design

The Brazilian Navy

US$ 6.5 billion

70% only to payroll

220 thousands individuals

Active Military (81,000)

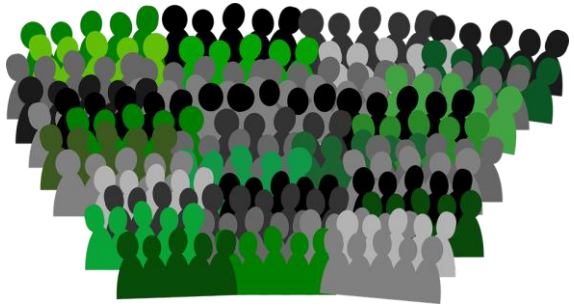
Retired (51,000) Pensioners (63,000)

Non-Military Staff (25,000)

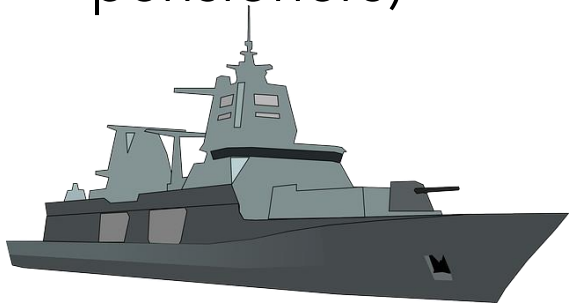
One of the oldest organizations in Brazil

Brazilian Navy

- Motivation



Payroll: **nearly 220 thousand**
(active and reserve personnel; pensioners)



+480 Military Organizations

50,000 to 200,000
modifications each month

How to audit this?

The timeline

What are the costs?
How many hours?

Break the paradigm

20

Datasets were already available for auditors

litary ations

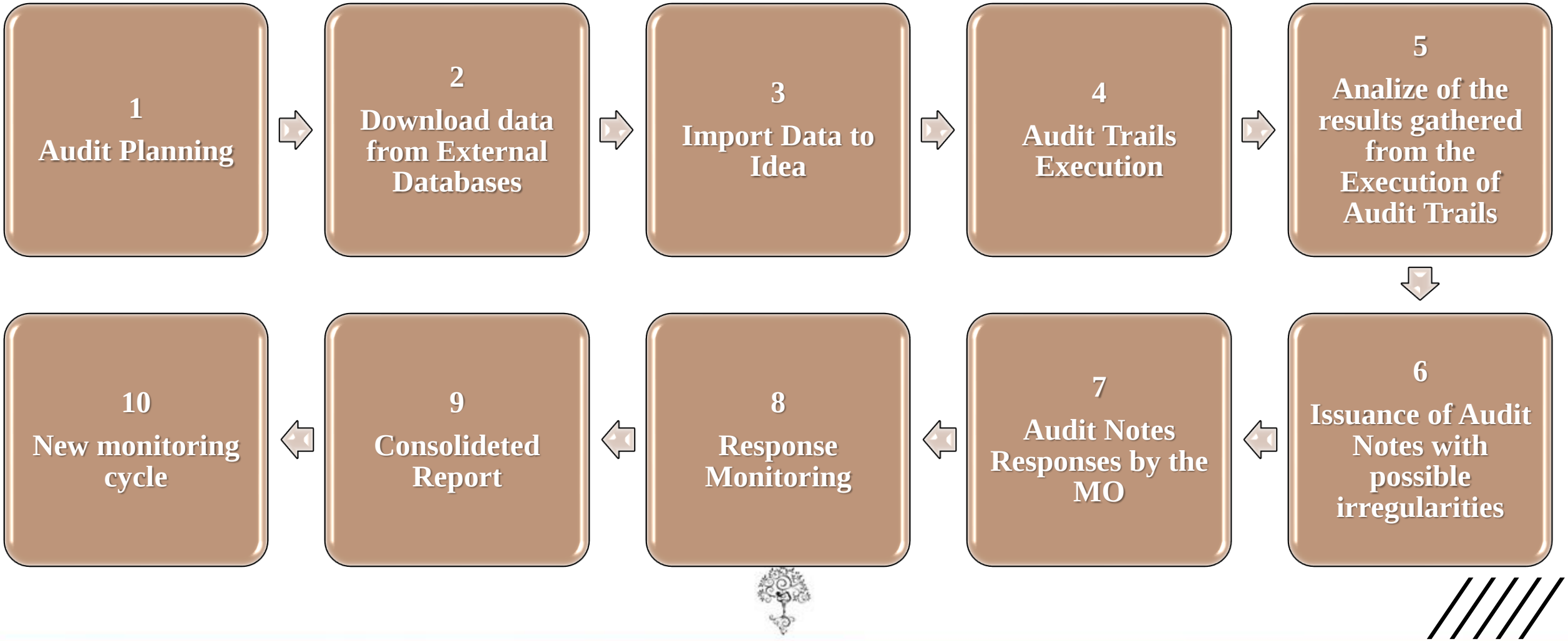
2016

- First meetings about the implementation of CA

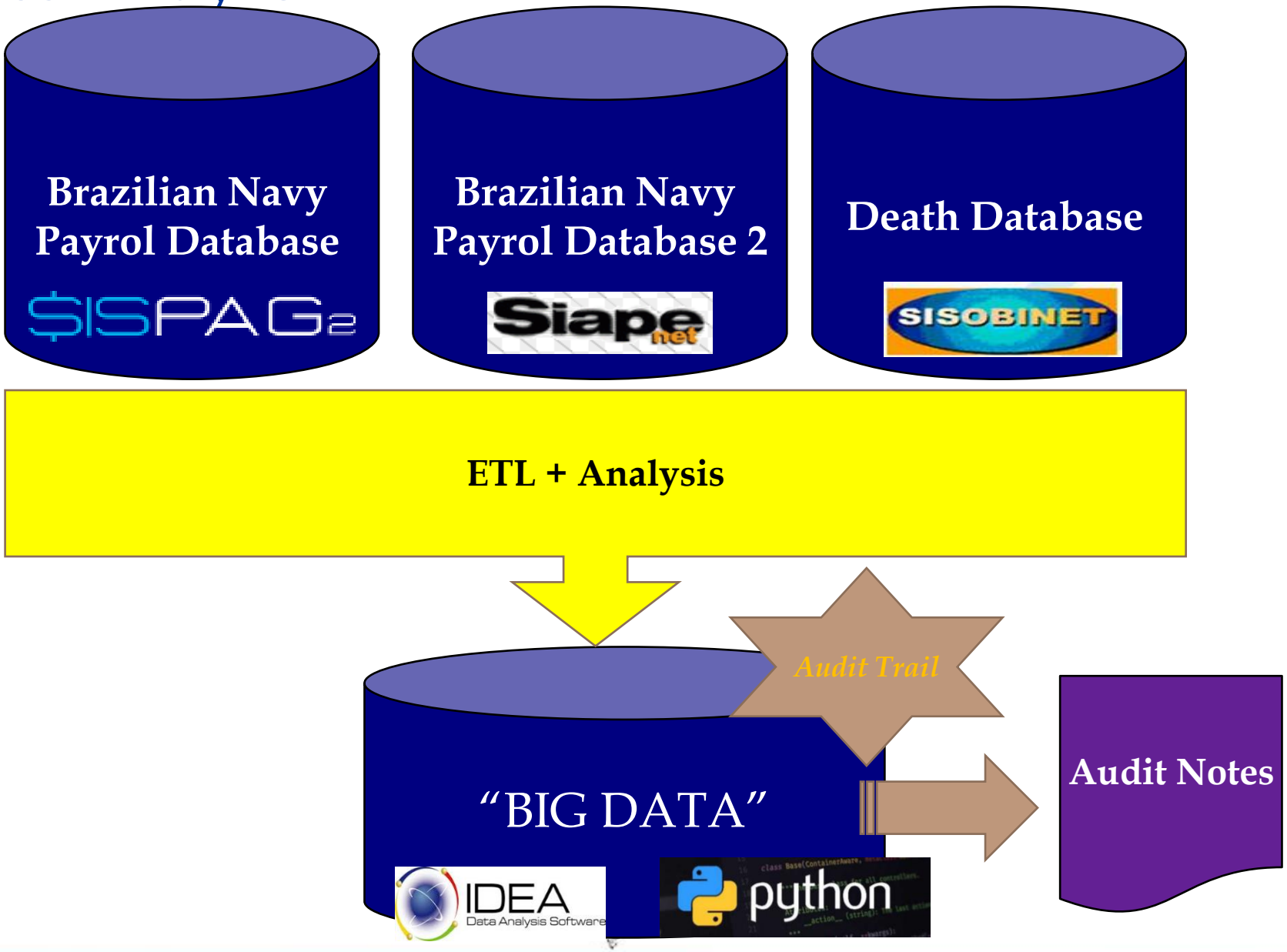
2020

- Full population analysis;
- Preventive (monthly and every three months);

Brazilian Navy• Continuous Audit Process



Databases – Payroll



Audit Trail Example

Brazilian Navy Payrol Database

$ISPAG2

python

IDEA Data Analysis Software

Death Database

SISOBINET

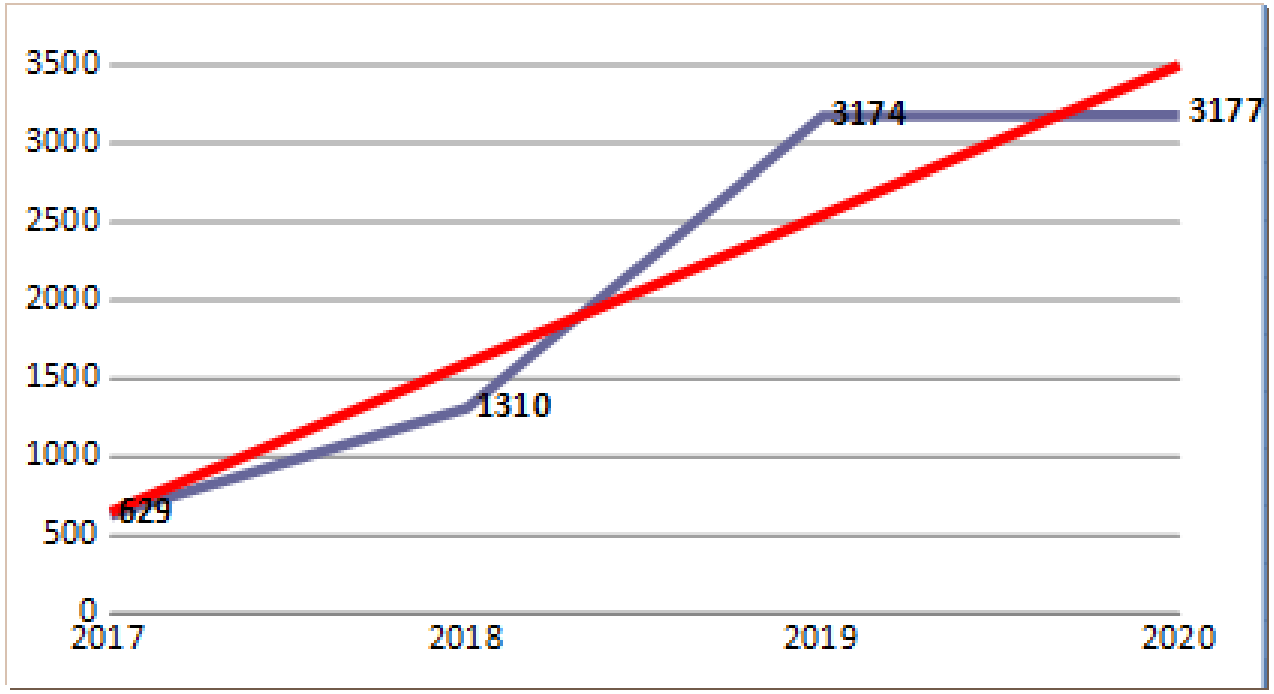
Crosschecking information between databases (# Identification number)

Militaries that have died but Are still receiving the payment

Audit Notes

RESULTS

Total Audit Notes



Highlights

- Results **simultaneously** or in a **short period** of time after the occurrence of a relevant event;
- 100% **population** review;
- **Preventive** audit;
- **Automated** review;
- **Time** and **costs** (remote audits);
- Internal auditors **image** changed inside the organization.

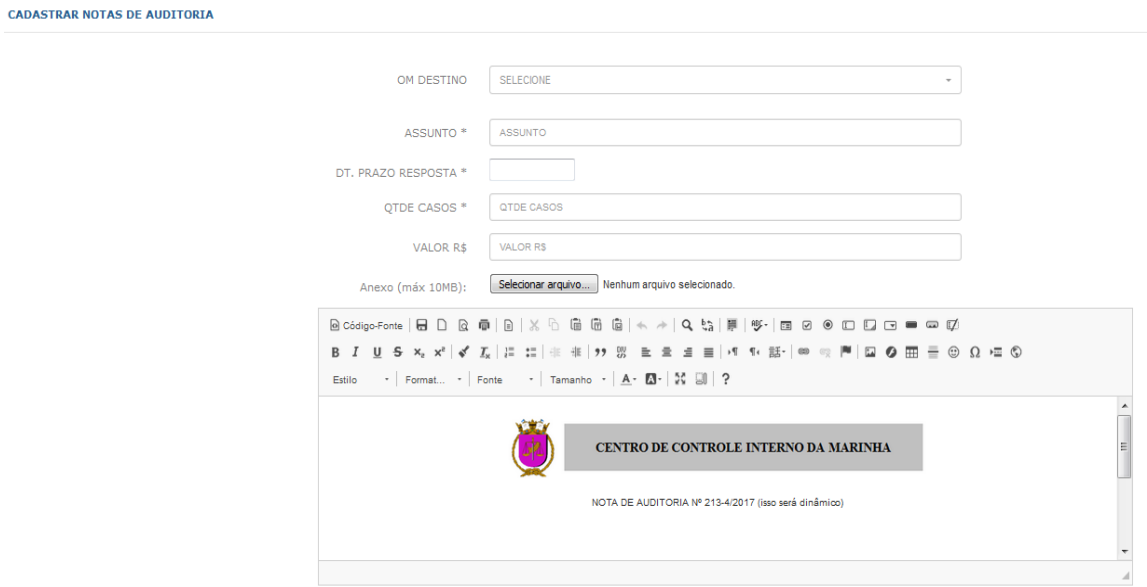
CHALLANGES

Training and IT knowledge by the internal audit

Software licenses

Future Paths for the Continuous Audit in Brazilian Navy

- Audit **intelligence** department;
- *Audcont* software (**follow up software** develop internally)



Final Remarks

Tax Department x **Payroll**

Public Company x **Military Organization**

THANK YOU!

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