

INDEPENDENT AUDIT: HOW TO DEAL WITH ERRORS AND FRAUDS IN CIVIL CONSTRUCTION INDUSTRIES

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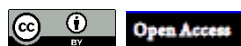
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ABSTRACT

This paper aims to highlight the importance of Internal Auditing for the Treasury sector in particular for a Construction Industry, as well as to investigate whether Internal Auditing systems can be considered as a tool in the procedures. management Due to the constant growth in the last years, the Construction Industries, linked to the existence of a specific branch of the new administration, reflected in the main objective of this work that focuses on proposing an Independent Audit work in the financial sector with the accounting sector of the company object of our study, for the purpose of ascertaining the procedures adopted organization with its customers. Regarding the methodology adopted by this research we have that the research was descriptive and bibliographic, because it was based on material published in books, newspapers, magazines, websites, among others. However, a case study carried out in the month of August/2019 in the premises of a Construction Industry that makes up the subject of this research stands out. Finally, regarding the need for transparency in the company's treasury, it was found that there are tools available to organizations for systematic use.

Keywords: audit, treasury, transparency.

I. INTRODUCTION

Independent Auditing procedures appear in companies with the objective of assuring to managers the accuracy of the financial analysis of the organization, at present Internal Audit can be considered as one of the most relevant tools within Business Management, because this tends to maintain the balance between the vision and mission of the company, guiding the actions of the present.

From this context the justification of the choice of the theme was based on the assumption that the Internal Auditing procedures do not aim to punish any employee of the organization, unlike the Internal Auditing tools, has the objective of “correcting” (our emphasis) the organization's performance. , seeking the improvement and the labor development of its collaborators. Because the constant competition of the market does not allow errors, in this respect, the relevance of Internal Auditing in the organizations, as a fundamental object for the efficiency of their sectors, is pointed out. Given this context arises the question of this study which consists of the following question: What is the

importance of Internal Auditing as a tool for preventing errors and fraud in the Construction Industries?

In order to respond to this study, it assumes the objective of describing through authors the importance of Internal Auditing as a tool for preventing errors and fraud in the Construction Industries. Aiming at the success of this objective, this study chose to divide it into the following specifics: (i) contextualize the origin and concept of Auditing; (ii) identify what is the difference between internal and external auditing; and (iii) list the procedures performed for a good internal Audit.

In general, this work can be classified as applied research, as it is based on the application of theory already elaborated, ie, it does not aim to discover theory. In order to obtain the purposes foreseen in this research, the investigation procedure used in this study was the qualitative-quantitative research, since it allowed to obtain information of greater depth and at the same time greater amplitude of the investigated problem [1].

To reflect the objectives of this study, it was started through a brief introduction and the theme, the problem and the objectives are being presented. After the introduction, this study presents the

theoretical framework, then presents the methodology, data analysis and final considerations, accompanied by bibliographical references.

II. DEVELOPMENT

This section presents in more detail the main concepts about Internal Auditing, as well as its relevance in the Business Management process. In this particular it clarifies that Internal Auditing is a set of procedures, technically standardized. Its operation is linked to the indirect monitoring of processes, evaluation of results and proposing corrective actions for management deviations of the Institution [2].

In this respect, it is commented that Internal Auditing's primary objective in corporations is to strengthen management and rationalize the Company's control actions, as well as to provide support to the organs of the Internal Control System of the Federal Executive Branch. This audit work is carried out within the organization, observing the relevant aspects related to the evaluation of management and government programs that affect the Company [3].

The audit was born due to the need to prove the accounting records, cause with the economic development, the large companies, constituted by third party capital, that needed to protect their assets with the confirmation of the accounting records, over time emerged the audit have no longer the function of proving the accounting records, getting a broader responsibility [4].

In this context, "stresses that the audit activity is very dynamic and constantly mutation". Briefly, it can be pointed out that the emergence of the audit was due to the need to have a greater control of companies' assets as a result of economic growth [5]. It is also said that the audit serves as a support to the accountants and owners of the company in the execution of their work, it can correct a procedure or improve something that already agrees. To ascertain the accuracy of the elements, the auditor should: review, review, evaluate and make relevant recommendations [4].

According to the above citations it is understood that Internal Auditing aims to inspect the accuracy of the administrative records that are related to the control of the company's assets, helping to ensure that its statements are in compliance with management standards and principles.

The use of Internal Auditing as an organizational resource management tool leads to improvements in the company's internal control system, and this fact can be linked to value generation.^[6] "Internal Audit's overall objective is to assist management in the efficient performance of its duties by providing it with analysis, assessments, recommendations and comments on audited activities." [7].

Small and medium-sized companies, both industry, commerce and service providers, generally do not have a reasonable internal control system or industry in charge of Internal Auditing [6]. Therefore, managers should use accounting as an internal control aid tool and depending on the size of the company, the accounting or responsible office may also become their auditing sector, but it is important to involve other qualified professionals. to develop an effective audit in all sectors of a construction company, such as accountants, engineers, architects, building technicians, quality technicians, including the jobsite where the work is being performed, and to verify that processes are being made and measurements are correct to be properly paid.

In the decision-making process, the greatest difficulty is uncertainty about the future, but it can be reduced with a good decision model in its design and implementation fed with reliable, appropriate and timely information in order to offer a favorable

outcome about your decision. With the help of Internal Auditing, management feeds its decision model with appropriate and reliable information that is recognized and evaluated daily so that its decision making is as timely as possible.

It can be inferred that the internal activity within the management advisory, observing the compliance with its standards, has been contributing greatly to the achievement of the organizations results, enabling the reduction of risks and that companies are exposed in the current business scenario, adding value [8].

Internal Auditing is also concerned with making the best use of available resources as well as meeting previously set objectives, serving organizations as a whole and not just their managers. In this sense, auditing activities should be planned, programmed and developed taking into account management concerns and priorities and in line with the overall objectives, strategies and policies defined, enabling effective management to be achieved, becoming an essential function and valued for the field of management and organization in general with social responsibility.

Audit is defined as an all-encompassing scope of the construction process from solicitation of bids to final payment. It is not just looking for cost recoveries or overbillings, but also provide process improvement recommendations for the project management team

For the elaboration of a constant internal audit basic program in civil construction must have a preparation of control schedules; reconcile project expenditures; direct labor analysis; labor burden analysis; change order analysis and pricing analysis; subcontract analysis; material purchases; verification of contracted scope; equipment rental analysis; bonds and insurance analysis; quality assurance and quality control [18].

The internal auditing activity is of high strategic relevance and is a set of procedures, technically standardized, which works by following work processes, evaluating results and proposing remedial actions for possible management deviations [3].

Historically speaking, it is reported that was created in 1985 in the United States, initiated by the private sector, the National Commission on Fraudulent Financial Reporting (National Commission on Fraud in Financial Reports), also known as the Treadway Commission, the commission had objective of analyzing the causes of fraud in financial and accounting reports and developing recommendations for public companies and their independent auditors, and for educational institutions [7].

Years later the commission was transformed into a kind of Committee, which became known as The Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is characterized as a non-profit organization that brings together representatives from the private sector, and currently has the objective of ensure thought leadership by developing frameworks and guidance in enterprise risk management, internal control and fraud deterrence [8].

In this sense, this study comments that COSO aims to improve the work of Internal Auditing, having as its differential the ethics and safety of internal controls and corporate governance. According to Freitas there are two models established for Internal Control, as described below [9]:

COSO Model I: known as The COSO Report (COSO I methodology), which has become a world reference for the study and application of internal controls. The model changed the traditional concept of "internal controls" and drew attention to the fact that they had to provide risk protection because by defining risk as the possibility that an event would occur and adversely affect the achievement of the company's objectives. The entity introduced the notion that internal controls should be risk

management and monitoring tools in relation to the achievement of objectives, not only directed to risks of financial origin or linked to book-entry results. The role of internal control has thus been expanded [9].

It is also noteworthy that this model did not prevent the economic-financial and accounting scandals involving organizations of all sizes, which suddenly collapsed after its emergence, so in 2014, the Enterprise Risk Management model was published. Integrated Framework (also known as COSO ERM or COSO II), which has heightened concern about risks.[7].

The COSO II model aggregated among the objective categories the strategic and three other components, totaling eight control components (internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and interconnected communications and monitoring) of enterprise risk management [9].

To describe the Internal Control Test model, this study will be guided by COSO II, as this model has broadened the scope of internal controls, as it offers a range of information that integrates risk management techniques, without forgetting the fundamentals of COSO I. In this regard we have that; “The new approach advocated by the model is that internal control must integrate risk management in order to anticipate and prevent the risks inherent in the organization's set of processes that may impede or hinder the achievement of its objectives” [9].

The fruitfulness of this perspective, this study points out that the most used techniques in internal control assessments are interview, research, direct observation and documentary examination. It is added to this comment that these techniques were used by the author of this study, for the realization of a proposal to implement an Internal Auditing sector within the organization object of this study.

Following our explanation, Freitas (2013, p. 36) It is argued that “the instruments for applying the internal control techniques will be configured as: interview scripts, research questionnaires, direct observation scripts and procedures for documentary examinations” [9]. The tool called Internal Control Assessment Questionnaire (ICAQ), perhaps the most effective for use in a treasury sector, as this tool makes control tests to aid the auditor's judgment making data processing and results more objective. . There are two types of ICAQ: YES / NO (more simplified) and rating scale (likert and semantic differentiator) [4].

The main deficiency in an Internal Control is based on the assumption that it does not exist, in general, it is normal practice for auditors to highlight the existence, causes and effects of any material deficiency that is detected. Such further exploitation of identified weaknesses, coupled with the challenge of the auditee process inherent in conducting an audit, will likely minimize the importance of the risk that the auditor erroneously concludes that errors exist when in fact there are not [7].

The main risk of an Internal Audit is that the auditor may misjudge the audited management - considering inefficient management efficient, or vice versa. It is the risk of misplaced positioning: misjudgment, improper follow-up, or inadequate projection. It is also the possibility that the auditor may choose inappropriate control points for the purposes of the audit engagement, implying impertinent evaluations, follow-ups or projections, as well as the possibility of not detecting material deficiencies in the audited unit [10].

In this sense, the audit professional should consider the question regarding its existence and, in case there are internal procedures to avoid the adverse result, the reason for continuing to occur, or question the effectiveness or implementation of the procedures. The causes can be several, but the failure of the internal

control system is the most important, because it allows its occurrence; unless it is remedied, it will be repeated in the future. Identifying and understanding the causes of a disability is important for the development of findings, as well as the appropriate, impartial and effective review, resulting in corrective action suggestions [9].

The Internal Control system has its limitations, because it cannot absolutely assure the objectives to be achieved by Internal Auditing, based on the concern recorded in this paragraph, it is argued that the effectiveness of internal control is subject to both implementation limitations as well as functioning, no matter how well designed, absolute safety can never be expected [9].

The same author also mentions within its studies the possible limitations existing within Internal Control, as it is highlighted: the possibility of failures; errors of judgment in decisions; the occurrence of external events beyond the interference of the administrators; collusion between employees; its transgression by the administration itself; employees have not been adequately educated regarding internal standards; negligent employees in performing their daily tasks and the cost-benefit consideration that must be done, since controls cannot cost more than what is controlled [11].

The Internal Audit activity in the treasury is of high strategic relevance and consists of a set of technically standardized procedures, which works by monitoring work processes, evaluating results and proposing remedial actions for possible management deviations, counting with the necessary multidisciplinary support of human and material resources [3].

Internal Auditing's information regarding treasury management acts should mainly meet the following attributes in accordance with CONAB:

- a) Conciseness - use succinct and summarized language, giving as much information as possible briefly. Characteristic of this language is precision and accuracy;
- b) Objectivity - expressing practical and positive language, demonstrating the real and material existence of information;
- c) Conviction - demonstrate the certainty of the information that the communication must contain in order to persuade and convince anyone to the same conclusions, avoiding terms and expressions that may give rise to doubts;
- d) Clarity - expressing intelligible and clear language in such a way as to ensure that the communication structure and terminology employed allow the understanding of the information to be evident and transparent;
- e) Integrity - record all information accurately and impartially, and include in the communication all observed facts, without any omission, providing a complete view of the improprieties / dysfunctions noted, recommendations made and conclusion;
- f) Opportunity - transmit the information, simultaneously, in a timely manner and with integrity so that the communications are issued immediately, with the correct extension, so that the subjects dealt with in them may be the object of appropriate measures;
- g) Consistency - ensuring that the language is harmonious and concordant, so that communication is logical, corresponding to the stated objectives;

- h) Presentation - to ensure that the subjects are presented in a structured sequence, free from errors or erasures that may impair the correct understanding; and,
- i) Conclusive - allow the formation of opinion about the activities performed. In some identified situations, it may be specified that a conclusive statement by the Internal Auditing Unit is not appropriate, especially in cases where the examinations are of an intermediate nature [3].

“How the auditor will address these issues across areas is vital to the success of a good auditor/audited relationship, so that the doors of these areas remain open for future work. It is important that the audited ones feel in the auditors a willingness to assist them in solving their problems and forwarding them to other segments of the company.” [7].

Regardless of the above, it should be noted the importance of mutual trust of auditors and managers of the treasury. However, this trust needs to be earned by the auditor, as it will be through the information provided by the auditor that managers will assess the company's cash position. The organization and planning consist of establishing in advance the actions taken within pre-established scenarios and conditions, estimating the resources to be used and assigning the responsibilities to achieve the objectives set [12].

According to the literature, Terence defines the following characteristics that form the concept of planning:

- I. It is the definition of a desired future and effective means to achieve them;
- II. It means the development of a program for achievement of organizational objectives and goals, involving the choice of a course of action, the decision advance of what should be done and the determination of when and how the action should be performed; and,
- III. It is the process of establishing which objectives and means of action must be taken [12].

Planning facilitates the process of its elaboration by the company itself, and must be carried out by the areas relevant to the process. Planning is the most basic of all administrative functions, and the ability by which this function is performed determines the success of all operations. Planning can be defined as the thought process that precedes action and is directed toward making decisions in the present moment with the future in view [13].

III. MATERIALS AND METHODS

In this paper, we used the descriptive method, since it has that the descriptive reasoning has as characteristics observe, register, analyze, describe and correlate facts or phenomena without manipulating them, trying to find out precisely the frequency in which a phenomenon occurs and its occurrence relation to other factors [14].

As for the technical procedures used for the formation of this paper, we used the bibliographic research, as it aimed to “collect information and prior knowledge about a problem for which an answer is sought or about a hypothesis that one wants to try out” [15]. It was also necessary to use field research, which "is characterized by deep and comprehensive study of one or a few objects, a way that allows its broad and detailed knowledge” [16].

IV. STUDY APPLICATION

This study was conducted at the premises of a regional construction company, based on the principle of delivering valuable services to businesses, government and organizations. It

has a personalized approach that combines intelligence, deep expertise and strategic alliances with economic sectors to deliver real results to customers.

With a multidisciplinary and experienced team, develops high value-added work for qualified clients installed or landing in the North and other regions of the country. Best practices in business management are used in the development of technical and economic feasibility studies, market analysis, strategic planning, organizational management, fundraising, development of structuring projects, strategic diagnostics, technical advice and guidelines for sustainable growth.

In this stage of elaboration and application of the interview about the relevance of Internal Auditing, the typology of deductive research was used. It is also noteworthy that the interview used by the author consists of 10 informal questions where the head of the treasury department, who can feel free to answer (Table 01), the data collection took place in the month of August / 2019. The other steps were worked on site.

The author praised the act of not using very specific questions, always having ethics as a differential factor in the research performance, the questions have a neutral character, as a way of not influencing the answers.

Table 1: Respondent Profile.

Interview	Office	Sector Time	Interview Mode	Interview Length
E1	Head of Treasury	7 years	Presencial	1:05:59

Source: Authors, (2019).

After collecting the articles and conducting the interview, the collected data were analyzed by combining the data from the theoretical and empirical literature along with the interview, which incorporated a wide range of purposes, including: definition of concepts, review of theories and evidence, and analysis of methodological problems. The large sample generated a consistent and comprehensible overview of the relevance of implementing an Internal Auditing sector within the Construction Industries.

V. RESULTS AND DISCUSSIONS

It was first identified the company's work method in performing their services, where in planning the owner of the work idealizes the project where the engineer or architect performs, and the owner provide resources, land for work, and requires that these resources are properly so that there is no damage, and the internal auditor should carefully check the lines of this scheme and devise ways to supervise this work.

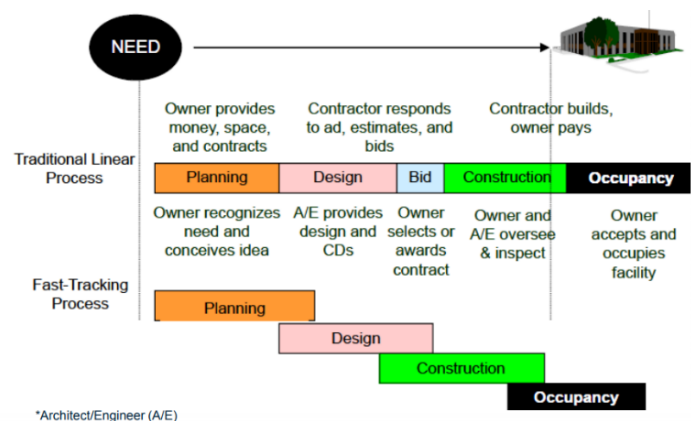


Figure 1: Process of a Construction.

Source: [19].

It is identified in the organization chart (Fig. 2) that senior management is centralized, summarizing if the General Board governed by the owner, and its subsequent departments such as the Commercial Board, Finance Department, People Management Department, Accounting Board, Consulting Board and the Tax Department as supervisors in strategically made decisions, which sectors are responsible for operationalizing the actions.

Faced with an uncertain future, in a fast-paced, changing world, organizations have to keep a close eye on their surroundings. In this sense, this study argues that treasury audit activities should be planned, programmed and developed taking into account the concerns and priorities of each client, and in line with the defined objectives, strategies and global policies, enabling the achievement of effective management become an indispensable and valued function for management and the organization in general.

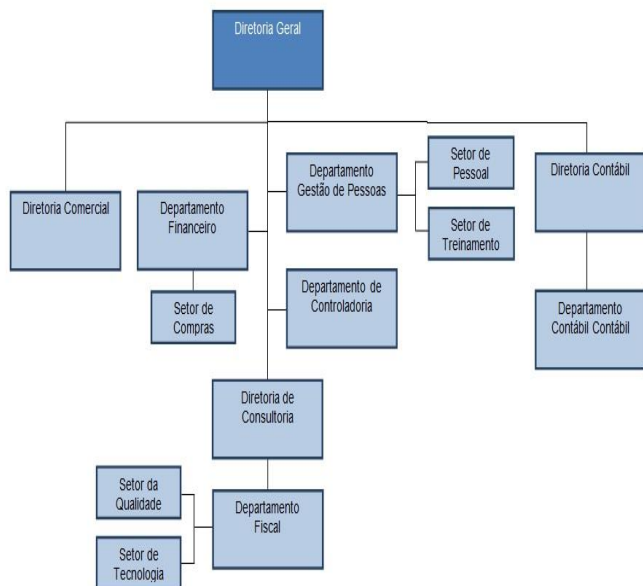


Figure 2: Company Organization Chart. Source: Company Data, (2019).

The Auditor is responsible for observing the execution of the tasks that happened correctly, if there are excesses in procedures that burden the final value of the work, having to request adjustments of values and the work to finish with a value much higher than initially budgeted that characterizes a planning failure or misuse of resources, so according to the planning, and it is up to him, to ensure internal control, the execution of tasks, in case of errors, failures or deviations, it is up to the auditor to analyze and determine the correction of these errors, both in planning process as well as the execution process.

The audit program is basically divided into three distinct parts as described:

- I. Listing of audit procedures;
- II. Space for the auditor to sign or initial in order to evidence that the service was done and that it did it; and,
- III. Space for comments, remarks, references among others [17].

Following these steps, the following activities were developed for the implementation of an audit program for the company (Table 2):

Table 2: Activities for the implementation of an Auditing sector.

Item	Activities	Precedents	Length	Resources
1	Promote training	None	1 day	R\$ 800,00
2	Deploy an Audit Team	1	15 days	R\$ 2.000,00
3	Evaluate audit work analysis	2	30 days	R\$ 7.500,00
4	Hold meeting to evaluate the results by the business owner	3	1 days	R\$ 0,00
5	Promote audit for maintenance	4	5 days	R\$ 0,00
TOTAL				R\$ 10.300,00

Source: Authors, (2019).

VI. CONCLUSIONS

It is noteworthy that in this stage the main observations with the accomplishment of this research where it is emphasized that the Audit is responsible for the observation of the execution of the tasks happened correctly, according to the planning, and it is up to him, control, the task of correct errors, both in the planning process as well as in the execution process, because the first step to be taken is to realize in strategic planning the variables that may influence the organization's results, which can be divided into internal variables and external variables, where they are subdivided into weaknesses, strengths, opportunities and threats.

Although an appropriate plan of organization varies with the type of company, usually a satisfactory plan needs to be simple and flexible, and should be paid to the establishment of clear lines of authority and responsibility, that is an important element in any organization plan is the structural independence of operating, custody, accounting and internal audit functions. In other words, the responsibility and the corresponding delegation of authority must be clearly defined and placed in organization charts or manuals.

Conflicting and duplicate responsibilities should be avoided, but where the work of two or more divisions is complementary, responsibility may be divided into phases, within this context this study concludes that these divisions of responsibilities are inherent in good internal auditing, which stipulates that the duties of initiating and authorizing an activity are separate from those of its accounting.

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