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PRESENTATION

We are pleased to present to you the Internal Auditing Bylaw, our guiding document of the Internal Auditing activities carried out at Copel. It covers the main aspects regarding our internal auditing practice and the rules governing our relation with the audited areas and the management bodies of the Company, so as to allow for the necessary independence and objectivity of the auditing activity.

The present bylaw was based on the international rules which guide the practice of internal auditing, in accordance with the Institute of Internal Auditors - IIA, to which the *Instituto de Auditores Internos do Brasil - Audibra* (Institute of Internal Auditors of Brazil - Audibra) is affiliated. *Audibra* is the representative organization of the national community of internal auditors and internal and external control professionals, and it aims at the development of these professionals, including their training, technical capability and permanent updating.

Attached to this bylaw is the Manual of Internal Auditing Policies and Procedures, which intends to provide a detailed view of the auditing practice at Copel and to set patterns for corporate procedures, keeping the essential characteristics and format of the presentation of our auditing results, which have been secured throughout Copel's long Internal Auditing practice.

The making of this bylaw was based mainly on the procedures adopted by the Company in the preceding years. Adaptations may have been made in such procedures, whenever needed, to make them fit in the ones indicated by the IIA/*Audibra*.

We expect that the Internal Auditing Bylaw and the Manual of Internal Auditing Policies and Procedures will provide the internal auditors with guidelines to enable them to do their jobs in a satisfactory way, thus leading to their grasping of the knowledge needed for good task performance.

It is important to highlight the fact that the Manual serves only as a reference and may be adapted in order to meet specific needs and follow the development of the activities.

Through the Internal Auditing Bylaw and the Manual of Internal Auditing Policies and Procedures, we hope to have contributed to the improvement of the auditing activities within the Company. Possible related criticisms or suggestions are welcome.

RICARDO JOSÉ DÓRIA
INTERNAL AUDITING MANAGER

I – Characteristics

1. The Internal Auditing is an independent and objective activity of evaluation and consultation geared to add value to Copel and to enhance its controls and operations.

II – Direction and Supervision of the Internal Auditing Activities

2. The Board of Directors shall control the Internal Auditing activities of the programs and work plans regarding Copel's internal and external businesses and its economic, financial and budget management, in accordance with the provisions in article 15, section/item VI, of the Corporate Bylaws.
3. The supervision of the Internal Auditing works is within the Audit Committee's duties and is established by its internal regulation, item 12, d.

III – Behavior and Ethics

4. The internal auditors' ethical behavior shall be ruled by Copel's Ethical Behavior Code and by the Company's administrative rules.
5. Provided they pose no conflict with Copel's internal regulations and Ethical Behavior Code, the Company's auditing activities and works shall also be run by the auditors' professional ethical behavior code as ruled, and appropriately adapted, by the Institute of Internal Auditors – IIA and the *Instituto dos Auditores Internos do Brasil - Audibra* (Institute of Internal Auditors of Brazil – Audibra).
6. The internal auditors shall sign a commitment term related to the required ethical business conduct expected from them.

IV – Professional Rules

7. The internal auditors team shall follow the international rules to the practice of the internal auditing profession, as established by the Institute of Internal Auditors – IIA, to which the *Instituto de Auditores Internos do Brasil - Audibra* is affiliated.
8. The guidelines to the profession, derived from the international regulations for the practice of internal auditing, shall be applied to the activities developed by Copel's Internal Auditing, when suitable.

9. The activities developed by the Internal Auditing shall be guided by the Manual of Internal Auditing Policies and Procedures, which is a part of this Bylaw.

V – Internal Auditing Purposes

10. The purpose of the Internal Auditing is to develop, in an independent and objective way, the auditing activities of the business processes, with a view to contributing to the improvement of risks management and corporate governance efficiency and to assisting the managers in the decision making process.

VI – Authority and Responsibility

11. The internal auditors shall have unrestricted access to any administrative unit of the Company, in order to inspect the book keeping, records, files (regardless of the medium in which data is stored) and documents, as well as take account of the Company's cash, assets and values on any employee's responsibility, collect data and request for information concerning whichever subject of interest to Copel, both internal or external. They shall, as well, be granted all rights, whenever their jobs require so.
12. The Internal Auditing shall be informed by other areas about any official examination or auditing in progress in the Company, promoted by external entities such as Agência Nacional de Energia Elétrica - Aneel (Brazilian Electricity Regulatory Agency), Agência Nacional de Telecomunicações - Anatel (Brazilian Telecommunications Regulator Agency), the State of Paraná Court of Accounts, State and Federal Internal Revenue Departments, Instituto Nacional do Seguro Social - INSS (Brazilian Social Security), among others. The areas under external examination shall send copy of the respective reports to the Internal Auditing, in order to inform and allow follow-up measures to be taken, if necessary. These reports include the ones sent quarterly, annually or occasionally by Copel's External Auditing.
13. The internal auditors shall carry a credential signed by the Company's Chief Executive Officer, granting them the rights mentioned in the previous item.
14. For the performance of their duties, the internal auditors shall be granted free and unrestricted access to the chairman of the Board of Directors, to the Audit Committee and to the executive officers.
15. No previous explanation, authorization or communication whatsoever to the Company's managers or executives shall be necessary, being the internal auditors allowed to free, full and unrestricted access to the Company's units, records and personnel relevant to the subject under review (the surprise factor), as it is the case

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in audits related to cash verification, investigation of frauds or reports of suspected wrongdoing.

16. All employees and executives must cooperate with the internal auditors with respect to the access to the Company's assets, properties, transactions, and to the verification of the accuracy of its books, records and information systems, as set forth in Copel's Ethical Behavior Code.

VII – Confidentiality

17. All documents and audit working papers accessed by the Internal Auditing shall be treated confidentially.

18. The final reports shall only be sent to the areas in charge of the audited activity or to those responsible for taking measures in relation to the issued recommendations.

19. Requests of auditing reports among chief officers shall only be granted with due authorization of the chief officer of the audited area or of the Audit Committee.

20. The contents of the auditing reports, on the whole or in part, shall only be made available to others in case of judicial order or of situations described in the Company's internal regulations.

21. Further requests for information about auditing activities by others (external to Copel) shall only be granted with express authorization from the Chief Executive Officer and agreement of the Chief Legal Officer.

VIII – Organization

22. The Internal Auditing manager is accountable to the Chief Executive Officer, in administrative terms, and to the chairperson of the Audit Committee, in functional terms.

23. The report of the Internal Auditing unit to the Audit Committee ensures that its activities are performed free from any interference that may limit its business scope.

24. The Internal Auditing unit being accountable to the Chief Executive Officer is intended to ensure that it shall be provided with the material and human resources needed to perform its duties.

25. The Internal Auditing may be internally divided into formal or informal teams, with a view to gaining agility. Its actuation, however, shall be always centralized.

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- 26. The Internal Auditing shall be managed by and composed of Copel's employees.
- 27. The Internal Auditing may hire or request for the hiring of external experts, or even rely on the work of experts from the Company, in case the team of auditors lacks knowledge, skills, or other competencies needed for the revision of technical work or of others of specific nature.

IX – Independence

- 28. The Internal Auditing shall be free from interference in selecting the areas and subjects to be audited, in determining the scope of its work, in applying the techniques required to accomplish audit objectives and in communicating results so as to allow for independence and objectivity¹ in the performance of the internal auditors' work.
- 29. Whenever necessary, the Internal Audit manager shall hold private meetings with the chairperson of the Audit Committee.
- 30. The Internal Auditing shall not have operational responsibility or authority over any audited activities and shall not develop or introduce new systems or procedures, nor perform any other activities that may be subsequently audited.
- 31. The Auditing manager shall only be replaced upon recommendation of the Board of Directors' Audit Committee.

X – Scope of Work

- 32.The Internal Auditing scope comprises the examination and evaluation of the adequacy and effectiveness of the corporate governance system, of the risk management processes, of the internal controls, and of the performance quality as regards the fulfillment of responsibilities with the ultimate view to achieving Copel's goals and targets. Such scope includes:
 - a. review of the reliability and integrity of the financial and operating information and of the means used for identifying, measuring, classifying and reporting such information;
 - b. review of the systems established to ensure compliance with the policies, plans, procedures, laws and regulations that may have significant impact on the financial operations and reports and if the organization is legally

¹ An unbiased attitude expected of the internal auditors in the performance of their audit. They should believe in the product of their work and no significant exemptions on its quality should be made. It also requires that the internal auditors do not submit their judgment to the judgment of others.

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- compliant;
- c. review of the reliability and integrity of the information produced by the information systems and of the physical and logical security, as well as of the rationalization in the use of information technology resources;
- d. review of property security measures and, if appropriate, verification of existence of assets;
- e. appraisal of the economy and efficiency with which resources are employed;
- f. review of operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- g. review of specific operations at the request of the Board of Directors, Audit Committee, Fiscal Council and the Board of Officers, if necessary;
- h. monitoring and evaluation of the efficiency of the risk management system;
- i. review of the quality of performance of external auditors and of the extent to which their actions comply with the Internal Auditing;
- j. review of the internal control declarations of the Senior Management;
- k. investigation of suspected fraudulent activities within the Company, involving its properties and employees, in compliance with the Organization's present personnel disciplinary regulations;
- l. investigation of reports of suspected wrongdoing received through the Confidential Communication Channel, if necessary;
- m. coordination of the hiring process of an independent auditing firm to comply with legal requirements related to the examination of the financial statements and other businesses of the Company;
- n. supervision and participation in the hiring processes of specialized auditing services, if necessary;
- o. supervision and recording of the Company's action plans aimed at making the necessary corrections and improvements due to recommendations and suggestions given;
- p. participation in working groups and committees, when so appointed;
- q. assistance to the Company's Management;
- r. support to the Board of Directors, Fiscal Council, External Auditing and Controlling Entities, when requested;
- s. provision of auditing and consulting services to Copel's associates and subsidiaries, when necessary or requested.

XI – Annual Auditing Plan

33.The auditing manager shall submit an annual plan to the Chief Executive Officer and the Audit Committee, including work schedules, auditing projects, programs, a personnel list and a budget plan for the following fiscal year.
34. Unplanned activities shall only be included in the annual plan when derived from analysis described in the Company’s disciplinary regulation (IAP 040301-1), by request of the Senior Management (Board of Directors and of Officers) or the Confidential Communication Channel.
35. The planning of the auditing works is developed in accordance with this Bylaw and is based on the auditing priorities by means of risk analysis methodology.
36. It is incumbent upon the Internal Auditing manager to examine the need and the order according to which the works shall be performed, in compliance with the priorities determined by the risk and the cost-benefit analysis.
37. All significant changes to the work schedule formally approved shall be informed to the Chief Executive Officer and the Audit Committee by means of periodical reports of the activities.

XII – Reports

38. When deficiencies or non-compliance to regulations is found, the Internal Auditing shall issue auditing working papers or reports, to be distributed at the end of each engagement work, according to the required measures.
39. A copy or a summary of each report shall be sent to the chief officer to which the audited area is accountable, as well as to the Board of Directors, Audit Committee and to the Chief Executive Officer.
40. In case the auditing manager and the director of the area disagree on a certain risk or non-compliance appointed, they shall inform the Chief Executive Officer and the Audit Committee about the subject.
41. The auditing manager or the appointed auditor may include in the report the responses and correcting measures taken (or to be taken), according to their findings and recommendations.
42. When the reply is not included in the auditing report, the manager of the audited area shall respond, in writing, within thirty days of the issuing of the auditing working paper or of the internal auditing report.

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43. The audited areas shall reply to all the reports or auditing working papers, and the responses of the managers shall include a deadline for the actions to be taken for each recommendation that has still not been implemented.
44. It is incumbent upon the Internal Auditing to follow up the actions taken by the audited areas in relation to the recommendations made in the report, remaining such recommendations with a non-compliance status until the audit manager or the Audit Committee duly receives reply and evaluation.
45. Occasional measures not taken shall be informed by the auditing manager to the chief officer of the area, and, in case of significant risk, to the Chief Executive Officer and to the Audit Committee.
46. The drafts of the reports regarding frauds shall be discussed with the lawyers of the Chief Legal Office, for occasional review.

XIII – Periodical Evaluations

47. The auditing manager shall carry out periodical evaluations to check if purpose, authority and responsibility, as defined in this Bylaw, are still adequate and allow the auditing area to reach its objectives.
48. Every 5 years, the auditing activities shall be submitted to external evaluation, with a view to assessing their compliance to the rules established for the internal auditing professional practice and, if appropriate, to making the necessary improvements to enhance the effectiveness of the job functions.
49. The results of the evaluations shall be announced to the Board of Officers and to the Audit Committee.

Approved by:

Internal Audit Manager
On 04/07/2006

Board of Officers
Minutes of the 1681st Meeting – 05/10/2006
Minutes of the 1686th Meeting – 06/12/2006

Audit Committee
Minutes of the 16th Audit Committee Meeting – 06/30/2006

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Board of Directors

Minutes of the 79th Meeting – 08/18/2006

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