INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS

(2016)

DEPARTMENT OF BUDGET AND MANAGEMENT

Message from the Secretary

The Department of Budget and Management (DBM) has been pursuing reforms in public financial management to ensure that the government *spends within means, invests in the right priorities,* and *delivers measurable* results within an environment *that empowers citizens* through greater transparency, accountability, and meaningful citizen's participation.

One reform, which not only visibly improves internal controls but also results in institutional strengthening, is the establishment and operationalization of the Internal Audit Service/Units (IAS/U) in the government.

While many organizations balk at the mention of internal audit, it remains to be a strategic function that ensures good governance by providing checks and balances for government interventions.

In response to this challenge, the DBM, in consultation with national government oversight agencies and LGUs, has developed the Internal Audit Manual (IAM) for LGUs, which are constrained from establishing and operationalizing internal audit for lack of a practical guide.

The IAM for LGUs is a step-by-step guide on how to set up the IAS/U, to plan and execute internal audits, to report internal audit findings and follow-up recommendations, as well as to evaluate the performance of the IAS/U.

As we issue the IAM, we are very optimistic that this will encourage LGUs to appreciate the value of the internal audit function in improving their operations and strengthening their institutions.

Mabuhay at maraming salamat po!

Florencio B. Abad
Secretary

INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS

2016

THIS MANUAL WAS DEVELOPED WITH SUPPORT FROM THE EUROPEAN UNION

Internal Audit Manual Roadmap

Legend

- **Parts**
- (29) **Section Pages**
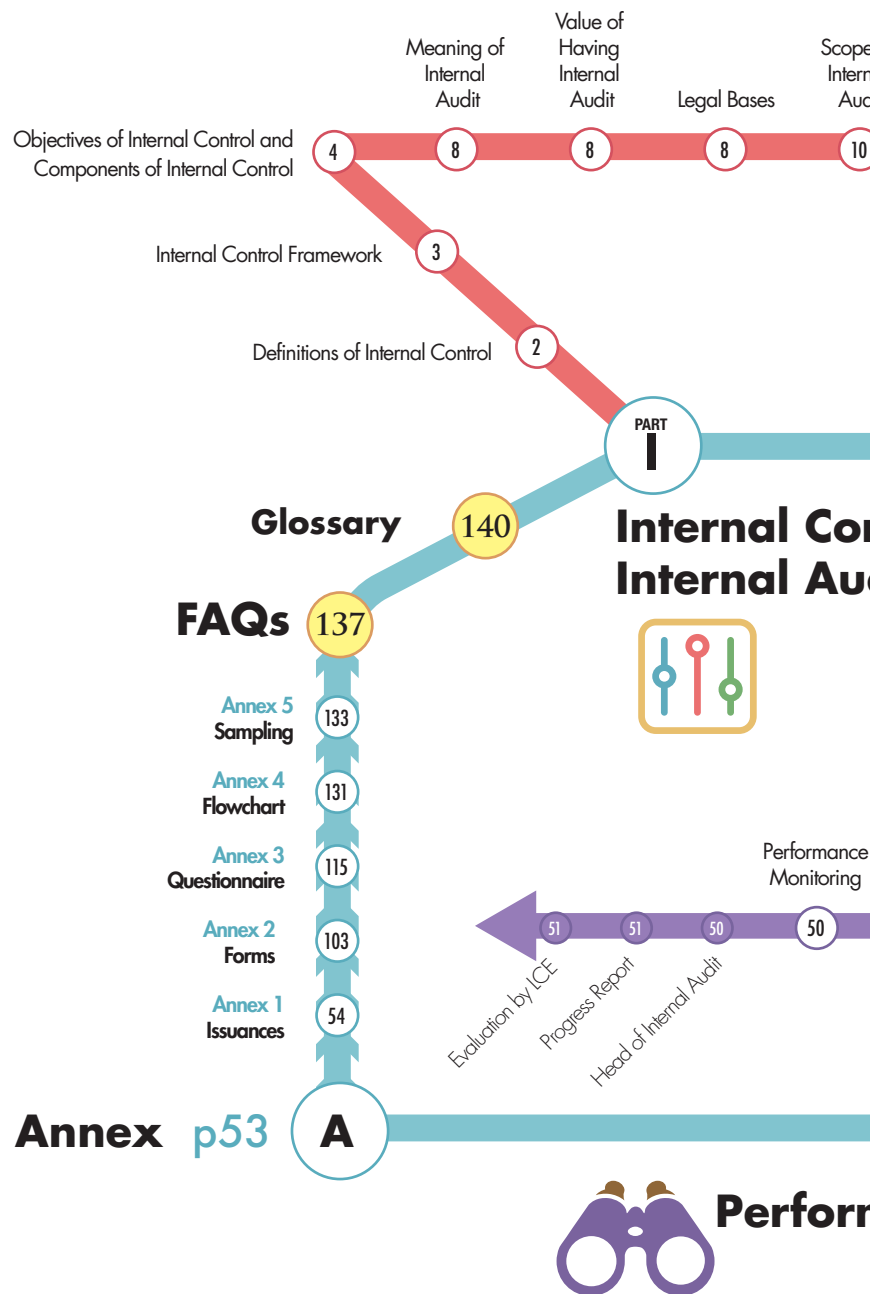
- **Internal Control & Internal Audit**
- **Organizing the Internal Audit Service/Unit**
- **Planning and Audit Process**
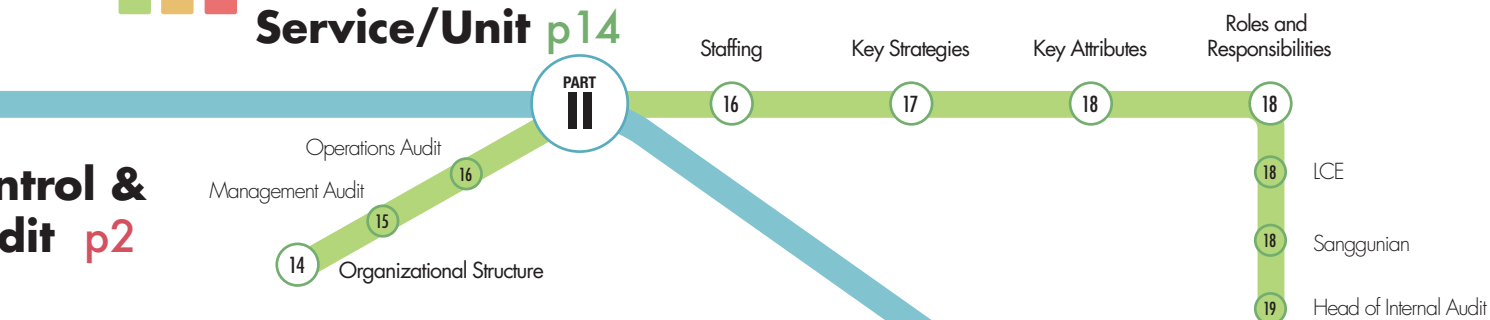- **Performance Monitoring & Evaluation**

Internal Control and Internal Audit (Part I)

- Objectives of Internal Control and Components of Internal Control — (4)
- Internal Control Framework — (3)
- Definitions of Internal Control — (2)
- Meaning of Internal Audit — (8)
- Value of Having Internal Audit — (8)
- Legal Bases — (8)
- Scope... Internal... Aud... — (10)

PART I — Internal Con... Internal Au...

Annex (p53) — A

- **Glossary** — (140)
- **FAQs** — (137)
- Annex 5 **Sampling** — (133)
- Annex 4 **Flowchart** — (131)
- Annex 3 **Questionnaire** — (115)
- Annex 2 **Forms** — (103)
- Annex 1 **Issuances** — (54)

Performance Monitoring

- Evaluation by LCE — (51)
- Progress Report — (51)
- Head of Internal Audit — (50)
- (50)

Audit Follow-up

- (46)
- (47) Monitoring
- (47) Resolutions
- (47) Follow-up Report

Audit Reporting

- (43)
- (44) Audit F...
- (45) Audit Recommen...
- (45) Report Draft
- (46) Final Report

Types of Audit — 10

Functions — 11

Internal Audit Service — 11

Role of Accountant — 11

Relationship with Key Stakeholders — 12

Principles and Standards — 13

13 — Objectivity and Impartiality

13 — Authority and Confidentiality

14 — Professional Competence

Organizing the Internal Audit Service/Unit p14

...ntrol & ...dit p2

Staffing — 16

Key Strategies — 17

Key Attributes — 18

Roles and Responsibilities — 18

PART II

Operations Audit — 16

Management Audit — 15

14 — Organizational Structure

18 — LCE

18 — Sanggunian

19 — Head of Internal Audit

PART III

Audit Planning & Audit Process p20

Measurement Techniques — 49

Importance — 49

PART IV

3.1 **Audit Planning** p20

...mance Monitoring & Evaluation p49

Audit Process p30

3.3

3.2 **Strategic and Annual Work Planning** p21

Audit Execution
37

38 Entry Conference

40 Compliance Audit

41 Operations/ Mgmt Audit

43 Exit Conference

Audit Engagement Planning
31

32 Documentation

33 Objective and Scope

35 Resources and Milestones

35 Prepare AEP

36 Performance Indicators

37 Secure Approval

Annual Work Planning
29

29 Potential Audit

30 Previous Audit

30 Prepare AWP

30 Present SP and AWP

Strategic Planning
21

22 Baseline Assessment

25 Control Significance

27 Risk Assessment

28 Strategic Plan

...findings

...dations

Table of Contents

Figures and Tables

List of Acronyms and Abbreviations

4C's	Criteria, Condition, Cause, Conclusion
4E's	Economical, Efficient, Effective, Ethical
ADB	Asian Development Bank
AEP	Audit Engagement Plan
AO	Administrative Order
APP	Annual Procurement Plan
APCPI	Agency Procurement Compliance Performance Indicator
AusAID	Australian Agency for International Development
AWP	Annual Work Plan
BAC	Bids and Awards Committee
BAICS	Baseline Assessment of Internal Control System
BAR	Baseline Assessment Report
BC	Budget Circular
BuB	Bottom-up Budgeting
CL	Circular Letter
COA	Commission on Audit
CSC	Civil Service Commission
CU	Control Universe
DBM	Department of Budget and Management
DILG	Department of the Interior and Local Government
DOF	Department of Finance
EO	Executive Order
GOCCs	Government-Owned and/or Controlled Corporations
GFIs	Government Financial Institutions
GAAM	Government Accounting and Auditing Manual
HRMO	Human Resource Management Office
HoIA	Head of Internal Audit
IA	Internal Auditor
IAM	Internal Audit Manual for Local Government Units

IAS	Internal Audit Service
IAU	Internal Audit Unit
IAS/U	Internal Audit Service/Unit
ICS	Internal Control System
ICQ	Internal Control Questionnaire
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
LBC	Local Budget Circular
LCE	Local Chief Executive
LGC	Local Government Code
LGUs	Local Government Units
LGU PFM Reform Roadmap	Local Government Units Public Financial Management Reform Roadmap
MC	Memorandum Circular
MFO	Major Final Outputs
NEDA	National Economic and Development Authority
NGICS	National Guidelines on Internal Control Systems
OGCC	Office of the Government Corporate Counsel
OPAO	Office of the President – Administrative Order
OPIAO	Office of the President – Internal Audit Office
PD	Presidential Decree
PFMAT	Public Financial Management Assessment Tool
PGIAM	Philippine Government Internal Audit Manual
PI	Performance Indicator
RA	Republic Act
SP	Strategic Plan
SUCs	State Universities and Colleges
USGAO	United States Government Accountability Office

Foreword

Based on the assessment of public financial management (PFM) systems undertaken by five hundred fifty (550) FY 2013 Bottom-up Budgeting (BuB) focus local government units (LGUs), internal audit is virtually non-existent at the LGU level, as indicated by the total mean rating of 0.54 out of the highest possible score of 4.0.

In the LGU PFM Reform Roadmap and Implementation Strategy developed by the LGUs with support from the oversight agencies, the LGUs identified the lack of a localized manual which will guide the LGUs in establishing and operationalizing the internal audit service/unit (IAS/U) as one of the constraining factors.

Thus, pursuant to its mandate under Administrative Order No. 199 dated March 29, 1989 and Memorandum Order No. 277 dated January 17, 1990, the Department of Budget and Management endeavored to develop the Internal Audit Manual for Local Government Units (IAM for LGUs), under the auspices of the European Union-funded Project, *"Support to the Local Government Units for More Effective and Accountable Public Financial Management (LGU PFM 2 Project)."*

The IAM for LGUs is primarily based on the National Guidelines on Internal Control Systems and the Philippine Government Internal Audit Manual, which are the official references on internal control and internal audit to date.

The IAM for LGUs is intended to guide LGUs in establishing and operationalizing internal audit, thus, achieving the following objectives, as articulated in the LGU PFM Reform Roadmap:

- Functional and operational IAS/U;
- Regular and timely submission of internal audit reports; and
- Audit recommendations followed up and implemented.

The IAM for LGUs is applicable to all provinces, cities and municipalities. It is presented in a manner which can be easily understood by all stakeholders, including those tasked with the internal audit function in the LGU, as well as those with an interest in internal audit and/or affected by internal audit.

Part 1. Internal Control and Internal Audit Framework

Introduction

Key to a better appreciation of internal audit is an understanding of internal control so that a clear distinction between the two may be established.

Internal controls are management controls, e.g., standard operating procedures for the filing of documents that are designed to maintain and protect the integrity of information, and ensure easy access thereto as and when required by authorized officials and personnel are internal controls.

Internal audit, on the other hand, is the means by which internal controls are checked to determine whether or not they are well-designed and properly operated.

The following sections further explain what are internal control and internal audit.

1.1 Definitions of Internal Control

Internal control refers to the plan of organization and all the coordinated methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies [**Section 123 of Presidential Decree (PD) No. 1445, as amended**].

This legal definition is supplemented by the policy that "all resources of the government shall be managed, expended, or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy, and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned" (**Section 1, Chapter 1, Subtitle B, Book V of the Administrative Code of 1987**).

The definition of internal control is amplified in the COA Government Accounting and Auditing Manual (GAAM) Volume III which states that "internal control comprises the plan of organization and all the methods and measures adopted within an agency to ensure that resources are used consistent with laws, regulations, and policies; resources are safeguarded against loss, wastage, and misuse; financial and non-financial information are reliable, accurate, and timely; and operations are economical, efficient, and effective" [**Section 32, Title 2, Volume III of the Government Accounting and Auditing Manual (GAAM)**].

The Philippines' internal control standards are complemented by prevailing international best practices such as the Guidelines for Internal Control Standards for the Public Sector issued by the International Organization of Supreme Audit Institutions (INTOSAI), an organization of 184 countries (including the Philippines). The INTOSAI Guidelines provide a framework for internal control in the public sector against which internal control can be evaluated. The framework does not limit or interfere with the duly granted authority related to the legislative, rule-making, or other discretionary policy-making powers of an organization.

The INTOSAI defines internal control as "an integral process that is effected by an entity's management and personnel, and is designed to address risks xxx." It provides reasonable assurance that, in pursuit of the entity's mission, the following general objectives are achieved:

- executing orderly, ethical, economical, efficient, and effective operations;

- fulfilling accountability obligations;

- complying with applicable laws and regulations; and

- safeguarding resources against loss, misuse, and damage.

The United States Government Accountability Office (USGAO) also defines internal control as "an integral component of an organization's management which provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations;

- reliability of financial reporting; and

- compliance with applicable laws and regulations."

Under the Philippine setting, the Internal Audit Service/Unit (IAS/U) is not involved in assurance activity. The internal audit function or appraisal activity as conducted by the IAS/U constitutes a separate component of internal control, the objective of which is <u>to determine whether other internal controls are well designed and properly implemented</u>. Said appraisal by the IAS/U does not include an assurance that the LGU's internal controls and operations are economical, efficient, effective, and ethical.

1.2   Internal Control Framework

Figure 1 shows the Internal Control Framework consisting of the internal control objectives and the internal control components in the context of the public sector.

As shown in the Internal Control Framework in Figure 1, there is a direct relationship between the general control objectives, which represent what an LGU's internal controls strive to achieve, and the internal control components, which represent what the general control objectives of an LGU need to achieve.

Each internal control component applies to each objective. For example, the generation of financial and non-financial data from internal and external sources, which falls under the information and communication component, is directly related to the accurate accounting of information, and the data are also needed to adhere to managerial policies, comply with applicable laws, manage operations, and safeguard assets.

Figure 1. Internal Control Framework
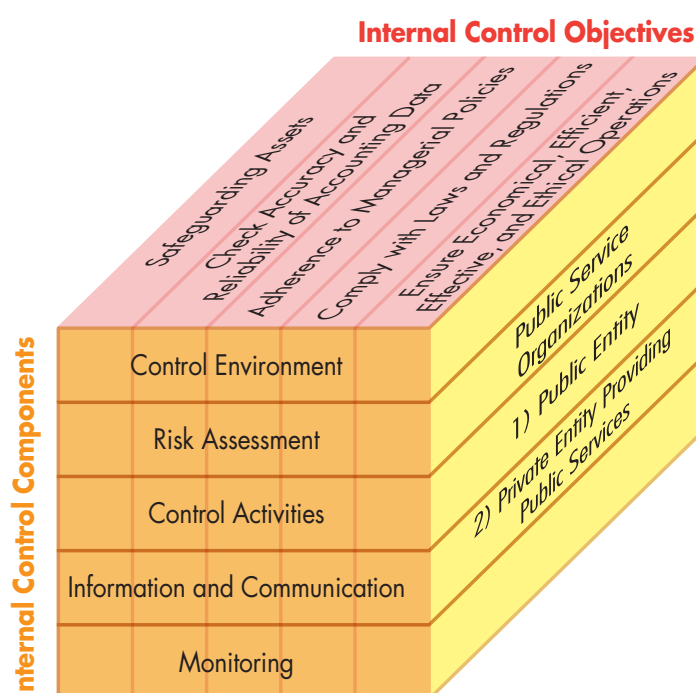
1.3   Objectives of Internal Control

In fulfilling its mission and mandates, the LGU shall achieve separate but interrelated general objectives of internal control, which are as follows:

a) Safeguard assets;

b) Check the accuracy and reliability of accounting data;

c) Adhere to managerial policies;

d) Comply with laws and regulations; and

e) Ensure effective, efficient, ethical, and economical operations.

Box 1. Four E's of Operations Defined

Economical	not wasteful or extravagant, right cost, right price, right time, right quality, right quantity;
Efficient	doing things right given available inputs and specified timeframe to deliver given quantity and quality of outputs;
Effective	doing the right things to achieve objectives; and
Ethical	complying with norms of conduct and conformity with Republic Act (RA) No. 6173 (Code of Conduct and Ethical Standards for Public Officials and Employees)

1.4   Components of Internal Control

The internal control system consists of control features built into and made an integral part of the LGU's processes to regulate and guide its operations and ensure that the abovementioned internal control objectives are attained.

Internal control has five interrelated components, to wit:

a) Control environment;

b) Risk assessment;

c) Control activities;

d) Information and communication; and

e) Monitoring.

4

1.4.1   Control Environment

The elements of the control environment determine and influence how internal controls are to be structured. They are:

a. **Plan of organization** (structure, management, personnel). This consists of the organizational structure, as well as the management and personnel set-up of an LGU. It provides the framework within which the activities of an LGU are planned, executed, controlled, and reviewed. It considers key areas of authority and responsibility and the appropriate lines of reporting.

b. **Coordinated methods and measures** (policies, rules, regulations). These are the control processes that are implemented, and comprise the policies, rules, and regulations in every LGU management system that support and become integral to the operations. They guide and communicate management actions at all levels and ensure that operating activities are performed within the standards prescribed.

c. **Integral process** (integration of controls in all aspects). Internal controls are integrated into the organizational and decision-making processes to guide and regulate operations to achieve expected results and contribute to sectoral goals and objectives.

1.4.2   Risk Assessment

Risk assessment is the overall process of identifying, analyzing, and evaluating relevant risks to the achievement of the control objectives and determining the appropriate response. The concept of risk has two elements, to wit: the likelihood that something will happen, and the consequences if it were indeed to happen. In other words, it is the identification, analysis, and evaluation of what could go wrong and how to address it.

Risk can arise from internal or external sources, and might include exposure to such things as financial loss, physical damage, failure of a project to reach its objectives, taxpayer dissatisfaction, unfavorable publicity, or mismanagement. For example, risks that LGUs might confront can be categorized into:

- *Strategic risks* (risks to the achievement of development goals, such as policymaking and planning being weakly linked to budgeting);

- *Commercial risks* (risks to stable commercial relationships, such as failure to meet contractual obligations);

- *Operational risks* (risks to core business activities, such as inadequate human resources or natural disasters);

- *Technical risks* (risks to managing assets, such as equipment failure or lack of qualified personnel);

- *Financial and systems risks* (risks to maintaining financial controls and systems, such as human error or incompetence); and

- *Compliance risks* (risks to meeting regulatory obligations such as weak understanding of laws, regulations, managerial policies, and operating processes).

1.4.3   Control Activities

A control activity is a process, policy, practice or any other measure that modifies a risk. Control activities must be appropriate, cost effective, comprehensive, and reasonable, and must directly relate to the control objectives of the LGU. Appropriate means that the control activity is in the right place and is commensurate to the risk response, operating performance, and compliance improvements. Cost effective means that the

cost of implementing the control activity should not outweigh its benefits. Comprehensive and reasonable mean that the control activity directly relates to the control objectives.

For example, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error and mismanagement. This includes separating the assignment of responsibility for processing, reviewing, recording, custody, and approval/authorization of certain transactions.

Another example is that policies or physical controls over vulnerable resources or assets are needed to safeguard them from theft, loss, or misuse. These include security for and limited access to assets such as cash, inventories of facilities, supplies and equipment, data or records, and information.

1.4.4   Information and Communication

Information, in the context of internal control, refers to the act of receiving or giving data and information needed by public officials and employees to do their jobs and understand their roles and responsibilities. Information includes both internally generated data (operational, management, and compliance-related information) and information about external events, activities, and conditions necessary for informed decision-making.

For example, management's ability to make appropriate decisions is affected by the quality of information, which implies that information should be appropriate, timely, current, accurate, and accessible. The prompt recording and filing of transactions and events is a precondition to relevant and reliable information. Required information should be identified, captured, and communicated in a form and within a timeframe that enables management to carry out decision-making and other personnel to implement their responsibilities.

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. It relates to the free flow of relevant, complete, reliable, correct, and timely information up, down, across, inside and outside the organization, including the public they serve, other public service organizations[1] and sectors concerned.

An LGU and its management must be kept up-to-date on the performance, development and risk, and the functioning of internal controls, as well as other relevant events and issues. An LGU should ensure that there are adequate means of communicating with and obtaining information from external parties, as external communications can provide inputs that may have a highly significant impact on the extent to which an LGU achieves its goals.

LGUs should strengthen citizen participation in their service-related processes as a mechanism for transparency and accountability. An LGU shall establish effective measures that assure communication and promotion of public services based on the requirements, characteristics, availability, cost, procedures, and criteria. These communication feedback mechanisms could, among other things, be information modules, phone service, website, email, citizen service desk, complaints and suggestions box, and use of mass media.

1.4.5   Monitoring

Monitoring, as a component of internal control, is aimed at assessing the quality of the internal control systems' performance over time. Monitoring considers the collective effectiveness of the five components of internal control. It is aimed at ensuring that the other components of internal control continue to function over time in relation to the achievement of the control objectives, and are modified appropriately to remain attuned to changes in objectives, environment, resources, and risks. There are three (3) ways through which monitoring is accomplished, to wit:

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[1]   **Public Service Organizations** These are classified into: (1) Public Entities; and (2) Private Entities Providing Public Services.
- Public Entities generally pertain to: (1) Agencies of Government, and (2) Public Offices. Agencies of Government refer to any of the various units of government, including a department, bureau, office, instrumentality, or government-owned and/or -controlled corporation, or a local government or distinct unit therein.
- Private Entities providing public services, as mandated and authorized by law, include: (1) Utility and Service Providers; (2) Withholding Tax Agents; (3) Procurement Observers; (4) Private Contractors; and (5) Volunteers.

a. Ongoing monitoring which is ingrained in the daily operations and management of the organization;

b. Periodic separate evaluation of the controls' effectiveness; and

c. Combination of ongoing monitoring and separate evaluation.

Ongoing Monitoring

Ongoing monitoring occurs when the normal operations and management of an organization provide feedback about the effectiveness of the internal control system. It includes regular submission of reports, performance measurement, and other management and supervisory activities. It is built into the normal, recurring activities of an LGU and in all its operating and support services units. It is performed regularly and on a real-time basis, responds dynamically to changing conditions, and is embedded in the LGU's operations.

Ongoing monitoring of internal controls is a function of all units, as well as the top management of an LGU. The bureaus and offices and the support services (e.g. planning, financial, and administrative units) monitor the performance of regional and field units within their functional concerns. Top management shall ensure proper check and balance in the monitoring by operating units and support services.

Monitoring the internal control activities shall be clearly distinguished from reviewing the operations of a unit, which is an internal control activity performed by the operating unit.

Separate Evaluation (Internal Audit)

Specific separate evaluations cover the periodic evaluation of the effectiveness of the internal control system to ensure that internal controls achieve the desired results through pre-defined methods and procedures. Separate evaluations are ways to take a fresh look at the internal controls by focusing directly on the effectiveness of the controls at a specific time or date.

In the LGU structure, the IAS/U is mandated to conduct a separate evaluation or appraisal of the internal control system to determine whether controls are well designed and properly implemented. In the conduct of separate evaluation, the IAS/U shall determine the extent of compliance and assess the adequacy of controls embedded in operating and support systems/units, as well as evaluate the performance of programs, projects, and activities of the LGU.

Internal audit is a separate evaluation and review function or activity within the overall internal control framework of each public service sector organization. To distinguish, operational and management monitoring and review include: (i) management review; (ii) monitoring and evaluation; (iii) operating performance and compliance reviews, all of which are part of the control activities. These are day-to-day responsibilities of operating and support units, distinct from the internal audit function.

The scope and frequency of separate evaluation by the internal audit unit should depend primarily on the results of the baseline assessment of the internal control system. The baseline assessment shall focus on the five components of internal control; the significance, materiality, and control risk of key processes and systems to achieve the five control objectives; and the assessment of the internal audit risks.

Combination of Ongoing Monitoring and Separate Evaluation

In the assessment of the quality of the internal control systems performance, a combination of ongoing monitoring by all units and management of the LGU, and separate evaluation by the IAS/U will help ensure that internal controls maintain their effectiveness over time.

1.5   Meaning of Internal Audit

Internal audit is the evaluation of management controls and operations performance, and the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards, and contractual obligations. It involves the appraisal of the plan of organization and all the coordinated methods and measures, in order to recommend courses of action on matters relating to operations and management control.

Internal audit, being a separate component of internal control, is instituted to determine whether internal controls are well-designed and properly operated.[2]

1.6   Value of Having Internal Audit

All LGUs shall have an internal audit function in order to obtain the following benefits:

- To improve the effectiveness of risk management, controls, and governance processes.
    - This will help an LGU accomplish its objectives by establishing a source of continuous assessment of internal controls, and also a continuous source of recommendations for improvement.
- To instill public confidence in the LGU's ability to operate effectively.
    - This will help an LGU establish citizens' trust that the LGU's resources are effectively and efficiently managed for optimum service delivery.
- To strengthen the mechanism for ensuring the accountability of LGUs to their respective constituents.
    - This will help an LGU to demonstrate that it takes the principle of holding its officials answerable for the use of public funds seriously.

1.7   Legal Bases for Internal Audit

The chronological summary of issuances on the organization, staffing, functions, and activities of internal audit is provided as follows:

a) RA No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, which created and organized an IAS/U in all government agencies to help management achieve an efficient and effective fiscal administration and assist in the performance of agency affairs and functions.

b) P.D. No. 1 (Reorganizing the Executive Branch of the National Government), which abolished the IAS/U created under RA No. 3456, as amended by RA No. 4177. The function was subsequently merged with the Management Division of the Financial and Management Service in the Departments pursuant to Item 3, Article IV, Chapter I, Part IV of the P.D.

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2   Philippine Government Internal Audit Manual, page 5.

c) Section 1 of Administrative Order (AO) No. 119 dated 29 March 1989, which mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with DBM.

d) Memorandum Order No. 277 dated 17 January 1990, directing the DBM to promulgate the necessary rules, regulations, and circulars for the strengthening of the internal control systems of government offices, agencies, government-owned or controlled corporations (GOCCs), and LGUs.

e) Section 3(b) of RA No. 7160 (The Local Government Code of 1991), which mandated the establishment of an accountable, efficient, and dynamic organizational structure and operating mechanisms that will meet the priority needs and service requirements of its communities in every LGU. Section 474(b) further provides for the qualifications, powers, and duties of an Accountant, among which is the mandate to take charge of both the accounting and internal audit services of the LGU.

f) AO No. 278 dated 28 April 1992 [Directing the Strengthening of the Internal Control Systems of Government Financial Institutions (GFIs) and LGUs, in their Operations], which provided for the functions, duties, and activities of the IAS/U. It also provides that IAS shall be detached from all functions of routine operating character.

g) AO No. 70 dated 14 April 2003 [Strengthening of the Internal Control Systems of Government Offices, Agencies, GOCCs, including GFIs, State Universities and Colleges (SUCs) and LGUs], which reiterated the authority for the creation of the IAS/U and its functions.

h) DBM Budget Circular No. 2004-4 dated 22 March 2004 (Guidelines on the Organization and Staffing of IAUs) which provided for the policy guidelines in the organization, staffing, positions, and salary grades of the IAS/U in Departments/Agencies/GOCCS/GFIs/LGUs concerned.

i) DBM-CSC Joint Resolution No. 1 dated 12 May 2006 (Rationalization Program's Organization and Staffing Standards and Guidelines), which provided for the creation of the IAS/U with its functions in line with Executive Order No. 366, as supplemented by CSC MC No. 12 s. 2006 issued on 22 June 2006.

j) DOJ Opinion No. 007 dated 29 January 2007 (in response to the query on whether or not RA No. 3456, as amended by RA No. 4177, is still the enabling law on the establishment of the internal audit function in government agencies), which cited the evolution of the IAS/U from RA No. 3456, as amended by RA No. 4177 and P.D. No. 1. The IAS/U was abolished but its functions were merged with the Management Division under the FMS. It also recognized DBM Budget Circular (BC) No. 2004-04 in setting the Guidelines on the Organization and Staffing of IAUs. However, the DOJ opined that the query should be coursed to the Office of the Government Corporate Counsel (OGCC) and/or DBM.

k) OGCC Opinion No. 099 dated 30 May 2007, which stated that P.D. No. 1 recognized that the IAS/U had been abolished but that its functions had been merged with the Management Division under the FMS and DBM BC 2004-04.

l) DBM Circular Letter No. 2008-5 dated 14 April 2008 (Guidelines in the Organization and Staffing of an IAS/U and Management Division/Unit in Departments/Agencies/ GOCCs/GFIs concerned), which provides the guidelines in the organization of the IAS/U, clarifies its functions, and specifies the rank and salary grade of the head of the IAS/U. The circular states that the head of the IAS/U shall directly report to the Department Secretary/Head of the Agency in the case of Departments and regularly attached agencies, and to the Audit Committee of the Governing Board in the case of GOCCs/GFIs.

m) DBM Circular Letter No. 2008-8 dated 23 October 2008 [National Guidelines on Internal Control System (NGICS)], which provides guidance to heads of departments and agencies in designing, installing, implementing, and monitoring their respective ICS, taking into consideration the requirements of their organizations.

These issuances are presented in full chronological order in Annex 1 of this Manual.

1.8   Scope of Internal Audit

Internal audit is an integral part of the internal control system of public service organizations. The scope of internal audit is broad and involves all matters relating to operations and management control.

Among others, internal audit encompasses the appraisal of the adequacy of internal controls, the conduct of management audit, and the evaluation of the results of operations, focusing on the effectiveness of controls of operating systems and support services/units/systems.

1.9   Types of Audit

As prescribed in the PGIAM, there are three main types of audit:

Compliance Audit	Management Audit	Operations Audit

1.9.1   Compliance Audit

Compliance audit is the evaluation of the degree of compliance with laws, regulations, managerial policies, and operating procedures in the LGU, including compliance with accountability measures, ethical standards, and contractual obligations. This type of audit is a necessary first step to, and part of, management and operations audits.

1.9.2   Management Audit

Management audit is a separate evaluation of the effectiveness of internal controls adapted in the operating and support services units/systems to determine whether they achieve the control objectives over a period of time or as of a specific date.

This includes the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards, and contractual obligations covering specific timeframes. It is a review and appraisal of the systems and processes, organizational and staffing structures, operations and management practices, records, reports, and performance standards of the agencies/units covered.

1.9.3   Operations Audit

Operations audit is a separate evaluation of the outcome, output, process, and input to determine whether government operations, programs, and projects are effective, efficient, ethical and economical, including compliance with laws, regulations, managerial policies, accountability measures, and contractual obligations. Operations audit of organizations, programs, and projects involves an evaluation of whether or not performance targets and expected results were achieved.

The importance of assessing the effectiveness, efficiency, ethicality and economy of government operations is essential to the delivery of better public services, accountability, and better governance. The matter of outcomes, outputs, processes, and inputs, as well as their correlation with the goals of effectiveness, efficiency, ethicality, and economy of operations are the focus of the evaluation.

1.10   Functions of Internal Audit Service/Unit

Pursuant to the Administrative Code of 1987, and as reiterated in Item 3.5.4 of the NGICS and Section 3.2 of the Scope of Internal Audit of the PGIAM, the functions of the IAS/U are as follows:

1. Advise the Local Chief Executive (LCE) or Sanggunian on all matters relating to management control and operations audit of the executive or legislative branches;

2. Conduct management and operations audit of LGU functions, programs, projects, activities, and outputs and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/ processes, and contractual obligations;

3. Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports, and performance standards of the LGU;

4. Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and

5. Perform such other related duties and responsibilities as may be assigned or delegated by the LCE or as may be required by law.

1.11   Internal Audit Service/Unit is detached from Regular Functions

IAS/U shall be detached from all functions of routine operating character, such as the following:

a) pre-audit of vouchers and counter-signature of checks;

b) inspection of deliveries, although the internal auditor may, as part of the examination, observe inspections;

c) preparation of treasury and bank reconciliation statements;

d) development and installation of systems and procedures; however, in exceptional cases, the internal auditor may assist by way of giving suggestions;

e) taking physical inventories; however, the internal auditor may review the plans in advance and observe and test-check the accuracy of counting, costing, and summarizing;

f) maintaining property records; and

g) all other activities related to operations.

1.12   Role of the Accountant in Relation to Internal Audit

Section 76 of the LGC provides that each LGU shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability subject to Civil Service Commission (CSC) minimum standards. Further, Sections 447 (a)(1)(vii), 458 (a)(1)(vii) and 467(a)

(1)(vii) of the LGC provides for the Sanggunian to determine the powers and duties of officials and employees of its respective LGU.

The role of the accountant in LGUs, however, is specifically provided in Section 474 (b) (1) of the LGC, which provides that the accountant shall take charge of both the accounting and internal audit services of the LGU concerned, and shall maintain and install an internal audit system in the LGU.

The Accountant performs regular functions (e.g. pre-audit) because it is an inherent function of the accounting unit to ensure that disbursements are in compliance with laws, rules, and regulations that are properly documented, while the Internal Auditor performs non-regular functions (e.g. compliance, management and operations audits).

Pursuant to Administrative Order No. 278 dated 28 April 1992 (Directing the Strengthening of the Internal Control Systems of GFIs and LGUs in their Operations), it is clear that pre-audit of vouchers is not a function of the internal auditor and that the internal audit is detached from all regular functions.

Further, the DBM Budget Circular 2004-04 dated 22 March 2004 (Guidelines on the Organization and Staffing of IAUs) provides for LGUs to determine their own staffing modifications, subject to approval of the Sanggunian.

With this background, if the Sanggunain issues an ordinance authorizing the creation of an IAS/U, the LGU shall follow AO 278 and DBM Budget Circular 2004-04 on how to establish the IAS/U.

1.13   Relationship of Internal Audit Service with Key Stakeholders

To be effective, the IAS/U must have the trust and confidence of the key stakeholders it works with. This can only be established and maintained by fostering effective working relationships and delivering high-quality and timely internal audit services.

Local Chief Executive

The IAS/U must report directly to the LCE. The LCE is not the client of the IAS/U. Instead, a superior-subordinate relationship exists between the LCE and the internal auditors. This means that the Head of Internal Audit (HoIA) is accountable to the LCE. This relationship should be used as an opportunity for internal audit to gain insights into new and emerging issues and concerns facing the LGU and to discuss the role that the LCE requires the IAS/U to fulfill in line with the latter's mandated function.

Sanggunian

The IAS/U is administratively under the LCE, but operationally under both the LCE and the Sanggunian. This distinction is important to preserve the integrity of the IAS/U findings. Thus, if the IAS/U will audit the units/programs/projects of the executive branch, it will have to report its findings to the LCE. However, if it will audit the Sanggunian, it will have to report to the presiding officer of the Sanggunian concerned. IAS/U reports for other departments may be provided to the Sanggunian with prior clearance from the LCE.

Commission on Audit

The Commission on Audit (COA) has the constitutional authority and duty to examine, audit, and settle accounts in accordance with law and regulations. The Constitution, as well as the Administrative Code of 1987, also provides that, "where the internal control system of the audited agencies is inadequate, the COA may adopt such measures, including temporary or special pre-audit, as necessary and appropriate to correct the deficiencies". This authority of the COA is distinguished from the functions of the IAS/U.

The IAS/U is an integral part of the LGU and assists in the management and effective discharge of the responsibilities of the LGU without intruding on the authority and mandate of the COA granted under the Constitution, and without encroaching on, or taking on a stance that is in conflict with the that of COA auditors. However, there must be constructive cooperation between the IAS/U and the COA.

1.14   Internal Audit Principles and Standards

1.14.1   Objectivity and Impartiality

Objectivity and impartiality are vital to the effectiveness of the internal audit function. Objectivity means an unbiased mental attitude and professionalism that allows an internal auditor to perform engagements with no quality compromises. The principle of objectivity imposes on all internal auditors the obligation to be fair and intellectually honest. Objectivity requires the auditors not to subordinate their judgment on audit matters to that of others. In the execution of an audit, the internal auditor must base his/her findings on relevant, reliable, sufficient, and timely audit evidence and a set of criteria. Such criteria include statutory policies, rules, regulations, and procedures.

Impartiality, on the other hand, means that the internal auditor is free from bias and conflict of interest. He/she does not use his/her position to acquire benefits or advantage for his/herself or his/her related interests. In case of an actual or potential conflict of interest, he/she practices full disclosure and inhibits his/herself from participating in the decision-making process.

To be objective and impartial, the internal auditor shall at all times uphold public interest over and above personal interest. He/she shall have no direct authority or responsibility for the activities he/she reviews nor any responsibility for developing or implementing processes or systems. He/she shall not have a vested interest in the activity being audited. The internal auditor is not allowed to make the rules: he/she shall have audit performance standards that are already in place and accepted by the LGU. If the rules are developed, he/she cannot impartially evaluate the effectiveness and application of these rules

An internal audit function shall maintain an appropriate level of independence and objectiveness through sound reporting relationships, and by those involved in internal audit activities avoiding bias and conflicts of interest.

Policies and procedures shall be in place to help an internal audit ensure against the risk of bias, particularly arising from perceived familiarity by virtue of long association with persons who are the subject of any internal audit activity.

An internal auditor or person responsible for internal audit shall have a process in place to ensure that:

- Internal auditor does not undertake audit work regarding operations / services for which he/she has held responsibility; and

- Internal auditors may be rotated whenever it is practical and necessary to do so; alternatively, some other method is put in place to address the risks associated with having the same auditors responsible for auditing the same unit/functional area over a prolonged period.

1.14.2   Authority and Confidentiality

Based on the audit objectives and subject to compliance with the internal security policies of public service organizations, the LCE shall authorize internal auditors to have full, free, and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the Head of Internal Audit (HoIA) considers necessary in undertaking internal audit activities.
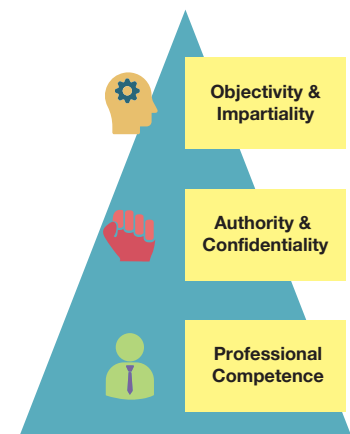
The internal auditor shall respect the confidentiality of information acquired in the course of performing the audit activities. Unless there is a legal or professional right or duty to disclose, the Internal Auditor shall not use or disclose any such information without proper and specific authority. Likewise, confidentiality is not only a matter of disclosure of information but includes the prohibition on the use information for personal advantage or for the advantage of a third party.

The HoIA and the individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

1.14.3   Professional Competence

The internal auditor shall maintain high standards of competence and the highest degree of professional integrity, both in the technical and ethical sense, commensurate with his/her responsibilities and mandated functions. He/she must possess and continually develop the knowledge, skills, and other competencies needed to perform their responsibilities to enhance the quality of the audit."

Part 2. Organizing the Internal Audit Service/Unit

2.1   Organizational Structure

The Local Government Code (LGC), specifically Section 3 (b) thereof, states that "There shall be established in every local government unit an accountable, efficient, and dynamic organizational structure, and operating mechanisms that will meet the priority needs and service requirements of its communities."

Paragraph 2 of CSC Memorandum Circular No. 19 s. 1992, otherwise known as "Guidelines and Standards in the Establishment of Organizational Structures and Staffing Patterns in LGUs," provides that it is, therefore, the responsibility of every local government unit to establish, approve, and implement the organizational structure and staffing pattern in accordance with the guidelines and standards.

To be able to provide the services expected of the IAS/U, it is important that it has an appropriate organizational structure. It is important that the IAS/U be positioned well within the organization. The location of the IAS/U in the organizational structure of the LCE and in the LGU proper is provided in Figure 2 below:

Figure 2. Organizational Structure of the Executive Branch
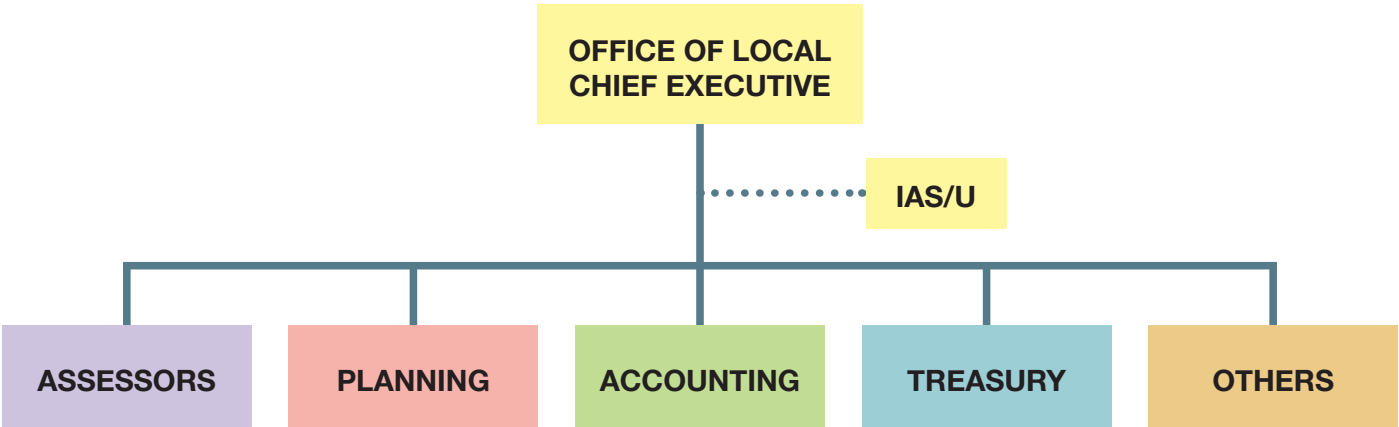
The IAS/U in LGU shall consist of two divisions, namely, the Operations Audit Division and Management Audit Division, as shown on the next page.

Figure 3. Organizational Chart for the Internal Audit Service/Unit
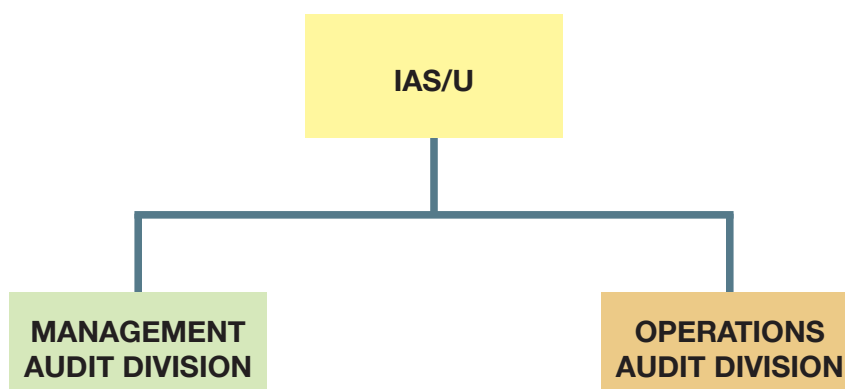
2.1.1   Management Audit Division

The Management Audit Division shall evaluate the achievement of the control objectives, which include the safeguarding of assets, checking the accuracy and reliability of accounting data, adherence to managerial policies, compliance with laws, rules, and regulations by utilizing internal auditing methods. It has the following functions:

a.   Conduct management audit of activities of the LGU and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/ processes, and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5 and Section 1.1.2, AO 278, s. 1992);

b.   Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports, and performance standards of the LGUs covered (Section 2.4c, DBM Circular Letter No. 2008-5);

c.   Verification and analysis of financial and management data to ascertain if attendant management information systems generate data or reports that are complete, accurate, and valid (Section 4.1.1.2, DBM Budget Circular No. 2004-4);

d.   Ascertain the reliability and integrity of financial and management information and the means used to identify, measure, classify, and report such information (Section 1.1.1, AO No. 278, s. 1992);

e.   Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds (Section 1.1.3, AO 278, s. 1992);

f.   Review and evaluate the soundness, adequacy and application of accounting, financial and management controls and promote the most effective control at reasonable cost (Section 1.1.4, AO 278, s. 1992);

g.   Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278, s. 1992);

h.   Perform functions of a protective nature, such as prevention and detection of fraud or dishonesty; review of cases involving misuse of agency property; and checking of transactions with outside parties (4.1.1.4, DBM Budget Circular No. 2004-4); and

i.   Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

2.1.2 Operations Audit Division

The Operations Audit Division shall evaluate the extent of compliance and ascertain the effective, efficient, ethical, and economical execution of operations by utilizing internal auditing methods. The Division is tasked to perform the following functions:

a. Conduct operations audit of activities of the LGU and its departments and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5);

b. Review and appraise systems and procedures/processes, organizational structure, operations practices, operations records, reports, and performance standards of the LGU and the departments covered (Section 2.4c, DBM Circular Letter No. 2008-5);

c. Verify and analyze operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate, and valid (Section 4.1.1.2, DBM Budget Circular No. 2004-4);

d. Ascertain the reliability and integrity of operational information and the means used to identify, measure, classify, and report such information (Section 1.1.1, AO No. 278 s. 1992);

e. Review operations or programs to ascertain whether or not results are consistent with established objectives and goals, and whether or not such programs are being carried out as planned (Section 1.1.5, AO 278 s.1992);

f. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278 s. 1992);

g. Recommend courses of action on operational deficiencies observed (Section 1.1.7, AO 278 s. 1992);

h. Perform functions of a protective nature, such as prevention and detection of fraud or dishonesty; review of cases involving misuse of agency property; and checking of transactions with outside parties (Section 4.1.1.4, DBM Budget Circular No. 2004-4); and

i. Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

2.2 Staffing the Internal Audit Service/Unit

DBM Budget Circular No. 2004-4, otherwise known as "Guidelines on the Organization and Staffing of IAUs," provides that the LGUs shall determine their own staffing modifications that the establishment of IAS/U will require, subject to the approval of the Sanggunian, as provided for in the "Powers, Duties, Functions and Compensation" Sections of the Local Government Code, specifically Sections 447(a)(1)(vii), 458(a)(1)(vii) and 468(a)(1)(vii) thereof.

To staff the IAS/U, AO No. 70 provides, among others:

a) That the present organizational structure and personnel complement of LGUs shall be reviewed by their head, and that the existing vacant and/or parallel positions of incumbents in the LGU shall be converted as necessary for the creation/strengthening of the IAS/U; and

b) That where there is an existing IAS/U in the organization, all incumbent internal auditors and those performing internal audit functions under AO. No. 278, s. of 1992 shall continue to perform internal audit functions and that their positions shall be classified to internal auditor positions.

LGUs may organize and staff its IAS/U as follows:

LGU	Organizational Structure and Head of the IAU
Provincial Government	The IAS/U in a provincial government may be a department to be headed by a provincial government department head, SG-26.
City Government Special City	The IAS/U in a special city may be a department to be headed by a city government department head III, SG-27.
Highly Urbanized City	The IAS/U in a highly urbanized city may be a department to be headed by a city government department head II, SG-26.
Component City	The IAS/U in a component city may be a department to be headed by a city government department head I, SG-25.
Municipal Government Within Metro Manila	The IAS/U in a municipal government within Metro Manila may be a department to be headed by a municipal government department head II, SG-25.
Outside Metro Manila	The IAS/U in a municipal government outside Metro Manila may be a department to be headed by a municipal government department head I, SG-24.

LGUs may adopt staffing modifications for their IAS/Us, in accordance with the pertinent provisions of BC No. 2004-4, LBC No. 53 and DBM-CSC Joint Resolution No. 1, which provide for the creation of the IAS/U with functions in line with Executive Order No. 366, as supplemented by CSC MC No. 12 s. 2006 issued on 22 June 2006.

The staffing modifications shall be subject to the approval of the Sanggunian concerned, as well as to the personal services cost limitation contained in Section 325 (a), RA No. 7160 (Local Government Code of 1991), and LBC No. 75, as amended by LBC No. 98.

The internal auditor positions and the positions to assist them shall be sourced within the LGU and/or through the transfer and conversion of vacant positions.

The need to establish and maintain an internal audit unit that is staffed with people who have the necessary competence, skills and experience are important for all LGUs. Temporary movement of officials and staff to the IAS/U can be a useful way of supplementing internal audit resources.

2.3   Key Strategies for Internal Audit Function

The key strategies to ensure a functional IAS/U are as follows:

- Establish and operationalize IAS/U through the enactment of a Sanggunian Ordinance and provide funding support to the said unit;
- Staff the IAS/U through the creation and filling up of regular positions, or through other suggested modes;
- Capacitate IAS/U staff and develop an internal audit career development program in coordination with the local HRMO;
- Establish and communicate a clear internal audit strategy in accordance with LGU thrusts and objectives;
- Advocate the value of internal audit;
- Understand the needs of stakeholders;

- Manage and address the concerns and possible resistance from internal and external stakeholders;

- Review internal controls as a basis for internal audit;

- Educate management on risks and controls;

- Regularly update /improve the quality of internal audit through an effective feedback system within the LGU, as well as benchmarking system with other local, national, and international levels of government; and

- Acknowledge and provide recognition and awards to LGU units with sound management practices and vie for recognition in inter-LGU, national and international competitions for good governance.

2.4   Key Attributes of the Internal Audit Function

The key attributes of the LGU internal audit function, consistent with PGIAM good practices, are as follows:

- Independent and objective;

- Clear roles and responsibilities;

- Compliant with the PGIAM professional standards of internal auditing;

- Sufficient resources to carry out audit work, as well as the necessary skills, experience, and personal attributes to achieve what is expected of internal audit;

- Regular and timely communication of findings and recommendations;

- Systematic conduct of follow-ups on audit recommendations;

- Continuous monitoring of internal audit effectiveness;

- Proactive auditing and advice;

- Comprehensive and balanced audit plans linked to LGU management of risks; and

- Presence of internal audit assessment mechanism.

2.5   Roles and Responsibilities

2.5.1   Local Chief Executive

Pursuant to Section 124 of the Government Auditing Code of the Philippines and the Administrative Code of 1987, the LCE has the direct responsibility to install, implement, and monitor a sound system of internal control. However, the LCE may task the IAS/U to undertake the appraisal of the internal control within the LGU.

The LCE disseminates managerial policies through the issuance of guidelines and standards. They are issued to guide the personnel in the proper execution of their individual and unit tasks that collectively contribute to the attainment of LGU goals.

2.5.2   Sanggunian

The Sanggunian, as the local legislature, has a key role in establishing the IAS/U through the enactment of an ordinance creating the IAS/U, and by providing funding support in accordance with the provisions set out in AO No. 278 and DBM Budget Circular No. 2004-04. The Sanggunian also exercises operational

responsibility over IAS/U in that the HoIA reports his findings to the Sangguanian. In cases where the Sanggunian is being audited, the HoIA shall report his findings to the presiding officer of the Sanggunian.

2.5.3   Head of Internal Audit

The HoIA is accountable to the LCE and the Sanggunian, as the case may be, for the efficient and effective operation of the internal audit function. This means that the IAS/U functionally/operationally reports to the LCE and/or the Sanggunian, depending on whether it is the executive or the legislature being audited.

The HoIA has direct access to the LCE. The LCE and HoIA meet regularly to provide the LCE the opportunity to seek the comments of the HoIA on management control and audit functions, quality of the audit effort and internal controls, and other areas of concern, as may be deemed appropriate.

As an output of its internal audit functions, the IAS/U may provide inputs to the LCE in the following areas:

a. Maintaining accountability for results, norms of conduct, and transparency;

b. Promoting self-assessment and adherence to professional and ethical standards;

c. Ensuring that funds are properly utilized in order to attain objectives;

d. Enhancing management controls to ensure that control objectives are achieved; and

e. Ensuring that the 4E's of operations are achieved.

In the conduct of internal audit work, the internal audit staff shall:

a. Comply with the Code of Conduct and Ethical Standards for Public Officials and Employees;

b. Possess the knowledge, skills, technical and functional expertise;

c. Acquire the skills in dealing with people and communicating audit findings and recommendations and related issues effectively;

d. Regularly improve their technical competence through a program of professional development;

e. Exercise due professional diligence in performing their duties;

f. Keep the confidentiality of information;

g. Provide support to the LGU's anti-fraud program;

h. Maintain internal audit records; and

i. Foster teamwork in performing the internal audit function.

Therefore, the internal auditor must be:

- Direct and truthful in performing audit tasks;

- Objective, credible, and just;

- Knowledgeable on internal audit standards, procedures, and techniques;

- Competent and diligent in the evaluation of internal controls;

- Expert in risk management and internal control in areas of local governance;

- Skilled and effective in dealing with people;

- Proficient in both oral and written communication; and

- Analytical in key audit issues and areas.

Part 3. Audit Planning and Audit Process

3.1   Audit Planning

Audit requires good planning. Planning entails familiarization with the objectives, processes, risks and controls of the auditee and activity to be audited, and developing a strategy and approach in conducting the audit. It is the most important part of the audit as the success of an audit depends on how well it has been planned.

Figure 4. Three Stages of Audit Planning

Planning is an iterative process with the following important purposes:

a) Understanding the control environment and the organization;

b) Outlining the scope and objectives of the audit;

c) Establishing the basis for budgeting (time, cost, personnel);

d) Identifying the evidence required to develop the audit findings;

e) Assisting in choosing/determining the audit procedures (nature, extent, and timing); and

f) Establishing the basis for coordinating the staff.

Figure 5. Audit Engagement Planning and Internal Audit Key Process

Strategic and Annual Planning	Types of Audit	Audit Process	Monitoring & Evaluation

Baseline Assessment of Internal Control System

Control Significance and Materiality Control Risk

Internal Audit Risk

Strategic Plan / Annual Work Plan

Compliance Audit

Management Audit

Operations Audit

Audit Planning

Audit Execution

Audit Reporting

Audit Follow-up

Performance Monitoring and Evaluation

Source: PGIAM

3.2 Strategic and Annual Work Planning

The following section explains the flow of planning and the internal audit key processes shown in Figure 5.

The IAS/U conducts three (3) levels of planning, which are the following:

a) Strategic planning – which is the process of identifying the key and pivotal direction of the IAS/U for a three-year period, as discussed in this section;

b) Annual Work Planning – which is the process of identifying the priority audit areas for a one-year period shifted from the three-year Strategic Plan; and

c) Audit Engagement Planning – identification of activities to be conducted during the audit of a specific area, as identified in the Annual Work Plan.

3.2.1 Strategic Planning

In strategic planning, the IAS/U shall perform the following tasks:

a. Conduct the baseline assessment of the internal control system;

b. Consider the control significance and materiality and control risk of key processes in the operating and support systems to achieve the control objectives;

c. Assess internal audit risk;

d. Formulate the Strategic Plan; and

e. Prepare the Annual Work Plan.

The objectives of the Baseline Assessment of the Internal Control System (BAICS) are to:

1) Get familiar with the LGU's operations;

2) Identify and document the five components of ICS (control environment; risk assessment; control activities; information and communication; and monitoring);

3) Review key control processes and performance of operating and support systems; and

4) Gather sufficient information from stakeholders, constituents, and beneficiaries, on potential audit areas to be included in the strategic plan, such as, but not limited to the following:

   A. Reliability, accuracy, and timeliness of financial reporting;

   B. Compliance with rules and regulations of the procurement system;

   C. Effectiveness of controls in the payroll system;

   D. Adequacy of the recording and keeping government physical assets under safe custody; and

   E. Evaluation of whether expected results were achieved and targets were attained.

The IAS/U, as a result of the BAICS will be able to do the following:

1) Document and understand the control environment in key processes in the operating system (programs and projects) and support system to operations (administrative, finance, budget, planning, and technical support);

2) Identify the management controls that are necessary to achieve the control objectives;

3) Determine compliance with controls in place; and

4) Identify, gaps, deficiencies, or breakdown for potential inputs to the strategic plan.

3.2.1.1 Step 1. Conduct the baseline assessment of the internal control system

Figure 6. Baseline Assessment of ICS Flow Diagram
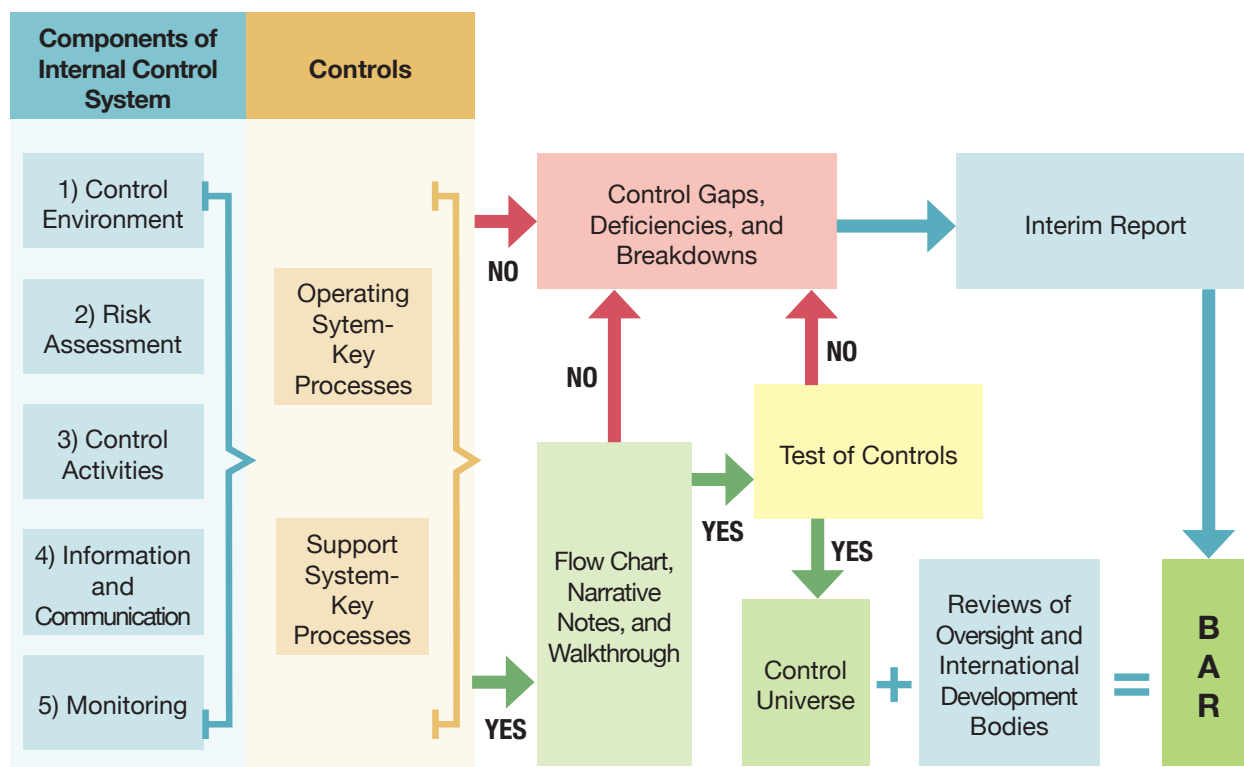
Source: PGIAM

Figure 6 shows the BAICS process indicating the following significant elements in the conduct of the BAICS:

Administer Internal Control Questionnaire and Verify the Results

Using the *Internal Control Questionnaire (ICQ) – see Annex 3 hereof* - the internal auditor evaluates the components of the internal control system. These components are explained in Part 1 of the Manual. This provides an indication of which internal controls are working well and which are working less well. The internal auditors shall review the ICQ responses and may contact the personnel concerned to follow up on some of the questions and reference documents.

Review Key Processes and Performance in the Operating System

The objective of the review is to document controls in key processes of operations within the LGU that are critical to the achievement of the control objectives. This is to determine adequacy of internal control and identify gaps, deficiencies, or areas in which breakdowns may have occurred, to determine potential inputs to the Baseline Assessment Report (BAR).

An example of a key process can be the procurement of medicines in the delivery of health services. The critical processes may include: planning the procurement; identifying citizens' needs and expectations; transparency of bidding and award; inspection and maintenance; and monitoring and output/outcome evaluation.

The review also includes the key operational processes used to manage and monitor the LGUs' operational strategy (plans and programs) to attain the expected outputs/outcomes, including how they support and reinforce the overall sectoral goals. The objective is to understand operational control components that are necessary to achieve the target outputs and outcomes.

Review Key Processes and Performance in the Support System

The objective of the review is to document controls in key processes of the support systems within the LGU that are critical to the achievement of the control objectives. This is to determine compliance with controls put in place and to identify gaps, deficiencies, or areas in which breakdowns may have occurred, to determine potential inputs to the strategic plan. The processes include support systems to operations, e.g. administrative, finance budget, planning, and technical support systems.

This also includes a review of the performance of the support systems such as procurement, personnel, accounting, budgeting, quality management, and risk management. The objective is to understand the network and linkages of support service to the operating units; or determine whether adequate controls are in place in providing the needs of the operating units for logistics, funds, and personnel. The review is expected to identify strengths and weaknesses, sources of problems, and potential problem areas.

The criteria for selection of key processes is the same for both reviews, as shown in Box 2.

Box 2. Criteria for the Selection of Key Processes in Operating and Support Systems

- A process with an output that is an input to a major final output (for example, the planning process that produces a plan that is used to guide preparation of the budget);

- A process that comprises significant control procedures (for example, the payroll system); and

- A process where the financial value of inputs is high (for example, procurement).

Prepare Flowcharts, Narrative Notes, and Conduct Walkthrough

The internal auditor prepares a flowchart (see Annex 4. Example of Flowchart). The flowchart is a process map used to document a system in a clear, concise, and logical manner.

The internal auditor prepares narrative notes that provide a step-by-step description of major systems and operations which cannot be adequately described by the flowchart.

The internal auditor conducts a walkthrough to validate the flowcharts and narrative notes. Walkthrough means that the auditor traces a transaction from its origin through the LGU information system until it is reflected in the reports to identify and understand key processes, procedures, and activities.

Conduct Test of Controls

Walkthrough is complemented by a test of controls. This includes a physical observation of the actual transactions involving the internal control procedures being performed, evaluation of evidence that the control procedures were performed at the appropriate time, and an inquiry into how and when the procedures were performed. The test of controls reveals the present condition of the transaction and determines whether or not the expectations correspond to reality. They may involve touring facilities/site visits, reviewing processes; flow of information and documents, validating with lower levels of LGUs, and stakeholders.

In using a test of controls, the auditor can test compliance with the following:

- Tax collection - Local Treasurer reports regularly to the LCE on the tax collection efforts in the LGU (Section 470 [b] R.A. No.7160);

- Financial statements - Local Accountant prepares and submits financial statements to the LCE and to the Sanggunian (Section 474 [b] [2], R.A. No 7160); and

- Payment of bills/obligations – no money shall be paid out of the local treasury except in pursuance of an appropriations ordinance or law (Section 305, R.A. No.7160).

Identify Gaps, Control Deficiencies, and Breakdowns

The internal auditor identifies deviations noted from the documentation of the ICS and after a test of controls, and thereafter, subjects the deviations to a root cause analysis to determine the cause. These deviations indicate breakdowns (internal control is in place but is not well designed/or not properly implemented) or gaps (a specific internal control does not exist, e.g. duties are not segregated) in controls.

Define Control Universe

The internal auditor validates understanding with the unit concerned and prepares a list of auditable areas, which shall be an input to the Baseline Assessment Report (BAR) included in the strategic plan and shall be prioritized in the formulation of the annual work plan.

    Auditable areas — for example, include controls in the procurement system, output evaluation of a service or project.

Review of Oversight Bodies and International Development Partners — this includes the applicable results from evaluation reports of oversight bodies like COA, DBM, DILG, DOF, and NEDA, as well as reviews made by development partners working with the LGUs, such as the European Union, World Bank's Improving Public Expenditure Management Project, Australian Agency for International Development (AusAID), and Asian Development Bank (ADB).

Prepare Interim Report — the Interim Report shall contain all the gaps or control deficiencies/ breakdowns noted during the documentation of components of the ICS and after the conduct of test of control.

The critical information that the validated procedures provide are as follows:

1) An understanding of the transaction flow and control design, particularly with respect to controls that may help prevent or detect fraud and error.

2) A determination of whether or not controls have been designed effectively and actually placed in operation; and

3) An identification of areas in the LGU processes where fraud or error may occur.

Prepare Baseline Assessment Report

Having carried out the baseline assessment, the IAS/U prepares the BAR, which summarizes the gaps and control deficiencies. The BAR includes a summary of the interim report and recommended courses of action. The BAR also includes the Control Universe and the results of the review of oversight bodies and international development partners. This report can be used in the next assessment to determine improvements to the current condition. The Annex 2-Form 6 Baseline Assessment Report may be used as the template for the BAR.

3.2.1.2 Step 2. Consider the Control Significance and Materiality and Control Risk of Key Processes

On completion of the BAICS, the IAS/U considers the **control significance (importance)** and **materiality (peso value)** and **control risk (vulnerability to being omitted, being improperly implemented, or being bypassed)** of key processes of the operating and support systems.

Figure 7. Control Significance and Materiality and Control Risk Flow Diagram
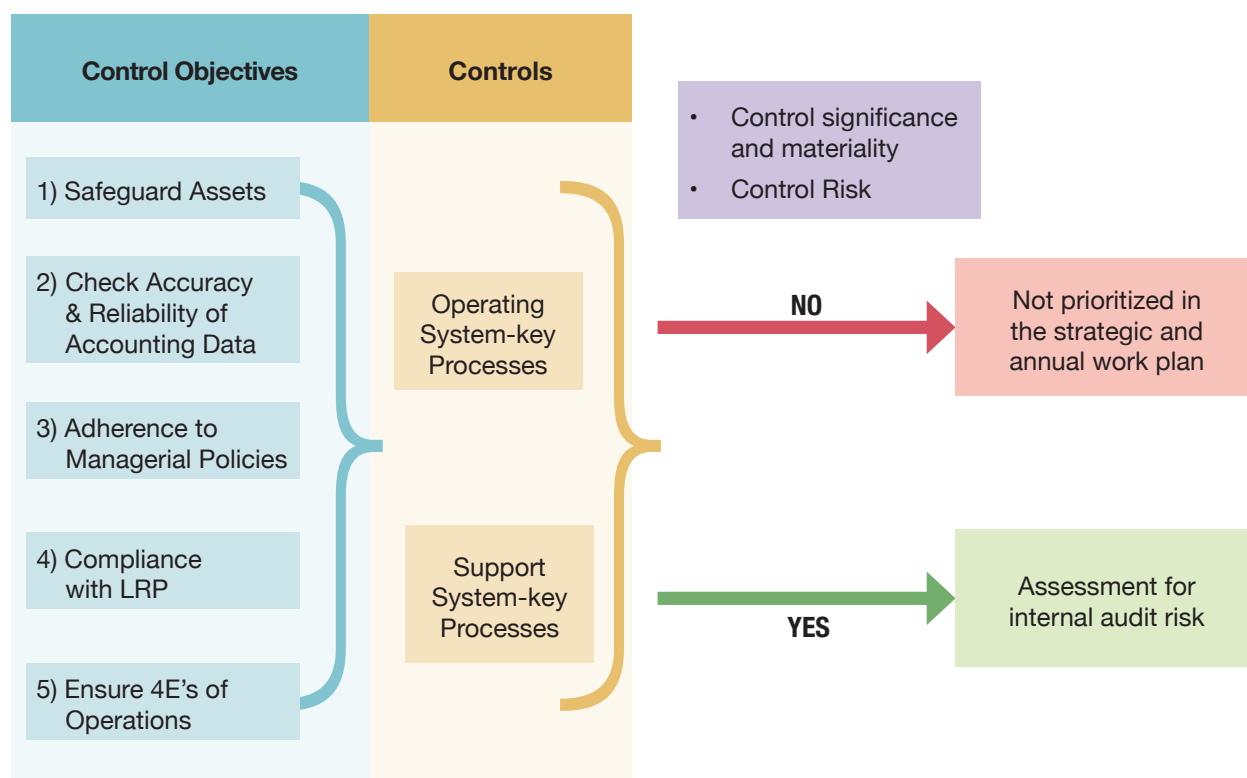
Source: PGIAM

Figure 7 shows the control significance and materiality and control risk flow process indicating the following significant elements in this process:

Assess Control Significance and Materiality

Significance is considered in terms of quality and is based on a process possible impact on the control objectives.

Materiality is quantitative and is often considered in terms of value or the relative importance of an amount. The materiality level may or may not be set based on a specific amount. Information is material if its omission or misstatement could affect the control objectives. It depends on the nature and size of the item or error judged in particular circumstances.

This involves the following steps:

a. Assess the significance level taking into account qualitative factors, including cumulative effects of errors, legal, and regulatory requirements;

b. Assess the materiality level taking into account quantitative factors and nonfinancial items that, independent of the amount, may impact on the achievement of the control objectives, e.g., legal and regulatory requirements; and

c. Identify controls in the potential audit areas (controls in the organization and those embedded in the system).

Control Risk Level

Generally, the units responsible for addressing risks must make the assessment of their own risks. Control risk assessment is primarily performed by top management as part of its regular functions. As control risk owners, they should have identified and initiated measures to modify the material and significant control risks, based on probability and impact, before the auditors begin an audit.

In like manner, operations risks are the responsibility of the operating units. Thus, assessment of risks at the operational level must be done by the operating units themselves. Neither the auditors nor anyone else not involved in a particular operation can perform operational risk assessment

However, as opposed to operations risk, for purposes of planning and prioritizing potential audit areas, the IAS/U will have to conduct risk assessment on the identified material and significant controls where there may be high risk of impact on key processes of operating and support systems. This involves the following steps:

a. Conduct risk assessment of the identified material and significant controls where there may be high risk of impact on key processes of operating and support systems;

b. Determine those controls that are vulnerable to being omitted, being improperly implemented or bypassed.

3.2.1.3 Step 3. Assessment of Internal Audit Risk

Figure 8. Assessment of Internal Audit Risk Diagram

Functions	Process for Managing Risk	Risk

Functions

1. Advise the LCE on all matters relating to compliance audit, management audit and, operations audit;

2. Conduct compliance, management, and operations audit of LGU activities and their units/departments and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedural/processes, and contractual obligations;

3. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports, and performance standards of the LGUs, units/departments covered;

4. Analyze and evaluate management deficiencies and assist top management by recommending realistic course of action; and

5. Perform such other related duties and responsibilities assigned or delegated by the LCE, or as may be required by law.

Process for Managing Risk: Communication and construction — Establishing the context — Risk Assessment (Risk Identification, Risk Analysis, Risk Evaluation) — Risk Treatment — Monitoring and Review

Risk:
HIGH → Not prioritized in the Strategic and Annual Plan
LOW → Strategic Plan and Annual Work Plan

Source: PGIAM

The IAS/U also focuses its auditing efforts based on the assessment of internal audit risks, as shown in Figure 8. Internal audit risks are those risks or factors which may affect the conduct of the audit and may have an impact on the planned results without neglect, and in spite of the exercise of due diligence, e.g., sudden change in political leadership/administration, replacement of the principal, natural calamities, judicial findings, and decisions which may affect audit objectives.

Assessment of internal audit risk involves the following steps:

1. Risk identification	2. Risk analysis	3. Risk evaluation
• Choose the risk identification method/s or technique/s to be used; • Identify risk sources and events; and • Identify the causes of the risk.	• Choose the risk analysis method/s or technique/s to be used; • Determine the consequences for the identified risks; • Determine the probabilities for the identified risks; • Identify the factors that could affect the consequences and probability; and • Determine the level of the risks.	• Compare the estimated levels of the risks with the risk criteria; and • Determine whether or not the risk or its magnitude is acceptable or tolerable.

The SP rolling three-year coverage should readily determine which areas will be covered in any given year. The ability of the internal auditor to execute this plan over a three-year cycle is a useful method to assess whether internal audit is adequately resourced. However, the plan should be reviewed at least annually to ensure that it still aligned with the LGU's BAR and risk assessment.

3.2.1.4 Step 4. Prepare the Strategic Plan

The contents of the Strategic Plan shall follow the element and its corresponding description contained in Box 3.

Box 3. Content of the Strategic Plan

The Strategic Plan shall contain the following:

Element	Description
IAS Objectives	Overall scope of work and what is intended to be achieved.
Methodology	Approach to internal audit and how IAS/U will do the audits.
Organizational Strategic Environment	How the IAS/U is organized and staffed.
Priority Focus Areas	How audit focus areas were identified and ranked in importance.
IAS Management Strategies	How the IAS/U will be managed.
IAS Work Strategies and Audit Coverage	How will audits be managed and types of audits to be done.
Allocation of Resources	How many staff will be needed and how much budget and what will it be spent on.
Performance Measures	How progress in implementing the SP will be monitored and reported.
Timing of Strategic Plan Review	How and when will the SP be reviewed
Feedback Mechanism	How will views of auditees be communicated to IAS/U and how will these views be managed.
Timelines	When will planned audits start and finish.

3.2.2   Annual Work Planning

The Annual Work Plan (AWP) is prepared to assist the LGU in the implementation of the key strategies and priorities identified in the Strategic Plan (SP). The AWP contains the prioritized areas from the SP, which will be focused on during a one-year period, the type and approach of the audit, as well as the timelines of the same. The AWP shall include areas for management audit and operations audit.

3.2.2.1 Step 1. Prioritize Potential Audit Areas

The AWP is based on identified audit areas resulting from the SP. The audit areas are ranked in the order of importance given the findings from the BAICS. From the list of controls identified in the Strategic Plan, the IAS/U categorizes by process, the control methods and measures of the operating and support units/systems, into potential audit areas/topics.

The following steps shall be made in prioritizing potential audit areas:

 a. Validate the Baseline Assessment Report (on the 2nd and 3rd year);

 b. Update consideration of the control significance and materiality and control risk assessment (on the 2nd and 3rd year);

 c. Update the internal audit risk assessment (on the 2nd and 3rd year); and

 d. Prioritize the potential audit areas.

Of the three-year SP, the IAS/U schedules the prioritized audit areas into three annual plans or AWPs, subject to the approval of the LCE.

3.2.2.2 Step 2. Validate Previous Audit Follow-up Report

In the preparation of AWP, auditors shall take into consideration previous audit follow-up reports in order to validate the implementation/non-implementation/inadequate implementation by the units concerned of the approved actions and recommendations. The steps involved are as follows:

a. Validate the report of the non-implementation/inadequate implementation of preventive/corrective actions;

b. Validate the report of justification for the non-implementation/inadequate implementation of actions; and

c. Validate the recommendations for possible legal/management action for the non-implementation/inadequate implementation of preventive/corrective actions.

3.2.2.3 Step 3. Prepare the AWP

The AWP is prepared using the following template:

Table 1. Example of Audit Focus in the Annual Work Plan

Annual Work Plan: Year

Audit Area	Audit Type	Audit Description	Expected Benefit	Unit	Priority	Duration	Start
Controls in the procurement system	Management Audit	Appraisal of existing controls in the procurement system	Raise recommendation to ensure that rules will be observed and satisfy public needs	BAC	1	30 days	Jan. 2016

3.2.2.4 Step 4. Present the SP and the AWP to the LCE

The HoIA should present and discuss the SP and AWP with the LCE. The objective is to obtain a good understanding of the insights of the LCE on the organizational and sectoral objectives. It also allows the IAS/U to focus on important issues throughout the planning process and audit. Finally, the HoIA should obtain the approval of the SP and the AWP by the LCE.

3.3   Audit Process

The audit process is divided into four phases, namely, audit engagement planning, audit execution, audit reporting, and audit follow-up, as shown in Figure 9. This audit process is applicable for both management audit and operations audit. For each phase, there are specific criteria to ensure a successful audit engagement. Upon completion of the SP and AWP, the IAS/U prepares the Audit Engagement Plan (AEP). The AEP focuses on the specific audit areas prioritized for the year, which involves the listing down of audit activities, timelines, and expected outputs.

Figure 9. Audit Process Flow Diagram
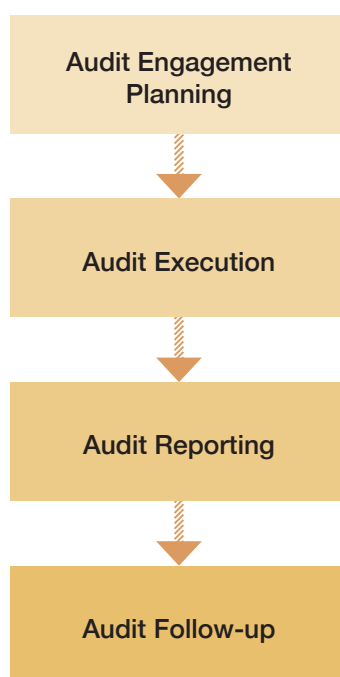
3.3.1   Audit Engagement Planning

Audit engagement planning is the third stage of planning, after strategic planning and annual work planning. It involves the listing down of audit activities per audit engagement based on the AWP. The results of the strategic planning shall be validated to determine if there are relevant changes in the control component, systems, and processes.

A key aim in planning an audit shall be to complete the audit in the least time necessary, without compromising its quality. It is, therefore, important that in planning and scoping audits, audit effort and resources are directed to the key issues that matter most.

The AEP sets the activities per audit engagement identified in the AWP. It provides an integrated description of the auditee and the audit by serving as a guide for the whole audit, thus, ensure the achievement of the audit objective in an efficient and effective way.

Figure 10. Audit Engagement Planning Flow Diagram

PLANNING

What to Audit

1. Document understanding of the program and project
2. Determine the audit objective, scope and criteria, and audit evidence
3. Determine the resource required for the audit and the target milestone/dates
4. Develop the audit plan and audit program
5. Determine the performance indicators (PIs) of the audit engagement
6. Secure approval of the audit plan and audit work program and PIs

EXECUTION

How to Audit

REPORTING

What and How to Report

FOLLOW-UP

What to Follow-up

3.3.1.1 Step 1. Document Understanding of the Mandate/Program/Project

Audit engagement planning starts from an understanding of the organizational mandate and focusing on what areas will be audited. It involves the selection of specific internal controls and focusing on the degree of compliance with laws, regulations, and policies of specific programs/projects/systems/processes for evaluation; evaluation of the control effectiveness; and determination of whether or not operations are conducted economically, efficiently, ethically, and effectively.

Specifically, for management audit, engagement planning starts from a sound understanding of the management controls to be audited. This is important considering that the main objective of management audit is to evaluate the effectiveness of management controls and support system and processes. Management controls are internal controls. They consist of the controls interwoven into and made an integral part of each operating and support system that management uses to regulate and guide its operations.

For operations audit, engagement planning starts from an understanding of the organizational mandate. The IAS/U shall understand the objective of the organization and focus on the output or outcome to be audited. It involves the selection of a specific activity and focusing only on a specific program/project/process for evaluation, being concerned with the economy, efficiency, ethicality, and effectiveness of operations. The audit plan shall be based on a sound understanding of the objectives, accountability, internal control system, and operating and support processes.

A program refers to the functions and activities necessary for the performance of a major purpose for which an LGU is established. A program consists of an LGU's functions, projects, systems, and processes. An activity is auditable if it transforms an input to an output. It may be an implementing or a monitoring activity or a process in itself as an input to another process.

A project means a component of a program covering a homogeneous group of activities or processes needed that result in the accomplishment of an identifiable output to be carried out within a definite time frame.

In an operations audit, there are common drawbacks that may often be encountered:

a. Program objectives are not clear enough – a policy review has to be recommended;

b. Measurement systems are inadequate (effectiveness measures are often subjective, e.g. surveys, feedback; and very scientific bases should not be expected) – a review of the system may be recommended;

c. Subject matter is difficult to measure (e.g. effectiveness of an anti-alcoholism program is very difficult to measure merely by using the number of patients whose consumption is reduced. Many social factors blur the evaluation of such programs, such as the degree of family support) – the IAS/U may focus its audit on measurable subject matter;

d. Purely systematic review may not be adequate (e.g., effectiveness of a vocational training program may be measured by the auditee through % of trainees gaining employment; but the auditor may have to review what % of the trainees gained employment related to the training and what % retained their employment) – the IAS/U should identify appropriate audit procedures; and

e. Time constraints restrict the auditor – the IAS/U shall prioritize audit activities.

The IAS/U shall then come up with recommendations.

3.3.1.2 Step 2. Determine Audit Objective, Scope, Criteria, and Evidence

Determine Audit Objective

Based on information gathered and analyzed during the strategic planning phase and AWP preparation, the objective and scope of the audit can be defined. An audit objective is what the audit aims to accomplish. This is critical in establishing the scope, criteria, evidence, and approach of the audit. It is normally expressed in terms of the possible questions the audit is expected to answer about the performance of an activity. Ideally, an audit objective would be consistent with the achievement of the objectives of the LGU's organization and its programs and projects.

Determining the audit objectives involves the following activities:

a. Preliminary gathering of documents/information;

b. Identifying the focus of the audit and the aspect of performance to be examined; and

c. Determining the type of audit to be performed: (1) compliance with laws, regulations, and policies; (2) evaluation of control effectiveness; or (3) determination of whether or not operations are conducted economically, efficiently, ethically, and effectively.

Audit objectives also relate to why the audit is being conducted. If controls are weak, the IAS/U traces the root cause and recommends to top management courses of action to address the deficiency. The IAS/U can also recommend further examination of the underlying issues, or the legal action to take if conditions so warrant.

For operations audit, the IAS/U may choose from any of the following objectives, or may formulate more which are appropriate to the results of the audit planning:

a. To determine if the program or project is achieving its target, the IAS/U compares the identified performance accomplishments with the corresponding targets to determine variances, if any.

Variances may be positive/favorable or negative, which means that targets have not been achieved.

b. To validate the reported accomplishments of the program or project as of a certain period from the data source to the consolidation and preparation of the final report; and

c. To assess and gauge the level of achievement of the program or project objective.

Determine the Audit Scope

Audit scope is the framework or limits of an audit. It is normally defined by stating the intended coverage and relevant timeframes of an audit.

The steps in determining the audit scope are as follows:

a. Define the parameters and nature of the audit work to achieve the audit objectives;

b. Determine the audit tools, techniques, and methodology to be utilized; and

c. Select the sampling method to be utilized (see Annex 5).

In **operations audit**, for example, audit scope includes the determination of which phase of the program or project will be examined. What will be the duration of the program or project? What portion of the program or project will be covered in the audit? What will be the sources of information for examination?

For **management audit**, the scope includes the review and appraisal of the systems (operating and support) and procedures/processes, organizational structure, assets management practices, financial and management records, reports, and performance standards of the agencies/units covered.

An appraisal of the operating and support systems is conducted to determine whether or not the five different components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring and evaluation) accomplish each of the five control objectives. Every component shall individually achieve the control objectives. For example, in the procurement system (as a support system), the control component can be evaluated for the presence of the control activities such as, but not limited to:

a. The existence of a Bids and Awards committee (BAC), BAC Secretariat, procurement unit/s and BAC technical working group/s;

b. The separation of duties of the above entities in procurement;

c. Participation of observers in all stages of the procurement process; and

d. Compliance with the rules and regulations on the preparation of the bids, the invitation to bid, advertising, receipt, and opening of bids, bid evaluation, award, implementation, and termination of the contract.

Moreover, the IAS/U does not only check for the presence of these control components. More importantly, it assesses whether these activities achieve the control objectives of the LGU.

Thus, the IAS/U could look for the answers to the following questions:

a. Are the control components sufficient to safeguard the assets?

b. Do they provide accurate and reliable accounting data?

c. Do they adhere to managerial policies?

d. Are they in compliance with laws, rules, and regulations?

    e.   Do they ensure effectiveness, efficiency, economy, and ethicality of operations?

The IAS/U can conclude on the effectiveness of the controls only when the internal control components achieve all the control objectives.

Determine Audit Criteria and Evidence

Audit criteria are reasonable standards against which existing conditions are assessed. They reflect a normative condition for the subject of the audit. These are expectations of the program or project as to what should be. It includes statutory and/or managerial requirements; process requirements; and citizens' requirements, needs, and expectations. To be able to come up with sound criteria, auditors must:

    a.   Gather/identify the standards (laws, regulatory policies) for audit evaluation;

    b.   Set reasonable and attainable standards of performance, statutory or managerial policies for evaluation; and

    c.   Identify pieces of audit evidence required by law and standards and the approaches to be utilized in obtaining them.

3.3.1.3 Step 3. Determine the Resources Required for the Audit and Target Milestones and Dates

Careful planning involves the determination of the overall resource requirements to accomplish the planned audits. This involves the hiring of staff, assessing the current staff capability/capacity; technological resources (e.g. computers, software); and financial resources (budget requirements), among others.

Target milestones/dates for the completion or accomplishment of critical elements during the audit process shall be established to keep track of the progress of the engagement and check on the quality of the outputs.

3.3.1.4 Step 4. Prepare the AEP

The audit plan for management and operations audit will document the results of all the planning tools which would necessarily contain the following:

Table 2. Contents of the AEP for Management Audit

Element	Information
Introduction	A brief description of the management controls, i.e. the plan of organization and all the methods and measures adopted within an agency to ensure that resources are used consistent with laws, regulations, and managerial policies; resources are safeguarded against loss, wastage, and misuse; financial and non-financial information are reliable, accurate, and timely; and operations are economical, efficient, ethical, and effective.
Audit Objective and Scope	Overall objective and scope of the work to be accomplished.
Assessment of Controls	Critical processes identified by the IAS/U during the planning phase which led to the selection of the audit area approved by the LCE and the formulation of the audit objective.
Audit Approach	Compliance audit and management control process audit.
Resources/ Inputs	Statutory policies, mandates, managerial policies, government regulations, established objectives, systems and procedures/processes, etc.
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or managerial policies, laws and regulations, etc.

Source: PGIAM

Table 3. Contents of the AEP for Operations Audit

Element	Information
Introduction	A brief description or background information of the program or project, including the main activities and significant events; may include information on the structure of the program or project, as well as the systems and processes which lead to the attainment of the output or the aggregate of the outputs to achieve the outcome, and which process is underperforming and causing delays in completion.
Audit Objective and Scope	Overall objective and scope of the work to be accomplished.
Assessment of Controls	Critical points identified by the IAS/U during the understanding phase which led to the selection of the audit area and was approved by the LCE, as well as the formulation of the audit objective.
Audit approach	Audit of program or project results.
Resources/ Inputs	Statutory policies, mandates, managerial policies, citizens' needs and expectations, manpower, materials, equipment, and timelines.
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or managerial policies, laws, regulations, etc.

Source: PGIAM

3.3.1.5 Step 5. Determine Performance Indicators (PIs) of the Audit Engagement

PIs are performance measures that are utilized to assess the outputs/outcomes contributing to the overall organizational efficiency and effectiveness. In evaluating performance, PIs are employed to gauge the IAS/U accomplishments and to determine whether or not:

    a. Audit objectives are met, as reflected in the audit findings and recommendations;

b. Findings and recommendations are based on facts, substantial evidence, and in compliance with relevant laws, rules, and regulations;

c. There is compliance with internal auditing standards (NGICS, PGIAM, and other relevant standards) under COA/DBM rules and regulations;

d. Findings and recommendations promote the adequacy of internal controls under COA rules and regulations; and

e. High standards of ethics and efficiency of public officials and employees are being observed under CSC rules and regulations.

It is important that the PIs for internal audit are aligned with the internal audit strategic plan and the AWP and help drive the performance that the LCE expects from the IAS/U. It is also important that performance is measured over time in order to identify trends, and that performance is measured against both qualitative and quantitative factors. PIs include measurements of the IAS/U accomplishment per audit engagement, such as:

a. Timely completion of each audit engagement;

b. Benefits exceed the cost of audit;

c. Cost of audit is within the approved budget;

d. Number of audit findings approved by the LCE;

e. Number of recommendations implemented by the auditee;

f. Number of audit support activities undertaken;

g. Internal audit staff satisfaction; and

h. The overall contribution made by the IAS/U.

3.3.1.6 Step 6. Secure Approval of the AEP and PIs

The AEP is submitted by the internal audit team leader to the HoIA for review and approval prior to the commencement of the audit execution. The HoIA will evaluate the documents to assess the relevance, significance, auditability, and other factors affecting the conduct of the audit. After the documents have been approved, management shall be informed about the approved audit plan and the PIs.

3.3.2   Audit Execution

Audit execution involves performing the techniques and procedures set out in the AEP to gather data and evidence to achieve the stated audit objective.

Figure 11. Audit Execution Flow Diagram
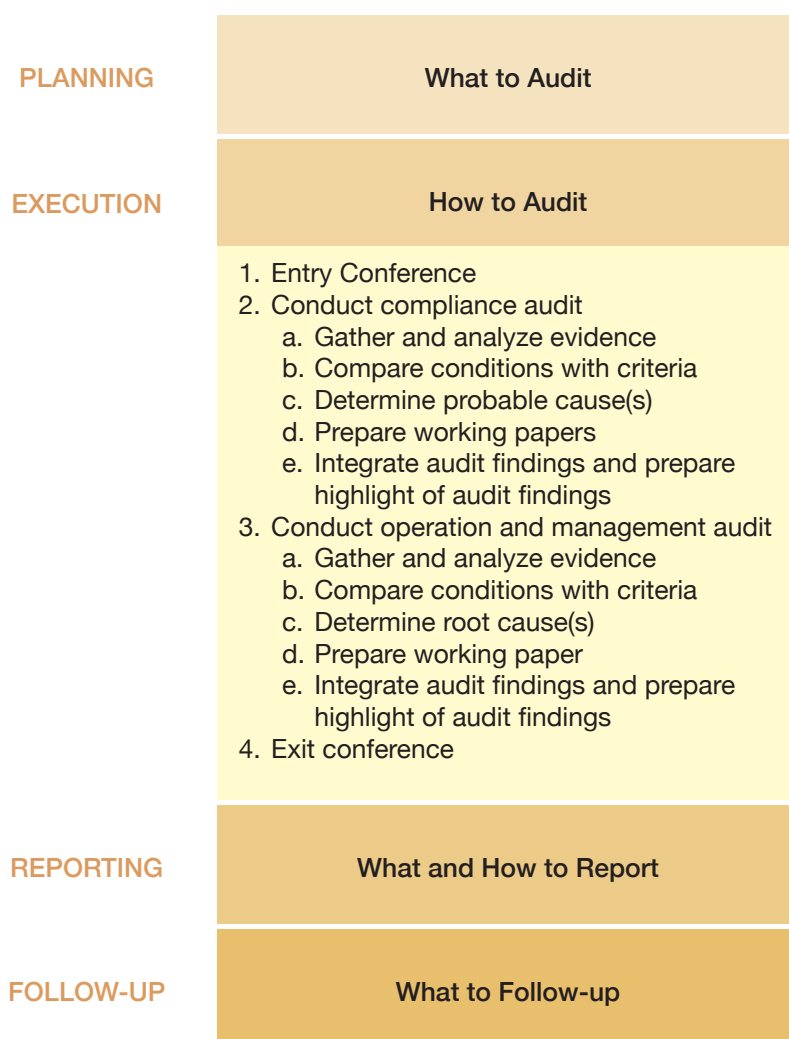
3.3.2.1 Step 1. Entry Conference

Execution of the audit is initiated with an entry conference to discuss the focus, requirements, and timelines of the audit. The entry conference sets the tone of the audit. The initial conference aims to discuss the plans for the conduct of the audit, as well as to obtain the audited entity's views and expectations for the overall framework for the conduct of the audit. Matters arising from the entry conference must be written and recorded, and should be considered during the conduct of the engagement planning.

To assist the LGUs to prepare for the entry conference, the HoIA completes the Planning Memorandum (Annex 2. Form 1), which sets out the details of the audit and the staff assigned. The HoIA sends to the auditee an Audit Notification Memorandum (Annex 2. Form 2), which informs the auditee of the audit and his expectations. The HoIA also prepares the preliminary survey checklist for use during the audit (Annex 2. Form 3), which records the documents required to undertake the audit. The HoIA also prepares the internal control checklist for use during the audit (Annex 2. Form 4), which serves as a guide for the review.

During this initial meeting, internal auditors of IAS shall exert the following procedures:

- Explain that the audit will focus on evaluating their operations and financial procedures with regard to internal controls and good governance;

- Emphasize that the purpose of an audit is to help improve controls and operations;

- Review the objective(s) and scope of the audit, encouraging management to discuss any aspect of the audit;

- Ask for suggestions of potential problem areas within the audit scope. This communicates an intention of being helpful rather than critical;

- Determine the personnel, other than those attending the opening conference, whose assistance is required to answer detailed questions concerning the functions being performed;

- Explain that audit concerns (observations) will be reviewed with the personnel/unit/department concerned at the time they arise and identify the personnel responsible for reviewing the audit concerns;

- Explain the purpose of discussing each audit concern is to verify that both the facts defined in the concern and the impact of the concern is accurate. Some findings may be resolved orally;

- Establish the frequency of updates on audit progress and findings to the department head;

- Explain that the draft audit report will be reviewed together with the auditee in detail at the exit conference;

- Explain to the auditee that IAS/U will request a formal response from management to the audit report within an approximate period of 10 days after issuance of the final report, if concurrence with the audit comments or the implementation dates is missing.

- Explain that a copy of the final audit report will be sent to the LCE;

- Explain that any information obtained during the audit is considered confidential;

- Inquire about working hours, working area, access to records, and any other information that details the office routines;

- Identify information needed to complete the audit procedures;

- Establish a tentative schedule for the draft report based on the budgeted project hours to establish a goal to work toward, and to provide the auditee an estimate of the time that the IAS will be in the auditee's area;

- Ask if there are any questions concerning anything discussed at the opening conference or any questions in general about the auditor or audit approach that will assist the clients in their understanding of the audit project.

From time to time, the IAS/U may make unscheduled checks or reviews on certain activities. In these instances, an entry conference will not be conducted. The internal auditors will arrive at the audit location unannounced.

3.3.2.2 Step 2. Conduct Compliance Audit

The process of performing compliance audit is shown in Figure 12, which details the items to be reviewed for compliance with established standards, e.g. issuances, laws, and regulations.

Figure 12. Compliance Audit Flow Diagram
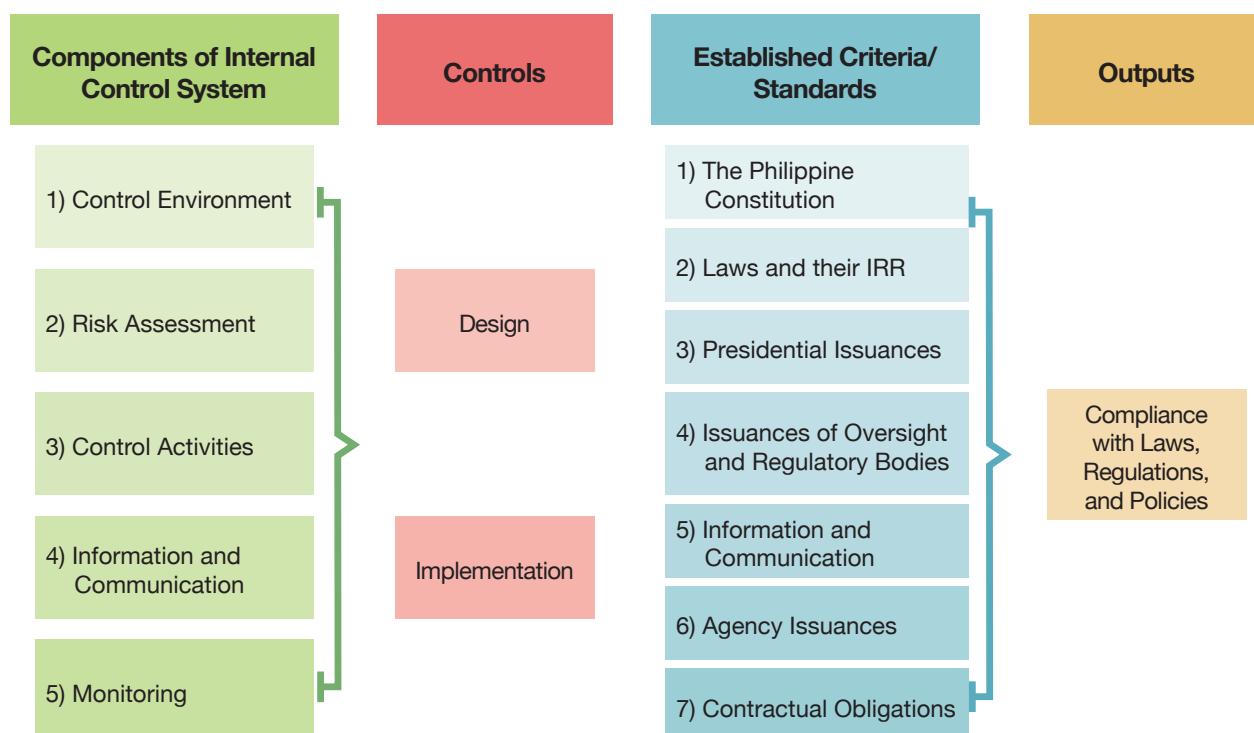
Source: PGIAM

The approach in management audit is to first conduct a compliance audit. Only when there is compliance is it possible to determine control effectiveness. If there is no compliance, the probable cause for such non-compliance is determined.

The first approach to an operations audit is also to conduct a compliance audit to determine whether government operations are in accordance with the organization's mandate and explicit objectives. As shown in Figure 12, the IAS/U identifies the standards, as specified in the organization's mandate and objectives or laws/rules/regulations, and compares whether the operations conform to the identified standards.

For instance, the auditor will determine whether or not the procurement process has resulted in the best value being obtained. Areas to be considered may include verification if a BAC exists in the procuring entity if the procuring entity has an Annual Procurement Plan (APP), and the BAC has a mechanism in the selection of observers. COA Memorandum No. 2010-003 dated 14 January 2010, otherwise known as "Guide in the Audit of Procurement" and the Agency Procurement Compliance Performance Indicator (APCPI) Result may be used for this purpose.

The steps in the conduct of compliance audit, as set out in the PGIAM, are as follows:

a. Gather and analyze evidence to establish the condition that the auditee is in.

   This refers to findings, defined as facts, supported by substantial evidence (includes consequence, effects, or impact).

b. Compare conditions with criteria to draw conclusion.

This refers to the conclusion of facts, which is defined as an inference drawn from the subordinate or evidentiary fact.

c. Determine the probable cause(s).

This refers to the acts or omissions of the person responsible that could have caused the non-compliance with laws, regulations, and managerial policies and operating procedures in the LGU, including compliance with accountability measures, ethical standards and contractual obligations, which may warrant the conduct of an administrative proceeding by the disciplining authority.

d. Prepare the working papers.

The IAS/U should record relevant information to support the audit results. The working papers should contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's findings.

e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4C's – Criteria, Condition, Cause, and Conclusion. (See Annex 2. Form 9 – Audit Discussion Draft)

3.3.2.3 Step 3. Conduct Operations or Management Audit

The conduct of operations or management audit involves the documentation of the process or system under audit, identification of the control procedures, verification, and validation of whether or not such control procedures are complied with, and are working effectively.

The process of performing management and operations audit is shown in Figures 13 and 14, respectively.

Figure 13. Management Audit Flow Diagram
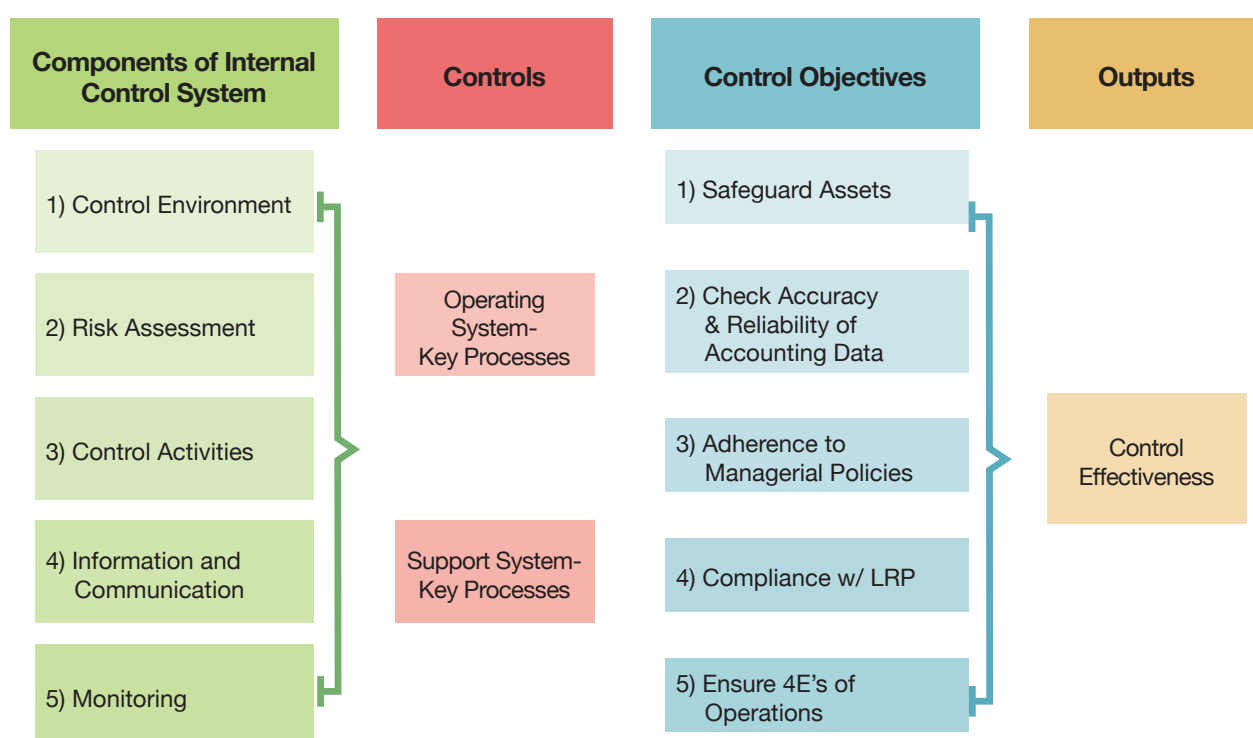
Source: PGIAM

Figure 14. Operations Audit Flow Diagram
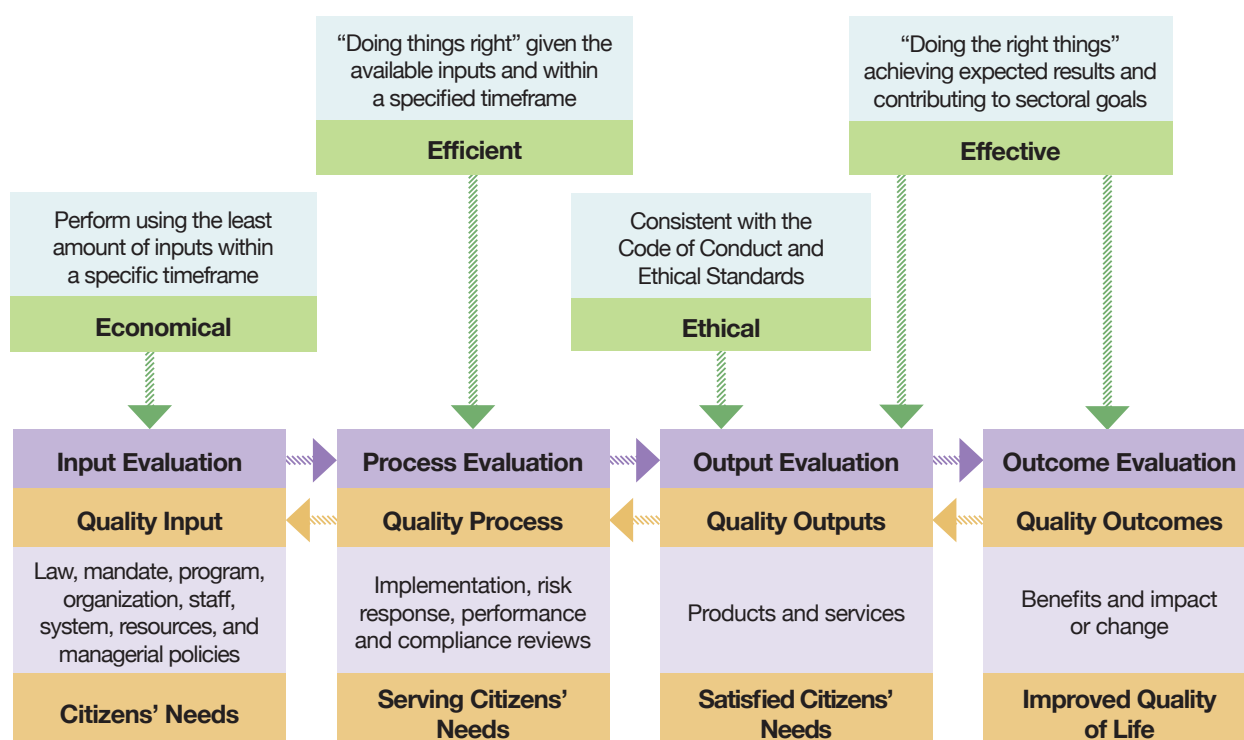
Source: PGIAM

Operations audit is designed to evaluate the effectiveness, efficiency, ethicality, and economy of operating systems selected for audit. On the other hand, management audit aims to evaluate control effectiveness. This step involves identification of the control procedures, verification, and validation on whether or not such control procedures are complied with and working effectively. Following PGIAM, this requires basically the same steps as the compliance audit. These steps are as follows:

a. Gather and analyze evidence to establish the condition.

    This refers to findings, which is defined as a fact, supported by substantial evidence (includes consequence, effects, or impact).

b. Compare conditions with criteria to draw a conclusion.

    This refers to the conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.

c. Determine the root cause(s).

    A root cause is a structured investigation that aims to identify the true cause of a problem and the action necessary to eliminate it. The determination of root cause through varying techniques is an essential audit methodology which will assist the auditor in analyzing pieces of evidence to come up with appropriate recommendations.

d. Prepare the working papers

    The IAS/U shall record relevant information to support the audit results. The working papers shall contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's findings.

e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4C's – Criteria, Condition, Cause, and Conclusion. (See Annex 2. Form 9 – Audit Discussion Draft)

3.3.2.4 Step 4. Exit Conference

The purpose of the exit conference is for the IAS/U to discuss the highlights of the audit findings with the auditee and/or the responsible official who has sufficient knowledge about the audit area. It also provides an opportunity to get the comments and insights about the significant audit issues from the auditee, LCE, and department heads/Sanggunian concerned, as a way of validating the audit findings.

The LCE's and department heads' comments shall be taken into consideration so as to arrive at workable recommendations, and obtain the auditee's commitment towards performing remedial actions – as a manifestation of progressive attitude towards the audit findings. The auditee's comments/responses are recorded in the audit findings sheet and integrated into the draft report.

3.3.3   Audit Reporting

Internal audit shall regularly communicate its findings and recommendations to the LCE. An internal audit report shall communicate accurate, objective, clear, concise, constructive, complete, and timely information.

Figure 15. Audit Reporting Flow Diagram

PLANNING	What to Audit
EXECUTION	How to Audit
REPORTING	What and How to Report

	1. Develop Audit Findings
	   a. Criteria (laws and standards)
	   b. Condition (findings of facts)
	   c. Conclusion (conclusion of facts)
	   d. Cause (root cause(s) or probable cause(s))
	2. Development audit recommendations
	3. Prepare the draft audit report (see 3.2.3.3)
	4. Prepare the final audit report (see 3.2.3.4)

FOLLOW-UP	What to Follow-up

Audit reports should normally include background information, the audit objectives, scope, approach, observations/findings, conclusions, recommendations, and agreed management actions. Reports should promote better practice options and explain why the recommended changes are necessary and how they add value.

Reports and memos should share internal audit's observations on significant risk exposures, control issues, governance issues, and other related audit matters. By sharing audit criteria, explaining causes and

consequences of audit observations, LGUs can gain an understanding of the implications and impacts of the audit findings.

3.3.3.1 Step 1. Develop Audit Findings

The audit findings shall be aligned with the audit objectives and shall be rational and based on specific standards and criteria. Audit findings on the probable cause of the illegality of a transaction constitute a violation of law, while irregularity constitutes a violation of regulations. Generally, all audit findings shall be formulated using the 4C's provided in Figure 16 below:

Figure 16. Example of Internal Audit Execution

The methodology for developing the audit finding, which produces the recommendation concerning what the LGU should do about the finding as noted above, is as follows.

Methodology for Formulating Audit Findings and Recommendations

Each audit finding within the body of the report is presented in terms of the four (4) C's- Criteria, Condition, Cause, and Conclusion that leads to a recommendation(s)

CRITERIA: What is the standard which was not met? (What should exist?)

CONDITION: What is the particular problem identified? (What does exist?)

CAUSE: Why did the problem occur? (Why does the difference exist?)

CONCLUSION: What is the risk/negative outcome (or opportunity forgone) because of the finding? (Impact of the difference)

RECOMMENDATION: What should management do about the finding?

The narrative below provides a simple working example of an internal audit finding concerning compliance with procurement record keeping. Note that the majority of the LGUs' Public Financial Management Improvement Plans identify this as a major issue. Note also that in this case, the existing condition can be easily identified without use of a detailed internal control questionnaire simply by asking for related procurement records. If the documents requested cannot be located, the condition compared to the criteria is quickly established, and the cause, conclusion, and recommendations follow. Please also see the first question and answer in Annex 6. Frequently Asked Questions, which is related to this example.

The following example of internal audit finding and recommendation can be presented to the LCE as a report for discussion, agreement, and action.

Example of Internal Audit Finding and Recommendations

Each audit finding within the body of the report is presented in terms of the four (4) C's – Criteria, Condition, Cause, and Conclusion that leads to a recommendation(s), as shown in this example.

CRITERIA: Compliance with the management of procurement and contract management records through the existence of policies, guidelines, or procedures for the identification, classification, retrieval, transmission, storage, disposition, preservation, and sharing of information and records such as the purchase requests, vouchers, invoices, etc. as found in the General Records Disposition Schedule attached in the National Archive of the Philippines Circular 1 and 2 dated 20 January 2009.

CONDITION:	Weaknesses in the record keeping infrastructure have resulted in the poor collection of significant records that are not managed according to sound management practices and internal controls.
CAUSE:	Absence of clear procedures and trained personnel for keeping and maintaining procurement records.
CONCLUSION:	Specific risks to the preservation and integrity of data and information, as well as broader strategic risks to the achievement of development goals, such as improved service delivery and stable commercial relationships with private contractors.
RECOMMENDATION:	Design and implement a system for keeping and maintaining procurement records and train personnel responsible for the said system so that the system meets the following criteria:

- There is a list of procurement-related documents that are maintained for a period of at least five years;

- The documents are kept in a duly designated and secure location, with hard copies kept in appropriate filing cabinets and soft copies in dedicated computers; and

- The documents are properly filed, segregated, easy to retrieve, and accessible to authorized users and audit personnel.

3.3.3.2 Step 2. Develop Audit Recommendations

Much of the work of internal audit is judged by the quality of the final audit report, including its analyses, findings, and recommendations. The recommendations, in particular, provide courses of action as the bases for improving internal controls.

Workable recommendations are clear, based on the science of facts, conditions, and evidence and on practicable, incontestable, and workable solutions that can stand alone and address the issue(s) at hand. Audit recommendations are management/legal remedies to prevent occurrence (preventive action) or avoid recurrence (corrective action) of control weaknesses and incidences. Annex 2. Form 8 – Potential Audit Comments may be used to document recommendations and auditee responses to audit findings.

3.3.3.3 Step 3. Prepare the Draft Audit Report

The draft audit report is prepared by laying out and analyzing the pieces of evidence gathered to arrive at preliminary audit findings and recommendations. Annex 2. Form 9 – Audit Discussion Draft may be used as input to the audit report.

When preparing a draft audit report, the auditor shall:

a. Delineate the objectives and scope and report within that scope, unless other issues of substance are identified;

b. Identify all criteria;

c. Report significant matters – positive or negative;

d. Describe the context and background of the reported matter only as far as is necessary to provide an understanding of the issue;

e. State initial findings, management's comments, and team's rejoinder, if any;

f. Present the audit findings in a manner that is concise, fair, and objective; and

g. State the recommendations so that they indicate what needs to be done but not how to do it.

The LCE shall be updated on the results of the audit engagement, Annex 2. Form 10 – Internal Audit Reports Checklist provides a summary of what should be included in the audit report.

3.3.3.4 Step 4. Prepare the Final Audit Report

The draft report may then be finalized integrating the following as parts of the final report:

a. Table of Contents;

b. Executive Summary;

c. Detailed Audit Findings;

d. Management Comments and Team's Rejoinder;

e. Monitoring and Feedback on Prior Year's Recommendations;

f. Recommendations; and

g. Appendices.

The final audit report shall be presented to the LCE, who will decide whether to distribute the audit report based on the recommendation of the HoIA.

The IAS/U proceeds to follow-up on the audit recommendations.

3.3.4   Audit Follow-up

Audit follow-up is a monitoring and feedback activity undertaken to ensure the extent and adequacy of preventive/corrective actions taken by the management to address inadequacies identified during the audit. The objective is to increase the probability that recommendations will be implemented.

Follow-up of audit recommendations serves the following main purposes:

1. Increase the effectiveness of audits – the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;

2. Assist the local government – following up may be valuable in proposing necessary actions to the LCE and other officials;

3. Evaluate the IAS/U performance – follow-up activity provides a basis for assessing and evaluating the IAS/U performance; and

4. Create incentives for learning and development – follow-up activities may contribute to better knowledge and improved practice.

Figure 17. Audit Follow-up Flow Diagram

PLANNING	What to Audit
EXECUTION	How to Audit
REPORTING	What and How to Report
FOLLOW-UP	What to Follow-up

1. Monitor implementation of approved audit findings and recommendations
2. Resolve non-implementation/inadequate implementation of audit recommendations
3. Prepare audit follow-up report
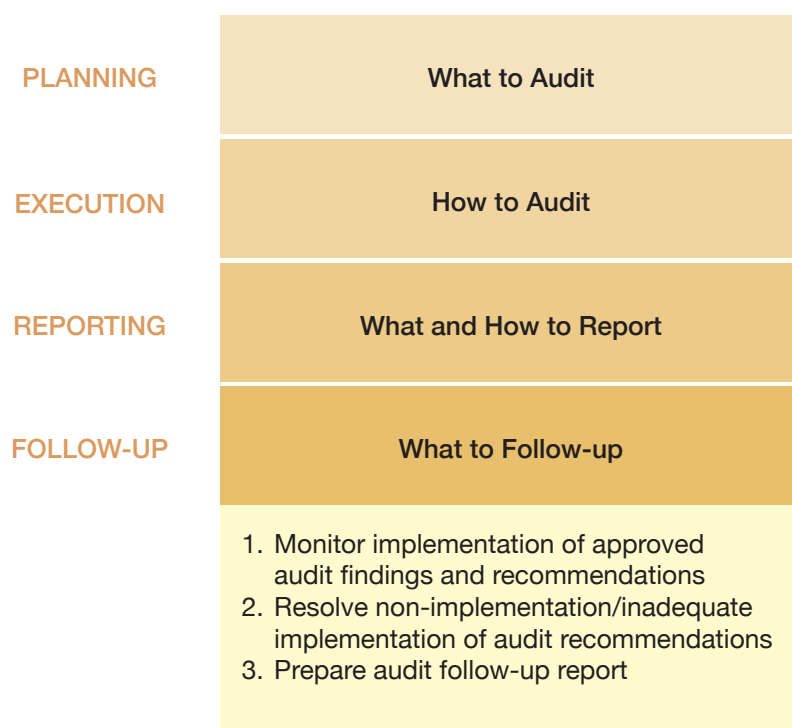
3.3.4.1 Step 1. Monitor Implementation of Approved Audit Findings and Recommendations

It is a sound practice to monitor the implementation of approved recommendations (management/ legal remedies) to avoid the occurrence (preventive measures) and recurrence (corrective measures) of control weaknesses/incidences after a reasonable period from the report submission date. The benefits of internal audit report recommendations are reduced, and deficiencies remain if recommendations are not implemented within the specified timeframe. It is management's responsibility to implement approved findings and recommendations, but the internal audit is in a good position to monitor the progress of implementation of the recommendations.

3.3.4.2 Step 2. Resolve Non-Implementation/Inadequate Implementation of Recommendations

In the event of non-implementation of recommendation/inadequate action, the IAS/U recommends appropriate legal and/or management remedies for non-implementation of recommendation and inadequate preventive/corrective actions.

3.3.4.3 Step 3. Prepare Audit Follow-Up Report

Results of the audit follow-up shall be recorded and reported in order to apprise the LCE of the status of actions on the approved recommendations. For this purpose, Annex 2. Form 11 – Progress Monitoring Report may be used.

The reasons for the lack of action or non-completion of action on any recommendation should be documented. When possible, the report should:

● Describe the results of the auditor's analysis of actual-against-projected benefits for the period under review;

● Summarize the extent of implementation of the approved recommendations;

● Highlight cases where auditee's performance in implementing recommendations have been particularly inadequate; and

● Describe the actions, if any, that the auditor intends to take in relation to the auditee's inadequate actions.

The HoIA shall establish and maintain a system to monitor the disposition of the audit results, and a follow-up process for the effective implementation of the approved audit recommendations. The procedure shall include an assessment of actions taken on the report and the status thereof.

The LCE shall systematically review progress against audit recommendations and agreed action plans. This ensures that a clear message is sent to management and staff that these matters are important, and are being reviewed at the most senior levels in the LGU.

Box 4. Access to Internal Audit Reports

Internal audit reports are intended for internal use only and are submitted to the LCE. These are restricted documents and may not be released to the general public without approval of the LCE/Sanggunian concerned, as the case may be. The LCE has the prerogative to decide on the manner and scope of the report to be shared with the concerned officials/ department heads and staff affected by the recommendations contained therein.

Part 4. Performance Monitoring and Evaluation

4.1 Importance of Performance Evaluation

Periodically assessing performance and addressing opportunities for improvement can help maximize the efficiency and effectiveness of the internal audit function. Measuring performance is also the means by which the internal audit unit's own performance is assessed, and internal audit is held accountable for the use of its resources. By adopting appropriate indicators, implementing a rigorous performance measurement system and acting on the results, internal audit can demonstrate that it "practices what it preaches", and thus, encourage acceptance of its role within the LGU.

Since the LCE is responsible for reviewing the performance of internal audit, the performance targets and performance indicators must be mutually agreed upon by the LCE and the HoIA.

Performance assessment has three interrelated elements, which are as follows:

a) Performance measurement, which refers to the systematic analysis of performance against goals, taking into account the reasons behind the performance and the influencing factors.

b) Rating refers to the description of accomplishment/performance based on indicators. This can also include the rating of another performance dimension.

c) Indicators which are used to determine if progress towards planned targets/goals has taken place.

The parameters under the Strategic Performance Management System (SPMS) can be adopted for this purpose.

4.2 Measurement Techniques

Management information systems and processes shall be established to record and report the required performance data in a cost-effective way.

Principal and key stakeholders' surveys at the end of an audit are useful and well-accepted ways of measuring the level of satisfaction with internal audit services. Short surveys that can be completed electronically are efficient means of collecting data, but manual approaches can also be done in cases when IT-based systems are not adequate. Any significant issue identified from such surveys should be followed up, when possible.

Key issues to address in such audit surveys include the following:

a) Auditor's understanding of the area under review;

b) Quality of the analysis undertaken;

c) Usefulness of the suggested courses of action;

d) Efficiency of the process; and

e) Level of collaboration and overall value of the report to the management, the public they serve, and other LGU stakeholders.

As principal, the LCE shall also be involved in providing regular feedback on the quality and cost-effectiveness of the audit reports and other services provided by internal audit unit. It is expected that the views of the LCE will be sought periodically, at least once annually.

4.3   Performance Monitoring

Figure 18. Performance Monitoring Flowchart
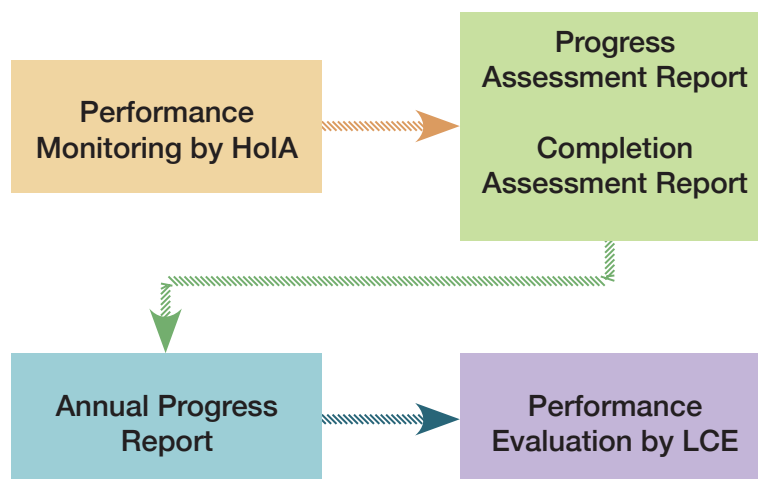
4.3.1   Performance Monitoring By the Head of Internal Audit

The HoIA shall have primary responsibility over the work performance and discipline of the staff. He/she shall direct the conduct of audit progress assessment based on a monitoring plan utilizing PIs and shall conduct two types of performance monitoring as follows:

4.3.1.1 Review of Progress Assessment Report (PAR)

PAR focuses on whether or not:

  a. Audit objectives are met, as reflected in the audit findings and recommendations;

  b. Internal auditing standards (NGICS, IAM for LGUs, and other relevant standards), pursuant to existing rules and regulations are applied;

  c. Findings and recommendations are based on facts and available evidence and in compliance with relevant laws, rules, and regulations;

  d. Findings and recommendations promote the adequacy of internal controls, pursuant to existing rules and regulations; and

  e. High standards of ethics and efficiency of public officials and employees are observed, pursuant to CSC rules and regulations.

The PAR shall be approved and endorsed by the HoIA to the LCE. All the audit team leaders shall ensure that audit engagements are assessed at the stage before exit conference.

4.3.1.2 Review of the Completion Assessment Report (CAR)

The CAR focuses on the:

a. Overall effectiveness and efficiency of the IAS/U, in accordance with DBM and COA rules and regulations and the LGU's policies and standards;

b. Findings and recommendations, which are based on facts and substantial evidence, and in compliance with relevant laws, rules, and regulations;

c. Application of internal auditing standards (NGICS, PLGIAM, and other relevant standards), pursuant to COA and DBM rules and regulations;

d. Findings and recommendations, which promote the adequacy of internal control pursuant to COA rules and regulations; and

e. High standards of ethics and efficiency of public officials and employees are observed, pursuant to CSC rules and regulations.

The CAR shall be approved and endorsed by the HoIA to the LCE. Audit team leaders shall ensure that audit engagements are assessed at the conclusion of the activity.

4.3.2 Annual Internal Audit Progress Report

To assist the LCE in reviewing the performance of the internal audit unit, the HoIA shall prepare a report at least annually.

The report shall contain:

a. Comments on the internal audit activities and any variance from approved plans;

b. Progress in the implementation of the internal audit strategic plan and the annual work plan;

c. Highlights and challenges during the period;

d. Overall contribution of internal audit in managing the organization's internal control deficiencies; and

e. Issues that may require attention in relation to the internal audit function.

A summary of the internal audit reports may be included in the LGU's annual report if the LCE so decides.

4.3.3 Performance Evaluation by the Local Chief Executive

The LCE, being directly responsible for the installation, implementation and monitoring of the internal control system, shall review the adequacy of the internal audit as part of the ICS.

4.3.3.1 Review of Internal Audit Report

At the conclusion of each audit engagement, the IAS/U submits to the LCE an internal audit memorandum and the internal audit report - prepared in conformity with the standards set by the COA, the DBM and the PGIAM.

In the review of the internal audit report, the LCE shall also consider adherence of the IAS/U on the following:

a. The hierarchy of applicable internal auditing standards and practices, as discussed in Part I of PGIAM.

b. All audit findings are formulated and synthesized based on the 4C's (criteria, condition, conclusion, probable/root cause), which are defined as follows:

i. **Criteria** – the standards against which a condition is compared (e.g. laws, regulations, policies);

ii. **Conditions** – a fact, backed by substantial evidence;

iii. **Conclusion** – evaluation of criteria and the conditions that could either result in compliance or non-compliance with laws, regulations, and policies as supported by substantial evidence; determination of the adequacy or inadequacy of controls; determination of the efficiency, effectiveness, ethicality, and economy of LGU operations; and

iv. **Cause** – the probable cause, in the case of compliance audit; or root cause, in the case of management audit or operations audit. Relatedly, a finding of probable cause needs only to rest on evidence showing that more likely than not the act/s or omission/s of the person responsible had caused the non-compliance, which may warrant the conduct of an administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true cause of the control weaknesses or incidences and the actions necessary to eliminate it.

c. Findings are supported by sufficient audit evidence. Please note that the quantum of evidence required to support an audit finding is substantial evidence. Substantial evidence is more than a mere scintilla of evidence. It means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if other minds equally reasonable might conceivably opine otherwise.

d. Its recommendations are feasible, cost-effective, and cost-efficient, supported by evidence and sufficient basis in law. Recommendations are classified according to the following:

i. **Preventive actions** – refer to determined actions of the LGU to eliminate the causes of potential non-compliance in order to avoid their occurrence; and

ii. **Corrective actions** – refer to an LGU's actions to eliminate the causes of noncompliance in order to avoid recurrence;

e. At any point during the audit, when significant risks/issues arise, the IAS/U will prepare an interim report to the LCE to communicate findings, issues, and problems that may affect the conduct of the audit and may expose the organization to considerable risks. The interim report contains the following:

i. Gaps or control deficiencies/breakdowns noted during the documentation of the components of the ICS and the key processes in the operating and supports systems;

ii. Gaps or control deficiencies/breakdowns found after the conduct of the review and evaluation of the flowchart and narrative notes or conduct of the walkthrough; and

iii. Gaps or control deficiencies/breakdowns after the conduct of the test of controls.

4.3.3.2 Review of the IAS/U Performance Report

At the close of every fiscal year, the LCE shall review the performance of the IAS/U through the various reports/outputs (e.g. baseline assessment report, assessment of control significance and materiality and control risk report, assessment of internal audit risk report, annual audit plan, audit engagement report, audit follow-up report, and performance monitoring evaluation report) that are submitted to his/her office.

Annex

Annex 1 Issuances

Annex 1.1 Republic Act No. 3456

Fifth Congress
of the
Republic of the Philippines
First Session

Begun and held in the City of Manila on Monday, the twenty-second day of January, nineteen hundred and sixty-two.

REPUBLIC ACT No. 3456

AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF INTERNAL AUDIT SERVICES IN ALL DEPARTMENTS, BUREAUS AND OFFICES OF THE NATIONAL GOVERNMENT.

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. The title of this Act shall be "Internal Auditing Act of 1962."

SEC. 2. There shall be created, organized and operated in all departments, bureaus and offices of the National Government, internal audit services which shall assist management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions.

SEC. 3. The Internal Audit Service shall be under the direct administrative supervision and control of the chief and/or assistant chief of the agency. It shall be organized as an independent staff unit and shall correspondingly perform staff functions. It shall be responsible for instituting and conducting a program of internal audit for the agency. The chief of the internal audit service shall have the rank and salary equivalent to the third ranking official of the agency. He shall report directly to the chief or assistant chief of the agency.

SEC. 4. The Auditor General shall be responsible for the promulgation and enforcement of general policies, rules and regulations on internal auditing. He shall coordinate and schedule the gradual installation of internal audit services in all departments, bureaus and offices in the National Government, and shall develop for execution working plans and training programs to maintain continuously the effectiveness of these internal audit services. The Internal Auditing Coordinating Staff of the General Auditing Office shall assist the Auditor General in the discharge of these responsibilities.

SEC. 5. Such sums as may be necessary for the implementation of this Act shall be included in the annual General Appropriations Act beginning with the fiscal year nineteen hundred and sixty-three.

SEC. 6. This Act shall take effect upon its approval.

Approved,

Passed by both Houses in Congress on May 17, 1962

Approved by the President of the Philippines, Diosdado Macapagal on June 16, 1962

Annex 1.2 Republic Act No. 4177

FIFTH CONGRESS
OF THE
REPUBLIC OF THE PHILIPPINES

FOURTH SESSION

Begun and held in the City of Manila on Monday, the twenty-fifth day of
January, nineteen hundred and sixty-five.

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[Republic Act No. 4177]

AN ACT TO AMEND SECTIONS TWO, THREE AND FOUR OF REPUBLIC
ACT NUMBERED THREE THOUSAND FOUR HUNDRED FIFTY-SIX,
KNOWN AS "INTERNAL AUDITING ACT OF 1962."

Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:

SECTION 1. Sections two, three and four of Republic Act Numbered Three
Thousand Four Hundred Fifty-six, otherwise known as the Internal Auditing Act of
1962, are amended to read as follows:

SEC. 2 There shall be created, organized and operated in all branches,
subdivisions and instrumentalities of the government, including government-
owned and/or controlled corporations to be known as agency for purposes of this
Act, internal audit services which shall assist management to achieve an efficient
and effective fiscal administration and performance of agency affairs and functions.

SEC. 3 The Internal Audit Service shall be under the direct administrative
supervision and control of the heads and/or assistant heads of the agency. It shall be
organized as an independent staff unit and shall correspondingly perform staff
functions. It shall be responsible for instituting and conducting a program of internal
audit for the agency. The chief of the Internal Audit Service shall have the rank and
salary equivalent to the third ranking official of the agency. He shall report directly
to the head or assistant head of the agency.

SEC. 4. The Auditor General shall be responsible for the promulgation and
enforcement of general policies, rules and regulations on internal auditing, non-
compliance or disregard of which shall be considered as a breach of official duty and
may be used as a basis for an administrative action against the defaulting official.
He shall coordinate government internal auditing activities and schedule the
gradual installation of internal audit services in all branches, subdivisions and
instrumentalities of the government, including government-owned and/or con-
trolled corporations, and shall develop for execution, working plans and training
programs to maintain continuously the effectiveness of these internal audit services.
The Internal Audit Coordinating Department of the General Auditing Office shall
assist the Auditor General in the discharge of these responsibilities.

SEC. 2. This Act shall take effect upon it approval.

Approved, March 26, 1965

(SGD.)   DIOSDADO MACAPAGAL
President of the Philippines

Annex 1.3 Presidential Decree No. 1

MALACAÑANG
Manila

PRESIDENTIAL DECREE NO. 1

REORGANIZING THE EXECUTIVE BRANCH OF THE NATIONAL GOVERNMENT

WHEREAS, there were pending before Congress prior to the promulgation of Proclamation No. 1081, dated September 21, 1972, certain priority measures vital to the national development program of the Government, and which were duly certified by the President as urgent measures;

WHEREAS, one of these priority measures is the Integrated Reorganization Plan reorganizing the entire Executive Branch of the National Government, prepared by the Commission on Reorganization; ·

WHEREAS, the Integrated Reorganization Plan is necessary to the realization of the Government's program to effect administrative reforms in the government machinery; ·

NOW, THEREFORE, I, FERDINAND E. MARCOS, Commander-in-Chief of all the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, and General Order No. 1, dated September 22, 1972, as amended, in order to effect the desired changes and reforms in the social, economic and political structure of the country, do hereby order and decree that the Integrated Reorganization Plan as prepared, completed, and submitted by the Commission on Reorganization shall be, as it is hereby adopted, approved, and made as part of the law of the land: *Provided,* That there shall be created and organized, in lieu of the Public Information Office within the Office of the President as recommended in the Integrated Reorganization Plan, a Department of Public Information, the composition of which shall be indicated in future implementing orders.

Changes and modifications in the Integrated Reorganization Plan shall be made from time to time, as necessity requires, to be correspondingly announced by me or by my duly authorized representative.

Implementation of the Integrated Reorganization Plan as herein adopted, approved and decreed shall be carried out by Letters of Implementation which will be issued by me from time to time, or by my duly authorized representative.

All concerned, especially heads of departments, chiefs of bureaus, and offices, agencies and instrumentalities of the Government, including government-owned or controlled corporations, shall act accordingly, pursuant to the contents of this Decree.

Done in the City of Manila, this 24th day of September, in the year of Our Lord, nineteen hundred and seventy-two.

FERDINAND E. MARCOS
President
Republic of the Philippines

Annex 1.4 Section 1 of Administrative Order No. 119

MALACAÑANG
MANILA

ADMINISTRATIVE ORDER NO. 119

DIRECTING THE STRENGTHENING OF THE INTERNAL CONTROL SYSTEMS
OF GOVERNMENT OFFICES, AGENCIES, GOVERNMENT-OWNED
OR CONTROLLED CORPORATIONS AND LOCAL GOVERNMENT
UNITS IN THEIR FISCAL OPERATIONS

I, CORAZON C. AQUINO, President of the Philippines, by
virtue of the powers vested in me by law, do hereby order:

SECTION 1. Agency Responsibility. - The responsi-
bility for the fiscal operations of offices and agencies
of government is hereby declared to reside primarily in the
respective Heads of each office, agency, government-owned
or controlled corporation, and local government unit. For
this purpose, each and every office, agency, corporation
and local government unit is mandated to strengthen its
internal control system and/or organize systems and procedures
to that effect in coordination with the Department of
Budget and Management.

SEC. 2. Implementing Rules, Regulations, and Circulars.
The Department of Budget and Management shall coordinate with
the Commission on Audit in the organization and strengthening
of the internal control systems and procedures.

The Department of Budget and Management shall promulgate
the proper and appropriate rules, regulations or circulars to
implement this Administrative Order.

SEC. 3. Status Report. - The Department of Budget and
Management shall report to the President within six (6)
months from the effectivity of this Administrative Order on
the status of the mandate herein contained with a listing
of any and all government units which have not organized or
strengthened their internal control systems. Said report
shall likewise indicate those which had organized and/or
strengthened the same, with the necessary recommendation
for the appropriate measures for effective management
accountability and control.

SEC. 4. Effectivity. - This Administrative Order
shall take effect immediately.

2

Done in the City of Manila, this 29th day of March, in the year of Our Lord, nineteen hundred and eighty-nine.

By the President:

CATALINO MACARAIG, JR.
Executive Secretary

Annex 1.5 Memorandum Order No. 277

MALACAÑANG
MANILA
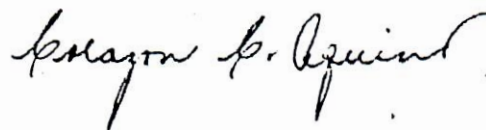
MEMORANDUM ORDER NO. 277

DIRECTING THE DEPARTMENT OF BUDGET AND MANAGEMENT TO PROMULGATE
THE NECESSARY RULES, REGULATIONS OR CIRCULARS FOR THE STRENGTH-
ENING OF THE INTERNAL CONTROL SYSTEMS OF GOVERNMENT OFFICES,
AGENCIES, GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS AND LOCAL
GOVERNMENT UNITS

Pursuant to the powers vested in me by law, I, CORAZON C.
AQUINO, President of the Philippines, do hereby direct the Depart-
ment of Budget and Management to promulgate the necessary rules,
regulations or circulars for the strengthening of the internal
control systems of government offices, agencies, government-owned
or controlled corporations and local government units, in implement-
ation of Administrative Order No. 119; Provided, That the said rules,
regulations or circulars shall not be interpreted to diminish the
powers and functions of the Commission on Audit as set by the Cons-
titution and by law, including its power to adopt necessary and ap-
propriate measures to correct the deficiencies where the internal
control system of the audited agencies is inadequate (Art. IX[D],
Sec. 2[1], of the Constitution).

This Memorandum Order shall take effect immediately.

DONE in the City of Manila, this 17th day of January, in the
year of Our Lord, nineteen hundred and ninety.

Corazon C. Aquino

By the President:

CATALINO MACARAIG, JR.
Executive Secretary

Annex 1.6 Administrative Order No. 278

MALACAÑANG
MANILA

BY THE PRESIDENT OF THE PHILIPPINES

ADMINISTRATIVE ORDER NO. 278

DIRECTING THE STRENGTHENING OF THE INTERNAL CONTROL SYSTEMS OF GOVERNMENT OFFICES, AGENCIES, GOVERNMENT-OWNED AND/OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS AND LOCAL GOVERNMENT UNITS, IN THEIR OPERATIONS

I, CORAZON C. AQUINO, President of the Philippines, by virtue of the powers vested in me by law, do hereby order:

SECTION 1. In addition to the provisions of Section 1 of Administrative Order No. 119, Series of 1989, all heads of government offices, agencies, government-owned and/or controlled corporations, including government financial institutions and local government units, shall organize Internal Audit Services (IAS) in their respective offices, as follows:

1.1   The Internal Audit Service (IAS) shall be an integral part of the office/organization and shall assist the institution management in the effective discharge of its responsibilities insofar as the same would not encroach on or be adversarial with those of the auditors of the Commission on Audit. It shall function in accordance with the policies established by the provisions of Republic Act No. 3456, as amended by Republic Act No. 4177, and shall perform staff functions with primary responsibilities encompassing the examination and evaluation of the adequacy and effectiveness of internal control and the quality of performance. The internal audit activities shall include the following:

1.1.1   Ascertaining the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information;

1.1.2   Ascertaining the extent of compliance and reviewing the systems established to ensure compliance with government policies, plans and procedures, laws and regulations which have impact on operations;

60

1.1.3 Ascertaining the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds;

1.1.4 Reviewing and evaluating the soundness, adequacy and application of accounting, financial and other operating controls and promoting the most effective control at reasonable cost;

1.1.5 Reviewing operations or programs to ascertain whether or not results are consistent with established objectives and goals and whether or not such programs are being carried out as planned;

1.1.6 Evaluating the quality of performance of groups/ individuals in carrying out their assigned responsibilities; and

1.1.7 Recommending corrective actions on operational deficiencies observed.

2.0 In addition to its above duties, the IAS may be called upon to perform special assignments by the Head of the Agency. However, it shall not be responsible for or required to participate in procedures which are essentially a part of regular operating activities or in operations which are the primary responsibility of another unit in the organization. The IAS shall be detached from all functions of routine operating character, such as the following:

2.1 Pre-audit of vouchers and counter-signature of checks;

2.2 Inspection of deliveries, although the internal auditor may, as part of his examination, observe inspection;

2.3 Preparation of treasury and bank reconciliation statements;

2.4 Development and installation of systems and procedures; however, in exceptional cases, the internal auditor may assist by way of giving suggestions;

2.5   Taking physical inventories; however, the internal auditor may review the plans in advance and observe and test-check the accuracy of counting, costing and summarizing;

2.6   Maintaining property records; and

2.7   All other activities related to operations.

3.0   The IAS shall be provided with sufficient support from the top management to gain the cooperation/confidence of the auditee.

3.1   In the performance of their function, the internal auditors should be able to exercise independence to render impartial and unbiased judgments essential to the proper conduct of the audit.

3.2   The auditor should be able to gather sufficient evidential matters in support of his findings and recommendations.

3.3   The Head/Chief of the IAS shall report directly to the Head of the Agency.

4.0   Internal audit shall be performed with proficiency and due professional care.

4.1   The IAS shall provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audit to be performed.

4.2   Internal auditors shall possess/obtain the knowledge, skills and discipline needed to carry out the audit responsibilities of the IAS.

4.3   The IAS shall provide assurance that internal audits are properly supervised and performed with due professional care.

4.4   The IAS shall conduct the audit in conformity with the standards of the internal audit profession.

4.5   The Code of Ethics promulgated by the Association of Government Internal Auditors (AGIA) shall be strictly

observed to maintain high standards of honesty, objectivity, diligence and loyalty.

SEC. 2. In order to best serve the interests of their Offices, in particular, and of the government service, in general, all Heads and Staff of the Internal Audit Service shall cooperate and actively participate in the activities of the AGIA.

SEC. 3. The AGIA shall ensure that internal audit practices, methods and procedures are improved and updated through continuing education and that all audit works for each government agency are conducted in conformity with the standards of the internal audit profession.

SEC. 4. Agencies without an internal audit service/unit shall constitute one to be staffed by assigning or deploying personnel from other units of the Agency.

SEC. 5. This Administrative Order shall take effect immediately.

Done in the City of Manila, this 28th day of April, in the year of Our Lord, nineteen hundred and ninety-two.

By the President:

FRANKLIN M. DRILON
Executive Secretary

CERTIFIED COPY:
AURORA T. AQUINO
DIRECTOR IV
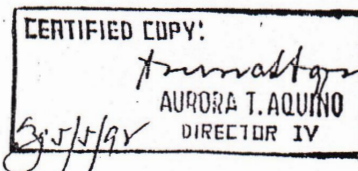
Annex 1.7 Administrative Order No. 70

MALACAÑANG
Manila

BY THE PRESIDENT OF THE PHILIPPINES

ADMINISTRATIVE ORDER NO. 70

STRENGTHENING OF THE INTERNAL CONTROL SYSTEMS OF GOVERNMENT OFFICES, AGENCIES, GOVERNMENT-OWNED AND/OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS, STATE UNIVERSITIES AND COLLEGES AND LOCAL GOVERNMENT UNITS

I, GLORIA MACAPAGAL-ARROYO, President of the Republic of the Philippines, by virtue of the powers vested in me by law, do hereby order:

SECTION 1. *Creation of Internal Audit Service.* - All heads of government offices, agencies, government-owned and/or controlled corporations, including government financial institutions, State Universities and Colleges (SUCs) and local government units, shall organize an Internal Audit Service (IAS) in their respective offices.

The IAS shall be an integral part of the office and shall assist in the management and effective discharge of the responsibilities of the office, without intruding into the authority and mandate of the Commission on Audit (COA) granted under the Constitution. It shall function in accordance with the policies established by the provisions of Republic Act No. 3456 as amended by Republic Act No. 4177.

The IAS shall be provided with sufficient support from the top management to gain the cooperation/confidence of the auditee.

SEC. 2. *Conduct of Internal Audit.* - Internal Audit shall be performed with proficiency and due professional care, in accordance with the following, to wit:

1. The IAS shall ensure that the technical proficiency and educational background of internal auditors are appropriate for the audit to be performed;

2. Internal auditors shall possess/obtain the knowledge, skills and discipline needed to carry out the audit responsibilities of the IAS;

3. The IAS shall ensure that internal audits are properly supervised and performed with due professional care;

4. The IAS shall conduct the audit in conformity with International Standards for the Professional Practice of Internal Auditing; and

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5.   The Code of Ethics promulgated by the Association of Government Internal Auditors (AGIA) shall be strictly observed to maintain high standards of honesty, objectivity, diligence and loyalty.

SEC. 3.   _Standard of the Internal Auditing Profession._ -- The head/chief of IAS shall ensure that internal audit practices, methods and procedures in the agency are improved and updated through continuing education. The AGIA shall ensure that all audit works in all government agencies are conducted in conformity with the standards of the internal audit profession.

SEC. 4.   _Personnel Complement._ -- Agencies without IAS shall immediately organize one. The head of the agency shall review the organizational structure and personnel complement and convert existing vacant positions and/or parallel positions of incumbents in the agency necessary for the creation/strengthening of the IAS.

SEC. 5.   _Monitoring and Reporting._ -- All heads of agencies are hereby directed to submit a report of compliance to the Office of the President through the Office of the Executive Secretary within one (1) year from the date of effectivity of this Order. Subsequently, the accomplishment of the IAS shall be included in the Agency Annual Report.
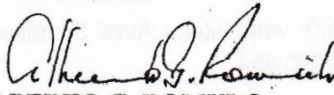
SEC. 6.   _Transitory Provision._ -- All incumbent Internal Auditors and those performing internal audit functions per AO No. 278, s. of 1992 shall continue to perform internal audit functions. Their position title shall be reclassified to Internal Auditor positions.

SEC. 7.   _Repealing Clause._ -- All issuances, orders, guidelines, rules and regulations inconsistent herewith are hereby revoked.

**SEC. 8.   _Effectivity._** - This Administrative Order shall take effect immediately.

DONE in the City of Manila, this 14ᵗʰ day of April   , in the year of our Lord, two thousand and three.

By the President:

ALBERTO G. ROMULO
Executive Secretary

CERTIFIED COPY:

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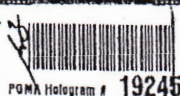
MARIANITO M. DIMAANDAL
Director III

Annex 1.8 DBM Budget Circular No. 2004-04

REPUBLIC OF THE PHILIPPINES

Department of Budget and Management

Building I, General Solano Street, San Miguel, Manila

BUDGET CIRCULAR

No. 2004 – 4

March 22, 2004

TO	:	HEADS OF DEPARTMENTS, BUREAUS, OFFICES, AND AGENCIES OF THE NATIONAL GOVERNMENT; STATE UNIVERSITIES AND COLLEGES (SUCs); GOVERNMENT-OWNED AND/OR -CONTROLLED CORPORATIONS (GOCCs); GOVERNMENT FINANCIAL INSTITUTIONS (GFIs); CHIEF EXECUTIVES OF LOCAL GOVERNMENT UNITS (LGUs); AND ALL OTHERS CONCERNED
SUBJECT	:	GUIDELINES ON THE ORGANIZATION AND STAFFING OF INTERNAL AUDITING UNITS (IAUs)

1.0 Background

Under Republic Act (RA) No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, there shall be created, organized and operated in all government agencies an Internal Audit Service (IAS) which shall assist management to achieve efficient and effective fiscal administration and performance of agency affairs and functions. It shall be under the direct administrative supervision and control of the head and/or assistant head of the agency; organized as an independent staff unit to perform staff functions and to institute and conduct a program of internal audit for the agency. The chief of the IAS shall have the rank and salary equivalent to the third ranking official of the agency and shall report directly to the head or assistant head of the agency.

Pursuant to Item 3, Article IV, Chapter I, Part V of Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service. Thus, different levels of Management and Audit Analyst classes of positions were created for the purpose

to perform a) management systems review (to include staffing, manpower, and work methods and procedures review), and b) review of internal control systems for safeguarding money and property to ascertain weakness and deficiencies that need to be corrected.

Under Section 2, Article IX-D of the 1987 Philippine Constitution, the Commission on Audit (COA) may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies if the internal control system of the audited agencies is inadequate.

On March 29, 1989, Administrative Order (AO) No. 119 was issued, mandating government entities to strengthen its internal control systems and/or organize systems and procedures to that effect in coordination with the Department of Budget and Management (DBM).

COA issued Circular No. 91-368 to institute the Government Accounting and Auditing Manual (GAAM). Section 33, Volume III of the GAAM states that the Internal Audit Office shall be part of the internal control system of an agency. In addition, Section 55 thereof provides that the responsibility of the agency head to maintain the system of internal control may be delegated to an internal audit department or office.

AO No. 278 was issued on April 28, 1992 to provide that all heads of government offices, agencies, GOCCs, including GFIs and LGUs, shall organize the IAS in their respective offices, which shall be an integral part of the office/organization and shall assist the institution management in the effective discharge of its responsibilities insofar as the same would not encroach on or be adversarial with those of the auditors of the COA.

On April 14, 2003, AO No. 70 was issued mandating all heads of government agencies, GOCCs, GFIs, SUCs and LGUs to immediately organize an IAS in their respective offices, which shall function in accordance with the policies established by the provisions of RA No. 3456, as amended by RA No. 4177.

To staff the IAS, AO No. 70 provides, among others: a) that the present organizational structure and personnel complement of agencies shall be reviewed by their heads and that the existing vacant and/or parallel positions of incumbents in the agency shall be converted as necessary for the creation/strengthening of the IAS, b) that all incumbent Internal Auditors and those performing internal audit functions under AO No. 278 shall continue to perform internal audit functions, and c) that their positions shall be classified to Internal Auditor positions.
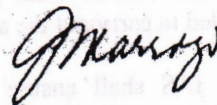
2.0   Purpose

This Circular is being issued to provide guidelines on the organization and staffing of IAUs consistent with the foregoing issuances.

3.0   Coverage

This Circular shall apply to all national government agencies (NGAs), SUCs, GOCCs, GFIs and LGUs which shall hereinafter be referred to as government entities, and to all positions performing internal audit functions.

4.0   Policy Guidelines

4.1   On the Organization and Staffing of an IAU

    4.1.1   The organization and staffing of an IAU shall consider the following internal audit functions:

        4.1.1.1   Appraisal of procedures and related matters, including expressing an opinion as to the efficiency or adequacy of existing procedures; and appraising personnel efficiency.

        4.1.1.2   Verification and analysis of financial and operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid.

        4.1.1.3   Activities verifying the extent of compliance. This may involve determining that accounting procedures or other policies are being followed; operating procedures are being properly implemented; governmental regulations are being complied with; performance targets are being achieved; and other contractual obligations are being met.

        4.1.1.4   Functions of a protective nature, such as prevention and detection of fraud or dishonesty; review of cases involving misuse of agency property; and checking of transactions with outside parties.

        4.1.1.5   Miscellaneous services, including special investigations and assistance to outside contacts such as the COA.

    4.1.2   Based on the foregoing functions, internal audits of government entities shall consist of operations audit and financial audit. The

determination of the effectiveness and adequacy of security and management controls over information systems and databases and their integrity are deemed part of operations audit and financial audit.

4.1.3   A government entity may organize and staff its IAU as follows:

4.1.3.1.   NGAs, GOCCs and GFIs

Government Entity	Organizational Structure and Head of the IAU
Department level entity	The IAU in a department shall be an Internal Audit Service. For department level entities, the internal audit organization shall depend on the subdivision of the entity's support staff units. The IAU head shall be classified same as those of the heads of the entity's support staff units. The IAU shall have up to two divisions on operations audit and financial audit. Each division shall be headed by an Internal Auditor V, SG-24.
Intermediate level entity (higher than a bureau but lower than a department) such as councils, commissions and boards whose operation cut across several offices or even departments.	The IAU may be a branch, department or office, depending on the subdivision of the entity's support staff units. Its head shall be classified same as those of the heads of the entity's support staff units. The IAU shall have two divisions on operations audit and financial audit. Each division shall be headed by an Internal Auditor V, SG-24.
Bureau level entity	The IAU shall be an Internal Audit Division to be headed by an Internal Auditor V, SG-24.

4.1.3.2   LGUs

LGU	Organizational Structure and Head of the IAU
Provincial Government	The IAU in a provincial government may be a department to be headed by a Provincial Government Department Head, SG-26. It may have two units/groups on operations

LGU	Organizational Structure and Head of the IAU
	audit and financial audit. The head of each group shall be classified in accordance with Local Budget Circular (LBC) No. 53 dated September 1, 1993.
City Government	
Special City	The IAU in a special city may be a department to be headed by a City Government Department Head III, SG-27.
Highly Urbanized City	The IAU in a highly urbanized city may be a department to be headed by a City Government Department Head II, SG-26
Component City	The IAU in a component city may be a department to be headed by a City Government Department Head I, SG-25. The IAU in a city government may have two units/groups on operations audit and financial audit. The head of each group shall be classified in accordance with LBC No. 53.
Municipal Government	
within Metro Manila	The IAU in a municipal government within Metro Manila may be a department to be headed by a Municipal Government Department Head II, SG-25.
outside Metro Manila	The IAU in a municipal government outside Metro Manila may be a department to be headed by a Municipal Government Department Head I, SG-24. The IAU in a municipal government, within or outside Metro Manila, may have two units/groups on operations audit and financial audit. The head of each group shall be classified in accordance with LBC No. 53.

4.1.3.3   SUCs

SUC (in accordance with DBM and Commission on Higher Education Joint Circular No. 1-A, s. 2003)	Organizational Structure and Head of the IAU
Level I SUC Level II SUC	The IAU in a Level I or II SUC shall be a staff under the Office of the SUC President to be headed by an Internal Auditor III, SG-18.
Level IIIA SUC Level IIIB SUC Level IV SUC	The IAU in a Level IIIA, IIIB or IV SUC shall be an Internal Audit Division headed by an Internal Auditor V, SG-24.

4.1.4   Government entities shall determine the adequate staffing for their IAUs.

4.1.5   The Internal Auditor positions and the positions to assist them may be sourced through the redeployment and reallocation of filled positions from within the government entity and/or through the transfer and conversion of vacant positions.

4.2   On the Allocation/Reallocation of Positions to the Internal Auditing Assistant or Internal Auditor Classes

4.2.1   The allocation/reallocation of positions to the Internal Auditing Assistant or Internal Auditor classes shall be based on the duties and responsibilities listed in Annex A.

4.2.2   If both the technical and administrative support positions in a government entity are allocated to the various levels of a class specific to the government entity, the same may opt not to submit the positions for reallocation.

4.3   Salary Rules

4.3.1   An employee whose position is reallocated to a position title/class with the same salary grade shall be paid his present salary rate.

4.3.2   If reallocated to a position title/class with a higher salary grade, the salary rule on promotion shall apply as contained in ANNEX C of National Budget Circular No. 458 dated January 1, 1997 and Annex "C" of Local Budget Circular No. 64 dated January 22, 1997.

4.3.3   If reallocated to a position with a lower salary grade, the employee shall be paid his present salary.

4.4   <u>On the Functions of Any Management Division/Unit of a Government Entity</u>

The review of the internal control systems of a government entity shall no longer be part of the functions of its Management Division/Unit, which shall now be made responsible for the conduct of studies, surveys, and reviews for the development of new and improved management systems, including staffing standards, manpower requirements, and work methods and procedures.

5.0   Procedural Guidelines

5.1   <u>On the Organization and Staffing of an IAU and Allocation/Reallocation of Positions to Internal Auditing Assistant or Internal Auditor Classes</u>

5.1.1   NGAs, SUCs, GOCCs and GFIs shall submit their proposals for the organization of their respective IAUs to the appropriate Budget and Management Bureau and Regional Office of the DBM. The following documents should be attached to the request:

• Proposed functions of the organizational units;

• Proposed staffing;

• Proposed work load per position;

• Duly accomplished Position Description Forms;

• Functional charts and position charts showing the hierarchy of positions in the units where the positions are to be deployed; and

• Item number of filled positions to be transferred and of vacant positions to be abolished.

5.1.2   The DBM Offices concerned shall evaluate the proposals based on the documents submitted and shall cause the issuance of a Notice

of Organization, Staffing and Compensation Action (NOSCA) with remarks to include, among others, the funding source and the new or revised P/A/P structure for the purpose.

5.1.3 Upon receipt of the approved NOSCA, government entities shall cause the preparation of the appointment papers of the employees concerned, subject to Civil Service laws, rules and regulations.

5.1.4 The approved appointments shall be the bases for payment of salary adjustments, if there are any.

5.1.5 LGUs may adopt staffing modifications for their IAUs in accordance with the pertinent provisions of this Circular and LBC No. 53. The staffing modifications shall be subject to the approval of the Sanggunian concerned and the personal services cost limitation contained in Section 325 (a), RA No. 7160 (Local Government Code of 1991), and LBC No. 75.

6.0 Funding Source

6.1 The funding source for the amounts necessary to implement initially the provisions of this Circular shall be as follows:

6.1.1 For NGAs and SUCs, the amount shall be charged against the appropriations for transferred and vacated/vacant positions;

6.1.2 For GOCCs and GFIs, the amount shall be charged against the corporate budget for transferred and vacated/vacant positions; and

6.1.3 For LGUs, the amount shall be charged against their respective local funds, subject to the personal services limitation under Section 325 (a), RA No. 7160. Said amount shall be provided for in appropriation ordinances to be enacted by the Sanggunians concerned.

6.2 Thereafter, such amounts as may be necessary for the continued implementation of this Circular shall be incorporated in the annual budgets of the agencies concerned.

7.0 Responsibility of the Head of a Government Entity

The Head of a government entity shall be held responsible for the submission of the required documents. He shall also be held personally liable for any payment of salary adjustment not in accordance with the provisions of this Circular,
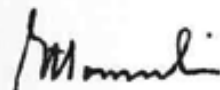
of salary adjustment not in accordance with the provisions of this Circular, without prejudice to the refund of any excess payment received by the employee concerned.

8.0   Saving Clause

Cases not covered by the provisions of this Circular shall be submitted to the Secretary of Budget and Management for resolution.

9.0   Effectivity

The allocation/reallocation of positions authorized under this Circular shall take effect not earlier than the date of approval and not earlier than the availability of savings/appropriation for the purpose.

EMILIA T. BONCODIN
Secretary

Class Identification	Position Title and Salary Grade	Duties and Responsibilities
IAAS	Internal Auditing Assistant, SG-8	Under immediate supervision, assists internal auditors in the conduct of financial and/or operations audit; and does related work.
IAUD1	Internal Auditor I, SG-11	Under general supervision, conducts researches to obtain background information on the activities to be audited to determine the impact on the audit, the resources necessary to perform the audit, and possible risks associated with the audit; discusses research findings with the leader of the auditing team; performs simple financial and/or operations auditing work; drafts report on the results of the audit completed; discusses audit results with auditee/s before the draft of the report is finalized; makes appropriate recommendations based on the results of the audit; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; and does related work.
IAUD2	Internal Auditor II, SG-15	Under general supervision, drafts audit plans for review of immediate supervisor; discusses internal audit scope and objectives with affected agency personnel prior to conduct of audit; performs difficult financial and/or operations auditing work; drafts report on the results of the audit completed; discusses audit results with auditee/s before the draft of the report is finalized; makes appropriate recommendations based on the results of the audit; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; and does related work.
IAUD3	Internal Auditor III, SG-18	Under general supervision, reviews agency organizational structure, staffing, administrative systems and procedures and other relevant information to determine its internal audit needs and objectives; assigns and clarifies work assignments of members of audit team; discusses internal audit scope and objectives with affected agency personnel prior to conduct of audit; leads an internal audit team in the conduct of financial and/or operations audit; reviews findings and recommendations of audit team for completeness and conformance to audit plan, standards and guidelines; drafts the consolidated internal audit

		report; discusses audit results with auditee/s before the draft of the report is finalized; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; conducts investigations of anomalies discovered in audits and submits reports and recommendations on investigations completed; conducts special audits as assigned; and does related work.
IAUD4	Internal Auditor IV, SG-22	Under direction, assists in supervising a division tasked with internal audit functions; reviews internal audit plans; discusses the internal audit plans with the concerned internal audit staff; advises staff on need for changes in scope, objectives, audit procedures and how to resolve audit issues encountered; reviews status report of audit being conducted; reviews written internal audit reports; trains new internal auditors; rates performance of audit staff; and does related work.
IAUD5	Internal Auditor V, SG-24	Under direction, supervises a division tasked with internal audit functions; establishes the annual goals, objectives and performance targets of the internal auditing unit with the concurrence of concerned agency officials; establishes internal auditing standards, guidelines and procedures for the guidance of the internal audit staff; determines the extent of coordination with the Commission on Audit Auditors to avoid duplication of audit effort; does final review of internal audit plans; recommends approval of internal audit plans; reviews and approves the internal audit report; reviews and approves recommendations for enhancement of the internal audit functions; determines training needs of internal audit staff; responsible for work performance and discipline of audit staff; and does related work.

EXECUTIVE COMMITTTEE ON THE RATIONALIZATION PROGRAM

RESOLUTION No. 1
Series of 2006

Rationalization Program's
Organization and Staffing Standards and Guidelines

WHEREAS, the government is pursuing the implementation of the *Rationalization Program* in all departments/agencies of the Executive Branch, as mandated under Executive Order (EO) No. 366 dated 04 October 2004, to focus government efforts on its vital/core functions and enhance the effectiveness and efficiency of public service delivery;

WHEREAS, EO 366 directs all departments/agencies of the Executive Branch to conduct a strategic review of their respective operations and organization to identify the functions, programs, activities and projects which (1) can be scaled down, phased out or abolished; or (2) where more resources need to be channeled;

WHEREAS, EO 366 provides for the creation of a Change Management Team (CMT) in each department to conduct a strategic review and prepare a Rationalization Plan for the whole department, including all units/bureaus, government-owned and/or –controlled corporations and other agencies attached to or under their administrative supervision;

WHEREAS, there is a need to provide the CMT of each department/agency organizational and staffing standards/guidelines that would help them in defining the appropriate structure and staffing that would support the identified core functions of their respective departments/agencies and in the preparation of their respective Rationalization Plan;

NOW, THEREFORE, the *Rationalization Program's Executive Committee*, hereby resolve and approve the attached *Organization and Staffing Standards and Guidelines* for the use of the CMTs of the departments/agencies of the Executive Branch in the preparation of their respective Plan.

ADOPTED, this 12th day of ___May___, 2006 in the City of Manila, Philippines.
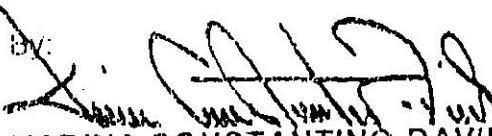
DEPARTMENT OF BUDGET AND MANAGEMENT

By:

ROLANDO G. ANDAYA, JR.
Secretary

CIVIL SERVICE COMMISSION

By:

KARINA CONSTANTINO-DAVID
Chairperson

GOVERNMENT RATIONALIZATION PROGRAM
DEPARTMENT OF BUDGET AND MANAGEMENT-CIVIL SERVICE COMMISSION

ORGANIZATION AND STAFFING STANDARDS AND GUIDELINES

Table of Contents

1

I. INTRODUCTION

This **Organization and Staffing Standards and Guidelines** has been prepared to provide a common reference in designing the organization structure and in determining the staffing requirements of agencies of the Executive Branch, in support of the Rationalization Program. These guidelines are expected to be applied after the agency has undergone a thorough review of its functions. As a general rule, the proposed organizational structure and staffing must be supportive of the core functions identified by the agency.

It consists of three parts: typology of organizations, organizational guidelines, and staffing guidelines. Summaries of pertinent provisions of the Administrative Code of 1987, Integrated Reorganization Plan, and relevant DBM Circulars are provided for immediate reference.

II. TYPOLOGY OF ORGANIZATIONS

There are various types of organizations within the Executive Branch. For common reference, the following definitions shall be used:

Department

A Department is the primary subdivision of the Executive Branch responsible for the overall management of a sector or a permanent national concern with nationwide or international impact.

Bureau

A Bureau is a principal subdivision of a Department performing a single major function or closely related functions. A Bureau is either staff or line.[1] A Line Bureau directly implements programs pursuant to Department policies.[2] A Staff Bureau primarily performs policy, program development, and advisory functions.[3]

Service

A Service is a staff unit whose functions are primarily supportive of the major service objectives of a Department. It may either provide technical inputs necessary in the exercise of the substantive functions, or monitor the programs of a Department; or perform administrative functions for a Department. Its clients include the Department and the units under it.[4]

Field Unit

A field unit is the "end" and "start" point of a Department or Agency or Line Bureau. On one hand, it is the *end point* in the delivery of necessary public goods and services, and therefore, the medium for producing results. On the other hand, it serves as the *point of origin* of feedback and information, and as a resource for performance assessment, policymaking, and program planning.[5]

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[1] EO 292 Book IV Chapter IV Section 18 (1)
[2] Ibid Section 19 (1)
[3] Ibid Section 20 (1)
[4] DBM-Management Office Memorandum to All MO Analysts dated 23 October 1979 (No definition in EO 292 and PD 1)
[5] Paraphrased from Reengineering Principles and Parameters, p. 30

2

Intermediate Structures Between a Department and a Bureau

An intermediate structure is an inter-ministerial entity which may not compare with the size of a Department but nevertheless performs tasks that are equally sensitive and important. This places the entity on a higher plane than a Bureau. Councils, Commissions, or Boards, whose operations cut across several agencies or even Departments, and whose area coverage is nationwide, are considered intermediate structures.[6]

Inter-agency Bodies, Task Forces and Other Similar Entities

Inter-agency committees, task forces and similar entities are ad hoc bodies that are organized to address urgent or cross-cutting concerns and problems that cannot be resolved by ordinary processes of existing agencies. Their mandates are time-bound.

III. ORGANIZATION GUIDELINES

A. General Policies

The following policies should be observed in designing the most appropriate organizational structure that will execute the agency's rationalized functions.

- The resulting organizational structure and staffing of agencies should strictly observe the overriding goal of the Rationalization Program to improve the delivery of vital government services in terms of quality, scope, speed, accountability, and affordability. Thus, the organization and staffing structure should promote focused use of limited resources on core functions and programs, and simultaneously cut down waste and overlaps by scaling-down, phasing-out, or abolishing non-core functions and programs.

- Organizational structures shall be designed as to prevent the emergence of red tape, while at the same time instituting minimum control points, only to ensure accountability of responsibility areas.

- Departmentation of government agencies may follow functional, process, clientele, or geographical approaches, whichever would ensure economy, effectiveness and efficiency in service delivery.

    The functional approach combines activities that are indigenous or common to a major function. It may be adopted when an entity's functions are complex that there is a need to subdivide component activities.

    The process approach involves grouping of various jobs/activities that form the sequence or components of one complete process pertaining to a service/product.

    In the clientele approach, units are organized to serve a wide range of requirements of specific groups or types of clients. It may be considered when the entity has only one or a few homogeneous activities, but caters to a very large segment of the bureaucracy or general public.

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[6] DBM-Management Office Memorandum to All MO Analysts dated 23 October 1979

3

The geographical approach involves a territorial grouping of operations. It may be used when the expanse of the geographical area of operations is very wide.

- The extent and size of departmentation/divisionalization shall take into account the functional distribution, workload, span of control, type and variety of skills/expertise required, the number of personnel for each type of expertise, and the geographical location of the work station in order to ensure clear and effective performance accountability.

- To the extent possible, Department functions should be decentralized in order to reduce red tape, free central officials from administrative details concerning field operations and relieve them from unnecessary involvement in routine and local matters.[7]

- The Department/Agency's structure should reflect and facilitate the full devolution of government's services as provided for in the Local Government Code of 1991 and other related legal issuances.

- Abolition, deactivation, merger, consolidation, and regularization of units may be pursued by a Department/Agency in order to come up with a structure that is responsive to its identified core functions and policy directions.

B. Organization Guidelines for Departments

a. Composition/Subdivision of a Department

The organization of a Department is composed of the Office of the Secretary (OSec), bureaus, services, and field units. A Department may have agencies attached to it (for policy/program coordination) or under its administrative supervision. Its bureaus, services, and/or field units may have divisions. In general, field units smaller than a regional office shall no longer have subdivisions.

b. Organization of the Office of the Secretary

The Office of the Secretary is responsible for the overall management and administration of a Department, formulation and implementation of policies, plans and programs, and in the day-to-day supervision and administration of its functional units. It is composed of a Secretary, Undersecretary/ies and Assistant Secretary/ies, and their immediate support staff.

The Secretary shall primarily advise the President relative to matters under the jurisdiction of the Department; establish policies and standards for the operation of the Department pursuant to the approved programs of government; and promulgate rules and regulations necessary to carry out department objectives, policies, functions, plans, programs and projects.[8]

The Undersecretary shall advise and assist the Secretary in the formulation and implementation of department objectives and policies and oversee all the operational activities of the department of which he shall be responsible to the Secretary.[9]

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[7] Administrative Code of 1987 Book IV Chapter 1 Section 2 (3)
[8] Administrative Code of 1987 Book IV Chapter 2 Section 7 (1-3)
[9] Administrative Code of 1987 Book IV Chapter 2 Section 10 (1-2)

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The Assistant Secretary shall perform such duties and functions as may be provided by law or assigned to him by the Secretary.[10] Ideally, an Assistant Secretary should supervise a specific function, office or unit which is distinct from that supervised by an Undersecretary.

In general, the rationalized number of Undersecretary and Assistant Secretary positions of a Department should not exceed the number provided for by law. [11]

The immediate support staff of the OSec provides executive assistance in a range of strategic matters and administrative support in general office duties. Specific guidelines in the staffing of the OSec are indicated in Annex A.

c. **Organization of Internal Management and Support to Operations Units**

Except as otherwise provided for by law, each Department may have units which shall perform planning, financial, management and administrative services, internal audit, and other support to operations functions.

In general, the Department is given the flexibility to structure/group its internal management and support to operations units in a manner it deems more efficient and effective for its organization and operations, provided that accountability for the functional coverage of the internal management and support units as indicated in the Administrative Code of 1987 and other legal issuances is clear, and **provided further that the budget and staffing of the internal management and support to operations units shall not exceed those of the operations units.**

In restructuring these internal management and support to operations units, the Department may refer to the provisions of the Administrative Code of 1987 and the Integrated Reorganization Plan of 1972. Summaries are in Annex B and Annex C, respectively. For the establishment and structuring of newly prescribed internal management and support to operations units such as the Internal Audit Service and the Unified Project Management Office, Annexes D and E, respectively, serve as references.

d. **Organization of Operations Units**

The core/major/vital functions of a Department shall be performed by its operations units. These operations units may include line and staff bureaus, and field units.

For Departments with department-wide field units, the bureaus will serve primarily as staff units to advise and assist the Office of the Secretary and provide consultative and technical services to the operations personnel in the field units.

1. **Organization of a Staff Bureau**

A Staff Bureau shall avail itself of the planning, financial and other support/administrative services in the Department Proper. The Bureau may have a separate Administrative Division, if circumstances so warrant. [12]

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[10] Administrative Code of 1987 Book IV Chapter 2 Section 11
[11] Administrative Code of 1987 Book IV Chapter 1 Section 10 (1-2)
[12] EO 292 Book IV Chapter 4 Section 19 (3)

5

2. Organization of a Line Bureau

A Line Bureau may have staff units, as may be necessary, corresponding to the services of the Department Proper. If the Bureau is small, only a single unit performing combined staff functions may be provided.[13]

3. Organization of Field Units

After examining the need to maintain Field Offices, a Department must identify the appropriate level of its field operations, taking into consideration the extent of the decentralization of its operations and the provisions of the Local Government Code of 1991 on devolution.

In general, Field Offices may be created, if the sources of inputs to the agency production process, or the beneficiaries or objects of agency outputs, are so spatially located and distributed across the country. [14] As may be necessary, the field units shall constitute the operating arms of a Department that are concerned with the direct implementation of plans and programs drawn up in accordance with approved policies and standards. As counterparts of a Department in the region, they shall undertake Department operations within their respective jurisdictions, and be directly responsible to their Department Secretary.[15]

Departments are encouraged to maintain only one level of field presence, if at all necessary. Departments are also encouraged to cluster/combine field offices for more effective, yet economical field service delivery, and to categorize field units based on scope of work and degree of intervention.

Departments are discouraged to maintain a regional office in the National Capital Region. To the extent possible, the central office should serve the clientele in the NCR. Departments with devolved functions must indicate their plan for phasing-out regional offices or converting their regional offices to lower level field units.

C. Organization Guidelines For Line Bureaus

a. Composition/Subdivision of a Line Bureau

A Line Bureau is composed of units performing core, support to operations, and internal management functions. It may have administrative field offices as provided for by law.

A Line Bureau is headed by a Director who may have one Assistant Director.

In structuring the organization, a Line Bureau may use departmentation approaches that it deems most effective yet economical, for service delivery. The basic subdivision of a Line Bureau is a division.

b. Organization of the Office of the Director

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[13] Ibid Section 20 (3)

[14] Reengineering Principles and Parameters p. 30

[15] EO 292 Book IV Chapter 8 Section 41 (2) (This EO 292 provision refers to Field Offices of a Line Bureau; but since it is also applicable for Departments, I replaced the term "Bureau" with "Department")

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The Office of the Director is composed of the Director, Assistant Director, and immediate support staff positions. For the manning of the immediate support staff, please refer to Annex A.

c. Organization of Internal Management and Support to Operations Units

In general, the policy guidelines for the internal management and support to operations units of a Department also apply to Line Bureaus.

Line Bureaus may also refer to the Administrative Code of 1987 and the Integrated Reorganization Plan. Depending on specific requirements, a Line Bureau may have its counterpart of the Department Services. In this case, counterpart units may be a division level entity and may perform combined internal management/support functions, e.g. combined administrative, financial and management.

d. Organization of Operations Units

The core/major/vital functions of a Line Bureau shall be performed by its operations units. Line Bureaus may subdivide operations according to the most appropriate departmentation approach, yet ensuring effiency, effectiveness, economy, and accountability. The primary subdivision of a Line Bureau is a division.

e. Organization of Field Units

As may be necessary, field units may constitute the operating arms of a Line Bureau that are concerned with the direct implementation of plans and programs drawn up in accordance with approved policies and standards. As counterparts of the bureau in the field, field units shall undertake bureau operations within their respective jurisdictions, and be directly responsible to their Bureau Director.[16]

In general, the organization guidelines for the department field units may be adopted in organizing field units of Line Bureaus.

D. Organization Guidelines For Intermediate Structures

As a matter of policy, all agencies lower than a Department shall be placed under the administrative supervision or attached to a department best able to provide policy or program guidance or exercise administrative supervision over it.[17]

a. Composition/Subdivision of an Intermediate Structure

An intermediate structure such as a Council, Commission or Board is composed of the members of the Council, Commission or Board, and the divisions performing core, support to operations, and internal management functions. It may have field offices as provided for by law. For the appropriate composition of the organization, intermediate structures have to refer to their legal bases.

In restructuring, an intermediate structure may use the departmentation approach it deems most effective, yet economical, for service delivery. The basic subdivision of an intermediate structure may be a division.

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[16] EO 292 Book IV Chapter 8 Section 41 (2)
[17] EO 72 dated 11 February 2002 Section 1

7

Personnel Division
- Advises management on personnel policy and administration;
- Develops and administers a personnel program which shall include selection and placement, classification and pay, career and employment development, performance rating, employee relations and welfare services;
- Acts on all matters concerning attendance, leaves of absence, appointments, promotions, transfers and other personnel transactions;
- Conducts training programs in the Department;
- Maintains personnel records and statistics; and
- Performs such other functions as may be provided by law.

Legal Division
- Provides legal advice to the Secretary, the Undersecretary and the bureaus and offices of the Department;
- Interprets laws and rules affecting the operation of the Department;
- Prepares contracts and instruments to which the Department is a party, interpreting provisions of contracts covering work performed for the Department by private entities;
- Conducts administrative investigation, including the review of administrative charges against employees of the Department;
- Assists in the promulgation of rules governing the activities of the Department;
- Prepares comments on proposed legislation concerning the Department;
- Assists the Solicitor General in court litigation in which the Department is involved; and
- Performs such other functions as may be provided by law.

Information Division
- Develops programs to have the policies, plans and activities of the Department properly understood by the public;
- Produces and disseminates media materials to implement the information program of the Department;
- Coordinates with the Public Information Office in the Office of the President; and
- Performs such other functions as may be provided by law.

General Services Division (GSD)
- Provides policy guidance on the maintenance and disposition of records and on the procurement and storage of supplies in accordance with government prescribed standards;
- Files and maintains necessary records and establishes a records disposition program for the Department;
- Provides mail, transportation, custodial, and general utility services for the Department;
- Procures, stores, and distributes the supplies and equipment of the Department, and conducts periodic inventories of the same;
- Provides and coordinates messengerial, duplicating and typing pool services;
- Receives, collects, and deposits cash, prepares payrolls and processes vouchers for payment of the Department's obligations; and
- Performs such other functions as may be provided by law.

Technical Service

Whenever necessary, a Technical Service shall be established to take charge of technical staff activities peculiar to a Department and which cannot be allocated to the three other services or the bureaus.

16

ANNEX D

On the Creation of an Internal Audit Service (IAS)

The Internal Audit Service is responsible for assisting management in achieving an effective and efficient fiscal administration and performance of agency affairs and functions, without intruding into the authority and mandate of COA.[19] Its functions include, among others, (a) appraisal of procedures as to efficiency or adequacy; (b) appraisal of personnel efficiency; (c) verification and analysis of financial operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid; (d) verification of the extent of compliance with accounting procedures, governmental regulations, department policies and programs, achievement of performance targets and contractual obligations; (e) prevention and detection of fraud or dishonesty; (f) review of cases involving misuse of agency property; and (g) when requested, performance of miscellaneous services, including special investigations and assistance to outside contacts such as the COA. The determination of effectiveness and adequacy of security and management controls over information systems and databases and their integrity are deemed part of the operations and financial audit.

The IAS shall report directly to the Department Secretary or his equivalent. The audit shall cover audit areas in the Office of the Secretary, bureaus, offices and agencies,[20] including field offices, regulatory agencies,[21] and other agencies under the supervision and control or administrative supervision[22] of the Department.

The IAS shall be headed by a Director III or as may be provided by the Administrative Code of 1987 or other special laws. It shall have an Operations Audit Division and a Financial Audit Division. Each Division shall be headed by an Internal Auditor V with the rank of Division Chief with a Salary Grade of 24.

Agencies attached to the Department for policy and program coordination may have a separate Internal Audit Unit (IAU), which shall report to the head of the agency. In case of multi-headed attached agencies, said IAU shall report to the governing body. Small agencies attached to a Department, may however, opt to avail of the services of the IAS of the Department.

For GOCCs/GFIs

In case of a government-owned and/or controlled corporation, the IAU shall report to the Audit Committee, which in turn, shall report to the governing board of said corporation.[23]

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[19] Section 1, par. 2, AO 70, s. 2003
[20] Section 39, Chapter 8, Book IV, EO 292, "The Administrative Code of 1987"
[21] Section 43, *ibid*
[22] "(2) Administrative Supervision – (a) Administrative supervision which shall govern the administrative relationship between a department or its equivalent and regulatory agencies or other agencies as may be provided by law, shall be limited to the authority of the department or its equivalent to x x x cause the conduct of management audit, performance evaluation and inspection to determine compliance with policies, standards and guidelines of the department ; x x x (Section 38, Chapter 7, Book Iv, EO 292 (" The Administrative Code of 1987")
[23] Item 1 (9), Code of Corporate Governance, Securities and Exchange Commission

17

ANNEX E

On the Creation of a Unified Project Management Office/Unit

The Project Management Office/Unit is responsible for the management and operation of projects of the agency in a consolidated and unified manner, with the following key functions: (a) project operations planning; (b) project monitoring/evaluation; (c) project coordination/ "oversight"; (d) project operation and management; (e) trouble shooting; (f) financial management; (g) coordination with various stakeholders; and (h) post project completion/mainstreaming of project concerns in regular activities.

A unified PMO may be established in agencies (Departments, attached agencies, line bureaus) with two or more development projects which need focused implementation to comply with expressed commitments and ensure attainment of target sectoral and agency outputs and outcomes. It may also be created in agencies with a single development project provided the following conditions are present:

- Project components are "capital intensive", i.e., will involve infrastructures/civil works and other capital outlays (exception, however, are those involving purely procurement projects);
- Implementation will involve two or more agencies either within the department, across departments, GOCCs and other government instrumentalities, and or sectors; and
- Physical implementation will be in two or more areas.

A Unified PMO may be established as a separate unit within the department; or, an existing unit (e.g. bureau, service, division) may serve as the Unified PMO as may be deemed appropriate or consistent with or related to existing functions. The functions, structure, and staffing of said unified PMO shall be in accordance with the provisions of National Budget Circular 485 dated March 13, 2003.

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18

Annex 1.10 DOJ Opinion No. 007

OPINION NO. 007, s. 2007
January 29, 2007

SVP. Josefina R. Martin, MNSA
Quedan & Rural Credit Guarantee Corporation
QUEDANCOR Center,
34 Panay Avenue, Quezon City

M a d a m :

This pertains to your letter seeking legal opinion on whether Republic Act No. 3456 as amended by Republic Act No. 4177, is still the enabling law on the establishment of internal audit function in government agencies.

As represented, a document purportedly coming from the Department of Budget and Management, entitled "Outline on the Organization and Staffing of the Internal Audit Units," carried the following:

2.1   Background on the Creation of IAS

2.1.1   The old law which mandated the creation of IAS was Republic Act No. 3456 dated 16 June 1962, as amended by Republic Act No. 4177 dated 26 March 1965

SEC. 2. There shall be created, organized and operated in all departments, bureaus and offices of the National Government, internal audit services which shall assist management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions. IDaCcS

2.1.2   The aforesaid laws were however repealed when Presidential Decree No. 1 merged the IAS with the Management Division under the Financial Management Service (FMS).

Pursuant to Item 3, Article IV, Chapter I, Part V of Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service.

At the outset, we wish to state that by explicit provisions of law, the Office of the Government Corporate Counsel (OGCC) is the principal law office of all the government-owned or controlled corporations" and "to enable it to discharge its functions as such, it shall be the duty of all said corporations to refer to it all important legal questions for opinion, advice and determination," all proposed contracts and all important court cases for his services. [1]

Further, the subject matter of the query necessarily involves the interpretation of an administrative issuance or an alleged document purportedly coming from the Department of Budget and Management. Pursuant to settled practice and precedents, the Secretary of Justice does not render opinion or express any comment on questions involving the interpretation or application of an administrative rules and regulations, unless requested by the promulgating agency, since such matters are best left to the determination of the said agency by reason of its knowledge of the specific intent and purposes of the issuance and the extent of the application thereof. [2]

Be that as it may, for your information and guidance only, may we invite your attention to DBM Budget Circular No. 2004-04, Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs), which we quote as follows:

1.0   Background

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Under Republic Act (RA) No. 3456 (Internal Auditing Act of 1962), as amended by R.A. No. 4177, there shall be created, organized and operated in all government agencies an Internal Audit Service (IAS) which shall assist management to achieve efficient and effective fiscal administration and performance of agency affairs and functions. It shall be under the direct administrative supervision and control of the head and/or assistant head of the agency; organized as an independent staff unit to perform staff functions and to institute and conduct a program of internal audit for the agency. The chief of the IAS shall have the rank and salary equivalent to the third ranking official of the agency and shall report directly to the head or assistant head of the agency.

Pursuant to Item 3, Article IV, Chapter I, Part V of Presidential Decree No. I (Reorganizing the Executive Branch of the National Government), the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service. Thus, different levels of Management and Audit Analyst classes of positions were created for the purpose to perform a) management system review (to include staffing, manpower, and work methods and procedures review), and b) review of internal control systems for safeguarding money and property to ascertain weakness and deficiencies that need to be corrected. "

Under Section 2, Article IX-D of the 1987 Philippine Constitution, the Commission on Audit (COA) may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies if the internal control system of the audited agencies is inadequate.

On March 29, 1989, Administrative Order (AO) No. 119 was issued, mandating government entities to strengthen its internal control systems and/or organize systems and procedures to that effect in coordination with the Department of Budget and Management (DBM).

COA issued Circular No. 91-368 to institute the Government Accounting and Auditing Manual (GAAM), Section 33, Volume III of the GAAM states that the Internal Audit Office shall be part of the internal control system of an agency. In addition, Section 55 thereof provides that the responsibility of the agency head to maintain the system of internal control may be delegated to an internal audit department or office.

AO No. 278 was issued on April 28, 1992 to provide that all heads of government offices, agencies, GOCCs, including GFIs and LGUs, shall organize the IAS in their respective offices, which shall be an integral part of the office/organization and shall assist the institution management in the effective discharge of its responsibilities insofar as the same would not encroach on or be adversarial with those of the auditors of the COA.

On April 14, 2003, AO No. 70 was issued mandating all heads of government agencies, GOCCs, GFIs, SUCs and LGUs to immediately organize an IAS in their respective offices, which shall function in accordance with the policies established by the provisions of R.A. No. 3456, as amended by R.A. No. 4177.

It is suggested that you address your query to the OGCC and/or the DBM, the offices that can best assist you on your query.

Very truly yours,

(SGD.) RAUL M. GONZALEZ
Secretary

Footnotes

1.   Section 1, R.A. No. 1227, as amended, Section 1, P.D. No. 1415; Section 10, Chapter 3, Title III, Book IV of E.O. No. 292, otherwise known as the Administrative Code of 1987.

2.   Sec. of Justice. Op. No. 74, s. 1989; No. 23, s. 1997; Nos. 27, 58 and 88, s. 1998 and No. 1, 1999.

OUTLINE ON THE CLARIFICATION OF THE QUEDANCOR

Ms. Josefina R. Martin, of the Quedancor, wrote a letter dated 21 May 2008 addressed to Sec. Rolando G. Andaya of the DBM asking for clarification on the legal basis for DBM's pronouncements under Section 2.6 and 2.7 of DBM Circular 2008-5. Anent thereto. she maintains that RA 3456, as amended by RA 4177, is still in effect and binding hence, not repealed by PD 1 as contained in the "Outline on the Organization and Staffing of Internal Audit Units."

The following is an Outline on the legal bases of Sec. 2.6 and 2.7 of DBM Circular 2008-5:

1. Department of Justice (DOJ) Opinion No. 153, series of 1974 was issued by the then Secretary of Justice Vicente Abad Santos. In the 4th paragraph, last sentence of said Opinion, it states that "[t]he Internal Audit Service was abolished by the Integrated Reorganization Plan under Presidential Decree No. 1." There is therefore a recognition that the Internal Audit Service, as created by RA 3456[1] (June 16, 1962) as amended by RA 4177[2] (March 26, 1965), was abolished when PD 1[3] was issued.

2. Ms. Josefina R. Martin of Quedancor earlier sought a DOJ legal opinion on whether RA 3456 as amended by RA 4177 is still the enabling law on the establishment of internal audit function in government agencies. In answer to her query, DOJ Opinion No. 007. series of 2007[4] was issued by DOJ Secretary Raul M. Gonzalez. It stated that *"The aforesaid laws were however repealed when Presidential Decree No. 1 merged the IAS with the management division."*

   2.1 The said DOJ Opinion of Sec. Gonzales quoted, in part, the DBM Budget Circular No. 2004-04[5] as follows:

   > "Pursuant to Item 3, Article IV, Chapter I, Part V of Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), the IAS and the Management Division in Departments were merged into a Management Division under the Financial Management Service. Thus, different levels of Management and Audit Analyst classes of positions were created for the purpose to perform a) management system review (to include staffing, manpower, and work methods and procedures review), and b) review of internal control systems for safeguarding money and property to ascertain weakness and deficiencies that need to be corrected."

   2.2 The Internal Audit Service was abolished as a separate unit including the position of Internal Auditors. Thus, the internal audit function of review of the internal control systems was transferred to the Management and Audit Analysts as a result of the merger. Merger is defined as *the combination of two or more agencies, whereby the identity of one is retained; in this case, the other agency/ies which has/have not*

An Act Providing for the Creation. Organization and Operation of Internal Audit Services in all Departments. Bureaus and Offices of the National Government otherwise known as "Internal Auditing Act of 1962".

An Act to Amend Sections 2, 3, and 4 of RA 3456.

Reorganizing the Executive Branch of the National Government.

Please see attached DOJ Opinion No. 007, s. of 2007.

Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)

survived is/are either abolished, if created through Executive fiat, or deactivated, if created through Legislative action[6]. (Italics supplied)

3. In the letter of the Quedancor to DBM, it relied on the 4th paragraph of the answer of the OGCC. However, the 5th paragraph which is material to the issue was omitted and is, in part, reproduced herein as follows:

> "In particular, the creation, organization and operation in all government agencies of an Internal Audit Service as mandated by RA No. 3456 is still mandated under PD 1, <u>except that pursuant to Item 3, Article IV, Chapter I, Part V thereof (PD 1) the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service."</u>
> (Underscoring supplied)

3.1 The OGCC agreed with DBM Circular 2004-04 that what was abolished are the Internal Audit Service and the position of Internal Auditor but not the internal audit function which is the review of internal control to be performed by the Management and Audit Analyst under the Management Division. This is clear when the OGCC stated that "*These laws may be reconciled and utilized as legal basis in the establishment of an <u>internal audit function</u> on government agencies.*" (Italics and underscoring supplied)

3.2 The OGCC is consistent with the DOJ Opinion No. 007, s. of 2007 which quoted DBM Circular 2004-04. The pertinent provision under 1.0, Background, of the DBM Circular was quoted in the said DOJ Opinion and again, reiterated by the OGCC.

4. In Ople vs. Torres, GR No. 127685, July 23, 1998, it states that "The Code' is a general law and incorporates in a unified document the major structural, functional and procedural principles of governance and embodies changes in administrative structures and procedures designed to serve the people."

4.1 Under the Administrative Code of 1987 (EO 292), the Head of the IAS in the Department of Finance (DOF) is a Director[8] whereas with respect to the Department of Public Works and Highways (DPWH), the head is an Assistant Secretary[9].

4.2 AO 278, as amended by AO 70, was issued to organize the IAS of government offices, agencies, GOCCs, including GFIs and LGUs who do not have existing IAS in their respective offices which shall be an integral part of the office/organization. Sec. 4 of AO 278 states, "Agencies without an internal audit service/unit shall constitute one to be staffed by assigning or deploying personnel from other units of the Agency." While Sec. 4 of AO 278 states, "Agencies without IAS shall immediately organize one. The head of the agency shall review the organizational structure and

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[6] Section 6 of the Rules Implementing EO 366.

[7] referring the Administrative Code of 1987.

[8] "Sec. 12 – Central Financial Management Office – xxx shall have the following functions xxx (1) Supervise department-wide activities relating to budget preparation and management, department accounting and internal audit: xxx"

Sec. 36 – Financial And Fiscal Policy Planning – The Financial and Fiscal Policy Planning Office, which shall be <u>headed by a Director</u> who shall be appointed by the President upon recommendation of the Secretary, xxx." (Underscoring supplied), Title II, Book IV of EO 292.

[9] Sec. 7, Assistant Secretaries.- The Secretary shall be assisted by six (6) Assistant Secretaries xxx one (1) to be responsible for the Internal Audit Services: xxx." Title V, Book IV, EO 292.

personnel complement and convert existing vacant positions and/or parallel positions of incumbents in the agency necessary for the creation/strengthening of the IAS." DBM Circular 2004-4 provided that "NGAs, SUCs, GOCCs and GFIs shall submit their proposals for the organization of their respective IAUs to the appropriate Budget and Management Bureau and Regional Office of the DBM." (Underscoring supplied)

5. What is contained in PD 1, as reiterated in the DOJ Opinion No. 153, s. of 1974, DBM Budget Circular No. 2004-4, DOJ Opinion No. 007, s of 2007 and reply of the OGCC consistently mentioned and applied the laws in the establishment and creation of the IAS. They all support Sections 2.6 and 2.7 of DBM Circular 2008-5. Ms. Martin is fully aware of these and yet there is still an attempt to subvert the truth. It appears that there is an ulterior motive to modify the rank of the head of the IAS which would suit her personal interest over public interest. How can one be an effective internal auditor tasked to monitor compliance when one cannot follow the basis of laws, rules and regulations. Among the principles which Internal Auditors are expected to uphold is integrity and competency. Ms. Martin seemed to misinterpret the issue of audit function with the issue on the rank of the Head the IAS. Such should not be allowed.

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Annex 1.11 OGCC Opinion No. 099

04/05/07

Exhibit 1

G07-06-05-168

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF JUSTICE
OFFICE OF THE GOVERNMENT CORPORATE COUNSEL
3rd Floor MWSS Administration Building, Katipunan Road
Balara, Quezon City

OPINION NO. 099
Series of 2007

May 30, 2007

MR. NELSON C. BUENAFLOR
President & CEO
Quedan & Rural Credit Guarantee Corporation
QUEDANCOR Center, 34 Panay Avenue
Quezon City

RE: REQUEST FOR OPINION ON
INTERNAL AUDIT SERVICES.

Dear Mr. Buenaflor:

We reply to your request for an opinion on whether or not Republic Act (RA) No. 3456, as amended by RA No. 4177, continues to be the enabling law on the establishment of an internal audit function in government agencies considering the existence of Presidential Decree (PD) No. 1, which merged the Internal Audit Services with the Management Division under the Financial and Management Service.

According to your letter, the internal audit function in Quedancor has been in existence since December 1996. It is currently undergoing organizational and functional improvement activities, which includes, among others, the development of an Internal Audit Operations Manual to guide QUEDANCOR's internal auditors.

In the draft Quedancor Internal Audit Operations Manual, it is provided that the legal basis of the internal audit function is RA No. 3456, as amended by RA No. 4177. However, during the Mid-Year Conference of the Association of Government Internal Auditors (AGIA), a document purportedly coming from the Department of Budget and Management (DBM) entitled *"Outline on the Organization and Staffing of the Internal Audit Units"* contained the information that RA No. 3456, had been repealed by PD No. 1. For this reason, you are now seeking our legal opinion on whether or not RA No. 3456 continues to be the enabling law on the establishment of an internal audit function in government agencies.

We have gone over the provisions of RA No. 3456 (An Act Providing for the Creation, Organization and Operation of Internal Audit Services in all Departments, Bureaus and Offices of the National Government), RA No. 4177 (An Act to Amend Sections Two, Three and Four of Republic Act Numbered Three Thousand Four Hundred Fifty-Six known as "Internal Auditing Act of 1962"), as well as PD No. 1 (Reorganizing the Executive Branch of the National Government) and it is our opinion that PD No. 1 does not repeal RA No. 3456. These laws may be reconciled and utilized as legal basis in the establishment of an internal audit function in government agencies.

In particular, the creation, organization and operation in all government agencies of an Internal Audit Service as mandated by RA No. 3456 is still mandated under PD No. 1, except that pursuant to Item 3, Article IV, Chapter I, Part V thereof the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service. Moreover, DBM Budget Circular No. 04-04 which provides for the Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs), DBM specifically states that the legal basis for the establishment of the Internal Auditing Units (IAUs), formerly known as the Internal Audit Service, are RA 3456, as amended by RA No. 4177, and PD No. 1.

In view of the foregoing discussion, it is our well-considered opinion that both RA No. 3456, as amended by RA No. 4177 and PD No. 1 can be considered as legal basis for the establishment of an internal audit function in government agencies. However, reference should also be made on the following pertinent laws on the establishment of an internal audit function in government agencies: (a) the 1987 Philippine Constitution particularly Section 2, Article IX-D thereof;

Opinion No. 099
Series of 2007

- page 3 --

(b) Administrative Order No. 119 mandating government entities to strengthen its internal control systems and/or organize systems and procedures to that effect in coordination with the DBM; (c) COA Circular No. 91-368 instituting the Government Accounting and Auditing Manual (GAAM), Section 33 and 55, Volume III of the GAAM; (d) Administrative Order No. 278 dated April 28, 1992; and (e) Administrative Order No. 70 dated April 14, 2003.

For your guidance.

Very truly yours,

ALBERTO C. AGRA
Government Corporate Counsel

Annex 1.12 DBM Circular Letter No. 2008-5

REPUBLIC OF THE PHILIPPINES
Department of Budget and Management
Building I, General Solano Street, San Miguel, Manila

OFFICIAL
RELEASE
CENTRAL RECORDS DIV.

CIRCULAR LETTER

No. 2008-5

April **14** , 2008

FOR   :   HEADS OF DEPARTMENTS AND AGENCIES OF THE EXECUTIVE BRANCH, INCLUDING GOVERNMENT–OWNED AND/OR –CONTROLLED CORPORATIONS (GOCCs), GOVERNMENT FINANCIAL INSTITUTIONS (GFIs), AND ALL OTHERS CONCERNED

SUBJECT   :   GUIDELINES IN THE ORGANIZATION AND STAFFING OF AN INTERNAL AUDIT SERVICE/UNIT AND MANAGEMENT DIVISION/UNIT IN DEPARTMENTS/AGENCIES/GOCCs/GFIs CONCERNED

1.0 Purpose

This Circular Letter is being issued to provide the guidelines to be followed by the different Departments/Agencies/GOCCs/GFIs of the Executive Branch in the organization of an Internal Audit Service/Unit (IAS/IAU) and Management Division/Unit (MD/MU) for purposes of strengthening their internal control systems, improving existing systems and procedures, and promoting transparency and accountability in various aspects of the operations of government.

2.0 Guidelines

Departments/Agencies/GOCCs/GFIs concerned belonging to the Executive Branch are hereby authorized to organize their respective IAS/IAU and MD/MU immediately, consistent with the guidelines indicated hereunder and with the Rationalization Program's *Organization and Staffing Standards and Guidelines.*

Guidelines in the Organization of the IAS/IAU

Coverage

2.1   Each Department of the Executive Branch is authorized to establish its own IAS to cover audit areas in the Office of the Secretary, bureaus, offices and agencies, including regional/field offices, regulatory agencies, and other agencies under the supervision and control or administrative supervision of a Department consistent with the provisions of the Administrative Code of 1987 on administrative relationships.

2.2   In the case of regular agencies attached to a Department for policy and program coordination, their respective board/council shall determine the propriety of establishing a separate unit for the purpose or the availment of the services of the IAS of the Department.

2.3   GOCCs/GFIs which have original charters or those created through the Corporation Code shall likewise establish their respective IAS/IAU.

1

Functions

2.4 The IAS/IAU shall conduct comprehensive audit of various Department/Agency/GOCC/GFI activities. Specifically, it shall have the following functions:

a. Advise the Department Secretary or the Governing Board (thru the Audit Committee in the case of GOCCs/GFIs), on all matters relating to management control and operations audit;

b. Conduct management and operations performance audit of the Department/Agency/GOCC/GFI activities and their units and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;

c. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports and performance standards of the agencies/units covered;

d. Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and

e. Perform such other related duties and responsibilities as may be assigned or delegated by the Secretary or the Governing Board, thru the Audit Committee, or as may be required by law.

Organizational Structure

2.5 The IAS of the Department shall report directly to the Department Secretary. It shall be headed by a Director IV or as may be provided by the Administrative Code of 1987 or other special laws. The Director IV shall be occupied by a career official with 3rd level eligibility.

The IAS of the Department shall have two (2) divisions, an Operations Audit Division and a Financial Audit Division, which shall each be headed by an Internal Auditor V (SG 24).

2.6 The head of the IAU of a regular agency attached to a Department for policy and program coordination shall have the rank equivalent to the fourth ranking official of the agency.

The IAU shall report to the head of the agency. In case of multi-headed attached agencies, said IAU may report directly to the governing body. The governing body may opt to organize an Audit Committee from among its members to which the IAU shall directly report.

2.7 In the case of GOCCs/GFIs, the IAU shall be a Department or its equivalent organizational unit, which shall be headed by a Department Manager with a Salary Grade of 26 or its equivalent position. It shall have two (2) divisions, an Operations Audit Division and a Financial Audit Division, each to be headed by an Internal Auditor V (SG 24).

The IAS/IAU of GOCCs/GFIs shall report to the respective Audit Committee of the Governing Board of the corporation.

2

Staffing

2.8   Each division of the IAS of the Department shall be staffed by Internal Auditor and Internal Auditing Assistant positions which shall not exceed seven (7) positions.

No Internal Auditor and Internal Auditing Assistant positions can be created in the Department's various component units, bureaus, regional/field offices and agencies which are under the direct supervision and control or administrative supervision of a Department.

2.9   For GOCCs/GFIs, the appropriate staffing shall be determined on the basis of the magnitude and complexity of operations. They are enjoined however to follow the guidelines set forth for national government agencies.

<u>Guidelines in the Organization of the MD/MU</u>

Coverage

2.10   Departments, including line bureaus, regulatory agencies, and other regular agencies/GOCCs/GFIs attached to a Department for policy and program coordination, are hereby authorized to create their respective MD/MU or corresponding positions for the purpose.

However, the creation of the MD/MU is no longer necessary in Departments/Agencies/GOCCs/GFIs concerned with existing units doing the intended functions of an MD/MU.

Functions

2.11   The MD/MU is tasked to perform the following functions:

a.   Develop plans and programs relative to management improvement in the Department/Agency/GOCC/GFI;
b.   Examine the administrative organization of the Department/Agency/GOCC/GFI and provide recommendations for improvement;
c.   Maintain and update the Department/Agency/GOCC/GFI organization and other manuals;
d.   Conduct regular management surveys of the organizational structure, manpower and operations, and studies on special problems as assigned;
e.   Review existing methods, systems and procedures/processes, and provide recommendations for improvement;
f.   Develop new and improved management systems, and provide staff supervision over the implementation of such improvements, as well as conduct trainings on the application of the system/s;
g.   Develop staffing standards and manpower requirements of the Department/Agency/GOCC/GFI; and
h.   Perform such other functions as may be provided by law.

3

Organizational Structure

2.12 The MD/MU may be placed under the Financial and Management Service (FMS) or its equivalent organizational unit which is responsible for handling the budgetary, financial and management matters of the agency. However, if the agency has a Planning and Management Service, the MD/MU may be organized under it.

Staffing

2.13 The manpower complement of the Department's MD shall not exceed seven (7) positions.

2.14 For GOCCs/GFIs, the manpower complement of their respective MD/MU shall likewise not exceed seven (7) positions.

Other Staffing Guidelines on the Establishment of the IAS/IAU and MD/MU

2.15 Departments/Agencies/GOCCs/GFIs shall adopt the "scrap and build" policy in the creation of the necessary positions for the IAS/IAU and MD/MU, wherein existing vacant funded positions would have to be offered for abolition to create the appropriate positions. Priority shall be given for the creation of positions in the professional category rather than the clerical or non-professional items.

2.16 Where there are no existing vacant funded positions to be offered for abolition, an agency may transfer the positions of personnel who are deemed capable of performing the functions of these units. The transfer of personnel could involve the reclassification of positions based on the staffing requirements of the agency.

The budgetary requirements of the positions to be converted/reclassified shall likewise be sourced from the agency's funded positions.

2.17 In the creation of the necessary positions for the IAS/IAU and MD/MU, the basic rule under the Rationalization Program shall be still be adopted, i.e., the resulting staffing pattern of the Departments/Agencies/GOCCs/GFIs *(a)* must have the same or lower number of positions compared to its filled positions at the start of the agency's rationalization efforts; and *(b)* the budgetary requirements of the same must not exceed the existing Personal Services level at the start of its rationalization efforts.

3.0 Responsibility Clause

It shall be the responsibility of the Department Secretaries and equivalent Agency Heads to strictly implement the provisions of this Circular Letter.

4

4.0 Applicability Clause

The provisions of this Circular Letter shall be applicable until revoked.

5.0 Repealing Clause

Pertinent portions of Department of Budget and Management Budget Circular 2004-4 (Guidelines on the Organization and Staffing of Internal Auditing Units) dated 22 March 2004 that are inconsistent with this Circular Letter are hereby repealed, amended or modified accordingly.

6.0 Effectivity

This Circular Letter shall take effect immediately.

ROLANDO G. ANDAYA, JR.
Secretary

5

Annex 1.13 DBM Circular Letter 2008-8

REPUBLIC OF THE PHILIPPINES

Department of Budget and Management
Malacañang, Manila

CIRCULAR LETTER	No. __2008-8_____
	October 23, 2008

To   :   Heads of Departments, Bureaus, Offices and Agencies of the National Government, including State Universities and Colleges; Government-Owned and/or –Controlled Corporations; Local Government Units; and All Others Concerned

Subject: National Guidelines on Internal Control Systems (NGICS)

1.0   Purposes

1.1   The National Guidelines on Internal Control Systems (NGICS) is being issued pursuant to Administrative Order No. 119 dated March 29, 1989 and Memorandum Order No. 277 dated January 19, 1990 which directs the Department of Budget and Management to promulgate the necessary rules, regulations or circulars for the strengthening of the internal control systems (ICS) of government agencies.

1.2   The NGICS will serve as a guide to the heads of departments and agencies in designing, installing, implementing and monitoring their respective ICS taking into consideration the requirements of their organization and operations.

1.3   It can strengthen accountability, ensure ethical, economical, efficient and effective operations, improve the quality and quantity of outputs and outcomes and enable agencies to better respond to the requirements of the publics they serve.

1.4 It can also help agencies redesign their ICS if the Commission on Audit determines that the same is inadequate.

2.0 Applicability

The NGICS is applicable to all agencies of the Executive Branch, including State Universities and Colleges, Government-owned and/or -Controlled Corporations and Local Government Units.

The Judicial Branch, Legislative Branch, as well as the Constitutional Offices can also make use of the same in designing a sound system of internal control.

3.0 Guidelines

The NGICS is contained in the handbook accompanying this Circular Letter and is made an integral part hereof.

4.0 Responsibility of the Head of Agency

As mandated under Section 124 of Presidential Decree No. 1445 dated June 11, 1978 and the Administrative Code of 1987, the direct responsibility for installing, implementing and monitoring a sound system of internal control rests with the chief or head of each government agency or instrumentality.

5.0 Repealing Clause

Pertinent portions of Department of Budget and Management (DBM) Budget Circular 2004-4 (Guidelines on the Organization and Staffing of Internal Auditing Units) dated 22 March 2004 and DBM Circular Letter 2008-05 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/ GOCCs/GFIs Concerned) dated 14 April 2008 that are inconsistent with the NGICS are hereby repealed, amended or modified accordingly.

6.0 For the guidance of all concerned.

(Sgd) ROLANDO G. ANDAYA
Secretary

Annex 2 Forms

The Forms provided are meant to serve as a guide. The important factor in Forms is that the Forms shall document the work in connection to the audit assignment.

The instructions for filling them up is included in the Forms. The Forms may be modified to the conditions of the LGU. The source for the Forms herein is General Santos City Internal Audit Charter and Manual of Operations but changes are made in some instances for this Manual. The Forms may be further customized by the LGUs.

Form 1 – PLANNING MEMORANDUM

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head	**Report to:** Provide the name of the internal auditor who will lead the audit.
Audit Period: Provide planned start and finish dates of the audit	
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.	
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.	
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.	
Audit Staff Assigned	**Budgeted Hours**
Insert the names of the internal auditors assigned to the audit	Insert the number of hours the internal auditor(s) will work on the audit.
Activities	**Target Finish Dates for each Activity**
Preliminary: Review	Insert for each activity planned finish date
Internal Control Review:	
Fieldwork:	
Initial Report:	
Issue Draft Report:	
Issue Final Report:	
Date: Date approved **Approved By Head of Internal Audit:**	

(The Audit Notification Memorandum is a sample letter to briefly inform the auditee of the scope and objectives of the audit and how the internal auditor plans to execute the audit.)

Form 2 – AUDIT NOTIFICATION MEMORANDUM

[Date]

[Reference number]

FOR: (Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/ section/unit head)
FROM: Head of Internal Audit

SUBJECT: COMPLIANCE/OPERATIONS/MANAGEMENT AUDIT

Audit Scope and Objectives	Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit. Briefly state what the audit is expected to achieve. Objectives should be specific, measurable, available, realistic, time bound.
Schedule of Fieldwork	Timetable for the audit work
Audit Team Members	Names of internal auditors undertaking the audit

At the beginning of our audit, we would like to meet with you to discuss our audit objectives and solicit your input. With your support and cooperation, we will be able to perform an effective and efficient audit. Hence, we will need your staff to provide us with the following records:

[List here documents requested]

Before the audit team leaves the office at the end of the fieldwork phase, a meeting will be held with you to discuss preliminary findings raised, your comments and the next step to the audit. The draft audit report will be completed by the audit staff and reviewed by the undersigned in the next three weeks. You are then expected to provide a response to the draft report within two weeks. The report will be finalized and presented to the Local Chief Executive for his/her approval to the agreed course of actions.

Our mission is to help you achieve your [NAME OF AUDITEE] objectives by providing you information about the effectiveness of internal control and by recommending courses of action that may improve performance.

If you have any questions about the audit engagement, please do not hesitate to call [PHONE NUMBER] or email us at [EMAIL ADDRESS].

Very truly yours

[NAME]
Head of Internal Audit
Cc: Local Chief Executive

Form 3 – PRELIMINARY SURVEY CHECKLIST

Republic of the Philippines

Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head.			
Audit Period: Provide planned start and finish dates of the audit			
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.			
Audit Objective: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.			
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.			
AUDIT PROCEDURES	**Done by (insert name)**	**Date done**	**Work Plan Ref.**
Planning and Preliminary Survey			
Contact auditee to notify them of upcoming audit and arrange for entrance meeting. When making arrangements, identify any documents or information that will be needed early in the audit process. Ask management to consider items that they would like to be included in the audit.			
Confirm discussion with a written memorandum that identifies the following: a) Audit period b) Estimated start date and duration of the audit c) Staff assigned d) Physical facilities required			
Hold entrance conference; document results.			

Become familiar with the area being audited by reviewing various types of information. Summarise results of reviews, highlighting key points, patterns and trends. Draw conclusions and possible audit objectives based on the following: Information about structure and activities such as: • Organization chart • Key personnel and their areas of activities • Approximate number of employees • Mission statement and any goals and objectives Financial information to identify: • Source of funding • Types and amount of revenue • Nature and amount of expenditure Files and prior working papers and reports for information about past activities; past audit reports; problems noted in related audit areas, etc. • Audit library materials to identify laws, regulations, policies, procedures or recent developments related to audit area • Information about nature and purpose of any information systems used in the audit area			
Review of any existing policies and procedures, manuals, flowcharts or control narratives.			
Review reports or management letters issued by COA to identify possibilities to coordinate work or problem areas that may need to be included in the audit. If work performed by other auditors will be relied on to make arrangements to review the supporting work papers.			
Select final audit objectives based on issues identified during the preliminary survey. Preference should be given to management's request for items to be included in audit (to the extent possible), activities or functions that relate to the audit area's mission and any patterns identified during the review of background information.			
Prepare and obtain approval of a Planning Memorandum, which documents shall contain: • Planned scope, objectives and audit method • Auditee areas which will be excluded from the audit and reasons these will not be reviewed • Resources necessary to complete the audit • Target completion dates			
Prepare an engagement memorandum for auditee that communicates final objectives and any changes to planned completion of the audit.			
Prepared by Name(s) of internal auditors			
Date and Approved by: Head of Internal Audit:			

Form 4 – INTERNAL CONTROL REVIEW CHECKLIST

Republic of the Philippines

Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

(AUDIT TITLE)

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head.			
Audit Period: Provide planned start and finish dates of the audit.			
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.			
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.			
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.			
Audit Procedures	**Done by (insert name):**	**Date Done**	**Work Plan Ref.**
Based on the nature of risks associated with activities being audited, determine the controls that should be in place and the weaknesses that may exist. Develop an internal control questionnaire to be used as tool in conducting control interviews.			
Obtain an understanding of tasks, workflow, procedures and control techniques by conducting interviews with authorized individuals. Policy and procedures manuals can be used to supplement the control review.			
Document your understanding of each activity using narratives, flowcharts or other methods that reflect the strengths and weaknesses of the processes being audited.			
Obtain copies of all significant auditee standard forms, reports, and logs etc. which are referenced within flowcharts, data flow diagrams or narratives.			
Verify the accuracy of the flowcharts, data flow diagrams or narratives through examination of documentation, observation or inquiry using prescribed forms.			
Identify and analyze control strengths which may be tested. Determine if the controls identified in step1 exist, how they work and whether they are likely to be achieved in their intended purpose.			
Identify and explain control weaknesses. Indicate whether compensating controls exist or evaluate cause and significance of each weakness. Indicate if testing is needed to determine the impact of a weakness. Prepare point Sheets for significant weaknesses.			
Based on the review of internal controls, conclude on the adequacy of the system of internal controls (i.e. the system as designed provides reasonable assurance that the activities being audited are functioning as intended)			

Form 5 – COMMUNICATING AUDIT RESULTS CHECKLIST

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

(AUDIT TITLE)

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/ division/section/unit head.			
Audit Period: Provide planned start and finish dates of the audit.			
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.			
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.			
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.			
AUDIT PROCEDURES	**Done by (insert name)**	**Date Done**	**Work Plan Ref.**
If necessary, issue an interim report to provide information about unexpected delays in completing the audit, or to notify them of critical control weaknesses			
Discuss progress and results throughout the audit. Possible control weaknesses and exceptions should be discussed before Point Sheets are written to give management an opportunity to provide information that may clear potential findings or to begin corrective actions. Document results of discussion in supporting work papers.			
Prepare point Sheets for all findings and explain why a Point Sheet was not necessary			
Hold an exit conference to discuss findings and recommendations; provide management with copies of Point Sheets in advance of the meeting			
Document results of exit conference. Show whether auditee agreed with findings and any significant discussion about findings and recommendations.			
Prepare a draft report. The report shall follow the standard format and should be referenced to supporting work papers. Issue the report stamped DRAFT to management for review.			
If necessary, contact auditees to arrange a meeting to discuss report and process of responding			
Obtain and evaluate the auditee's responses. Determine whether responses address the issues described in the findings, promise action that will correct the weaknesses reported and provide a reasonable completion date.			
If the auditee disagrees with a finding or provides an inadequate response, take action to revolves such as: • Discussing issues with the auditee • Trying to resolve conflict with next level of management • Including auditee's views in report (give the auditee an opportunity to review revisions before issuing report) • Documenting that senior management has been informed of the risk of not taking corrective action and has accepted that risk.			
Incorporate auditee's response in a report and forward to Department's head for review.			
Prepare corrective action forms and cover memorandum to be sent to department Head. Set date for each comment based on date that management has indicated corrective action will be completed; tracking number should match finding number for follow-up database.			
File final report in binders and cross-referenced to supporting working papers: provide explanations for comments deleted or changed significantly since the original draft.			

Form 6 – BASELINE ASSESSMENT REPORT

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

FOR THE CALENDAR YEARS [year] – [year]

As of [date]

Title	Baseline Assessment Report
Responsible Official	Provide the name of lead internal auditor who prepared the report
Description	Describe the deficiency in terms of its effect on, for example, mission accomplishment lost revenue, error rates or impact on compliance taxpayer burden, operating efficiency. Be quantitative, if possible. Be specific about what undesirable consequence could occur if the significant deficiency is not corrected.
Source of Discovery	Describe how the significant deficiency was identified. Sources usually include but are not limited to a control review, an operational review, an event that occurred during the year in the audit report.
Correction Strategy	Briefly summarize the proposed approach or course of action to correct the significant deficiency.
Results Indicators/Effectiveness Measures	Briefly describe what indicators will be used to evaluate whether the actions taken have corrected the underlying cause of the significant deficiency and be based on performance measures, either qualitative or quantitative.
Validation Process	Describe how data will be collected to support the results indicator. Some possible methods include using existing management information or performance statistics, special surveys, sampling, and analysing data, etc.
Target Correction Date	Enter the date by which all corrective actions are expected to be completed and validated.
Other Issues	Use this space to briefly explain anything else that requires management's assistance or attention, including related concerns such as resource needs, dependencies with other organizations etc.
Prepared by : Name(s) of internal auditors	
Date/ Approved By Head of Internal Audit:	

Form 7 – POINT SHEET INDEX

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/ division/section/unit head.					
Audit Period: Provide planned start and finish dates of the audit.					
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.					
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.					
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.					
Potential Audit Comment (PAC) Number	**Summary of contents**	**Include in Report?**	**Report Preference**		
				Draft Report	**Final Report**
Insert reference number	Briefly state the point, analysis, finding and recommendation	Yes or No	Yes or No	Yes or No	
Prepared by: Name(s) of internal auditor(s)					
Date/ **Approved by Head of Internal Audit:**					

Form 8 – POTENTIAL AUDIT COMMENT

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head.		
Audit Period: Provide planned start and finish dates of the audit.		
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.		
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.		
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.		
Condition	**Cause**	**Effect**
State a significant deficiency fact backed up by substantial evidence	Describe the probable cause	Describe the deficiency in terms of its effect on, for example, mission accomplishment lost revenue, error rates or impact on compliance taxpayer burden, operating efficiency. Be quantitative, if possible. Be specific about the undesirable consequence if the significant deficiency is not corrected.
Comments:		
Discussed with: Provide all names of officials and positions **Signature** **Date** **Signature** **Date**		
Include in report? Yes or No		
Prepared by		
Date/ Approved by Head of Internal Audit		

Form 9 - AUDIT DISCUSSION DRAFT

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head.	
Audit Period: Provide planned start and finish dates of the audit.	
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.	
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives should be specific, measurable, available, realistic, time bound.	
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.	

CRITERIA (What should exist?)	CONDITION (What does exist?)	CAUSE (Why the difference exists?)	CONCLUSION (Impact of the difference)	RECOMMENDATION(S) (What should management do??)	INCLUDE IN REPORT	COMMENT
Describe a standard by which a condition is compared. Standards can be laws, rules, regulations, policies, orders, guidelines, procedures, plans, targets best practises etc.	State a significant deficiency fact backed up by substantial evidence.	Describe the cause	Describe the evaluation of criteria and the conditions that could either result in compliance or non-compliance with laws regulations and policies a supported by substantial evidence.	Description of the proposed action to address the probable cause and improve the condition.	Yes or No	Remark to justify/explain inclusion or exclusion from repor.t

Prepared by: Provide name(s) of the internal auditor(s) responsible.
Discussed with: Provide list of officials that the discussion draft has been discussed with
Date **Approved by Head of Internal Audit:**

Form 10 - INTERNAL AUDIT REPORTS CHECKLIST

The table provides summary checklist that shall be included in the audit report.

Background	☐ Identifies the organizational units and activities reviewed and provides explanatory information. ☐ Indicates the reason for the conduct of the audit project, including whether the report covers a scheduled engagement or is responding to a request. ☐ Includes the status of observations, conclusions, and recommendations from prior audits.
Objectives	☐ Statements that define intended engagement accomplishments.
Scope	☐ Identifies the audited activities. ☐ Identifies the time period reviewed. ☐ Identifies related activities that are not reviewed.
Approach	☐ Establishes the procedures for identifying, analyzing, and evaluating sufficient information to achieve the engagement's objectives.
Observations/ Findings	☐ Identifies the standards, measures, or expectations used in making an evaluation and/or verification (criteria). ☐ Identifies the factual evidence that the internal auditor found during the examination that supports the conclusions and recommendations (conditions). ☐ Identifies the reason for the difference between the expected and actual conditions (causes). ☐ Identifies the risk or exposure the organisation and / or others encounter because the condition is not consistent with the criteria (effect).
Conclusions	☐ Shall be clearly identified. ☐ Shall be based on appropriate analyses and evaluations. ☐ Shall encompass the entire scope of an engagement. ☐ Shall relate directly to objectives.
Recommendations	☐ Shall be based on engagement observations and conclusion. ☐ Shall be specific and call for action to correct existing management conditions or improve operations. ☐ Shall suggest approaches to correct or enhance performance.
Agreed actions	☐ An agreed set of actions proposed by management to address any recommendations. (In some cases, the internal audit teams may move straight to agreeing on actions and skip recommendations. This is also considered good practice.)

Form 11 – PROGRESS MONITORING REPORT FORM

Republic of the Philippines

[Insert name of LGU]

[Insert date prepared]

[Insert file reference number]

Auditee: Provide the name of the LGU or part of the LGU that is being audited as represented by the department/division/section/unit head.						
Audit Period: Provide planned start and finish dates of the audit.						
Audit Scope: Briefly describe the parameters of the audit work, the audit tools, techniques and methodology to be utilized and the sampling method to be used. The scope will differ depending on whether it is management or operations audit.						
Audit Objectives: Briefly state the intended accomplishment/s of the engagement. Objectives shall be specific, measurable, available, realistic, time bound.						
Risks: Briefly describe any potential risks to the audit, for example, threats to impartiality and objectivity.						
Ref No.	**Recommendation**	**Agreed Yes/No**	**Person Responsible**	**Implementation Date**	**Action Taken**	**Remarks**
	Briefly summarize the proposed approach or course of action to correct the significant deficiency		Name of the official	Start and finish dates	Yes or No	Briefly describe success or otherwise of action. If no action taken make appropriate recommendation
Prepared by: Name (s) of internal auditor						
Approved by Head of Internal Audit:						

Annex 3. Internal Control Questionnaire

* **The internal control questionnaire (ICQ) provided is meant to serve as a guide. The ICQ provided is modified from PGIAM, which is permitted by PGIAM. The internal control questions below may be further revised to customize the ICQ to the conditions of the LGU.**

Instructions for Completion

1. **For the Internal Auditor**

   a. Select the appropriate group of respondents and invite them to read each statement carefully and assess the conditions pertaining to the questions. Ask the respondents to answer the questions following the instructions given.

   b. Prepare a tally sheet for the answers and analyze their impact on the control objectives. For "YES" answers, select the central or key controls for the validation/test of controls.

   c. Evaluate all "NO" answers if a compensating control is present. If there is a compensating control, perform a validation/test of controls. If there is none, gather pieces of evidence by triangulation and develop an interim report and recommend courses of action for inclusion in the interim report.

   d. For questions/control statements with "YES" and "NO" answers, perform a validation/test of controls to firm up the existing condition.

   e. Prepare a Summary of Gaps for reporting or further audit.

2. **For the Respondents**

The following questionnaire is designed to evaluate the LGU's internal control components. This has a pervasive effect on the overall system of Internal Control because they represent the LGU nature and overall attitude towards internal control.

This questionnaire is divided into five interrelated components that make up the LGU's internal control system:

Section I	–	Control Environment
Section II	–	Risk Assessment
Section III	–	Control Activities
Section IV	–	Information and Communication
Section V	–	Monitoring

Complete the matrix by performing the following:

   a. Please read each statement carefully and assess the conditions pertaining to the questions.

   b. Answer with "YES" or "NO" in the space provided. Answers to questions would require submission of evidence, such as a flowchart and other reference documents, by the personnel concerned.

   c. A space for reference documents has been provided next to each question.

   d. For questions which require reference documents, cite the same in the space provided.

   e. The internal auditors shall review the ICQ responses as part of the baseline assessment of internal control and may contact the personnel concerned to follow- up on some of the questions.

* Please add comments for any statement where you think additional information will assist in validating and understanding the results you have provided (additional pages may be attached, as necessary).

Section I – Control Environment

> **OBJECTIVE**: To obtain sufficient knowledge of the control environment in the public sector context and understand the LGU's approach, attitude, and perspectives.
>
> These questions involve ways on how the LGU can inform public officers and employees of their roles, responsibilities, accountabilities, and authorities. They also include ways by which the LGU can create an environment to better ensure that integrity and ethical values are not compromised and that officers and employees receive and understand that thrust.

QUESTIONS	YES	NO	Cite Reference Documents
1 a. Does the LCE ensure adherence to the principle of public office is a public trust? b. Do the public officers and employees: i. hold themselves accountable to the people at all times? ii. serve the people with utmost responsibility, integrity, loyalty and efficiency, act with patriotism and justice and lead modest lives? (Sec. 32, Chapter 9, Book I, EO 292, "Administrative Code of 1987")			
2 Does the LCE: a. Establish the policies and standards for the operation of the LGU pursuant to the approved programs of government? b. Promulgate rules and regulations necessary to carry out the LGU's policies, objectives, functions, plans, programs, and projects? c. Promulgate administrative issuances necessary for the efficient administration of the offices under them and for the proper execution of the laws relative thereto? d. Exercise disciplinary powers over officers and employees under them in accordance with law? e. Appoint all officers and employees in the executive branch of the LGU (except the local treasurers)? f. Delegate authority to officers and employees in accordance with EO 292 or the law creating the LGU? (Sec. 7, Chapter 2, Book IV, EO 292, "Administrative Code of 1987")			
3 a. Does the LGU comply with the policies, standards and guidelines promulgated by the CSC to promote economical, efficient and effective personnel administration in the government? b. Are there plans and programs adopted to promote economical, efficient and effective personnel administration in the government? [Sec. 12 (3), Chapter 3, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987"]			
4 a. Does the LGU institute a Performance Evaluation System based on objectively measured output and performance of personnel and units, such as the Strategic Performance Management System developed by the Civil Service Commission? (Civil Service Commission Memorandum Circular No 6, s 2012, "Guidelines in the Establishment and Implementation of Agency Strategic Performance Management System")			

	QUESTIONS	YES	NO	Cite Reference Documents
5	Are the LGU's operating units able to achieve the expected results and contribute to the achievement of its sectoral or societal goals? (DBM Circular Letter No. 2008-8, 23 October 2008, "National Guidelines on Internal Control Systems (NGICS)," pp. 11- 12)			
6	Does the LGU include the necessary networking within and outside government to attain better coordination or convergence of efforts in the execution of their responsibilities? (Item 3.1, DBM CL 2008-8, "National Guidelines on Internal Control Systems")			
7	Does the LGU perform functions and tasks using the least amount of resources within a specific timeframe? (DBM Circular Letter No. 2008-8, 23 October 2008, "National Guidelines on Internal Control Systems (NGICS)," pp. 11- 12)			
8				
a.	Are all government resources managed, expended or utilized in accordance with law and regulations?			
b.	Is it safeguarded against loss or wastage through illegal or improper disposition to ensure economy, effectiveness and efficiency in the operations of the LGU?			
c.	Does the LCE ensure that the foregoing policy on fiscal responsibility is faithfully adhered to in all the financial affairs, transactions and operations of the LGU? (Sec. I, Chapter 1, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")			
9				
a.	Does the LGU take appropriate measures to promote transparency and accountability in the management of public finances?			
b.	Do said measures encompass effective and efficient systems of internal control? [Article 9 Public Procurement and Management of Public Finances, Chapter II, Preventive Measures, United Nations Convention Against Corruption (UNCAC) 31 October 2003.]			
10				
a.	Does the LCE prepare and submit to the President, through the DBM an estimate of the necessary expenditures of the agency/ organization during the next fiscal year?			
a.	Are these budget estimates based on the reports and estimates submitted by the departments/offices and units under the LCE? (Sec. 9, Chapter 2, Book IV, EO 292, "Administrative Code of 1987")			
11				
a.	Is the LGU's budget supportive of and consistent with the socio-economic development plan?			
a.	Is it oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently? (Sec. 3, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")			
12	Does the LGU design and implement the following?			
a.	Management information systems yielding both performance and financial information which will adequately monitor and control budget implementation, and b. Improvements in operating systems, procedures, and practices, so as to ensure that the targets approved in budget authorization are in fact attained at minimum cost. (Sec. 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")			

	QUESTIONS	YES	NO	Cite Reference Documents
13	Are all the government funds or property under the administration or control of the public officer or employee used in accordance with the purpose for which it was appropriated by law? (Sec. 80, Chapter 7, Book VI, EO No. 292, "Administrative Code of 1987" Manhit vs. Office of the Ombudsman, G.R. No. 159349, 7 September 2007)			
14	Is the LGU's control environment understood within the framework of public service accountability where government, its partners, and agents, assume fiduciary responsibilities towards the public they serve? [Item 3.1.1, DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)"]			
15	Are control features interwoven into and made an integral part of each system in the LGU that management can use to regulate and guide its operations? [Section 33, Title II- Internal Control System, Vol. III, Commission on Audit (COA) Circular No. 91-368, GAAM, 19 December 1991, p. 64; DBM CL 2008-8, Item 2.2.1, National Guidelines on Internal Control Systems]			
16	Does the LGU adopt and implement control policies and measures on the following: a. Delegation of authority and supervision? a. Segregation of functions for processing, reviewing, recording, custody and approval? b. Access to resources and records; c. Completeness and integrity of transaction documents and reports? d. Verification of transactions and reconciliation of records and data? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)," pp. 27-28]			
17	Are there plans of organization and coordinated methods and measures adopted within the LGU organization to: a. Safeguard its assets? b. Check the accuracy and reliability of its accounting data? c. Encourage adherence to prescribed managerial policies? d. Comply with applicable laws and regulations? e. Ensure ethical, economical, effective and efficient operations? [Presidential Decree (PD) No. 1445, 11 June 1978, the "Government Auditing Code of the Philippines," as amended, Department of Budget and Management (DBM) Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)]			
18	Does the LGU's accounting system: a. Produce information concerning operations in the last three years and present conditions? a. Provide a basis for guidance for future operations? b. Provide for control of the acts of public bodies and officers in the receipt, disposition, and utilization of funds or property? c. Report on the financial position and results of operations of the LGU for the information of all persons concerned? (Sec. 41, Chapter 6, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")			

QUESTIONS	YES	NO	Cite Reference Documents
19 a. Does the LGU establish, administer and maintain qualification standards? b. Is the establishment, administration and maintenance of qualification standards with the assistance and approval of the Civil Service Commission? *(Sec.22, Chapter 5, Subtitle A, Title I, Book IV, EO 292, "Administrative Code of 1987")*			
20. a. Is the degree of qualifications of an officer or employee determined based on the qualification standards for the particular position? b. Do the qualification standards express the minimum requirements for a position in terms of education, training and experience, civil service eligibility, physical fitness, and other qualities required for successful performance? *(Sec.22, Chapter 5, Subtitle A, Title I, Book IV, EO 292, "Administrative Code of 1987")*			
21. Does the LGU promote the primacy of public interest over personal interest in the performance of duties? *(Sec. 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")*			
22. Do the public officials and employees perform and discharge their duties with the highest degree of excellence, professionalism, intelligence, and skill? *(Sec. 4(A) Norms of Conduct of Public Officials and Employees, Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 20 February 1989)*			
23 a. Does the LGU have an established performance evaluation system (PES)? b. Is the PES administered in accordance with standards, rules and regulations promulgated by the CSC? c. Is the PES administered in such a manner as to continually foster the improvement of individual employee efficiency and organizational effectiveness? *(Sec.33, Chapter 5, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987")*			
24. Does the LGU undertake, on a continuing basis, programs to promote constituents/public satisfaction and improve service delivery, and other similar activities for officers and employees in frontline services? *(Sec. 1, Rule VI, Implementing Rules and Regulations of RA 9485, "Anti-Red Tape Act of 2007)*			
25. Does the LGU conduct an analysis of its operating performance, evaluation of performance relative to costs incurred and the review of agency operating systems and procedures as inherent parts of the budget process? *(Sec. 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")*			
26. Does the LGU identify other public service organizations (e.g., public entities and private entities providing public services), the public they serve, and stakeholders as well as their requirements, needs and expectations, to define the organization's intended outputs? *(Clause 5.1.1. ISO 9000, the "Introduction and Support Package: Guidance on the Concept and Use of the Process Approach for Management Systems," ISO/TC 176/SC 2/N 544R3, 15 October 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013)*			
27. Does the LGU monitor information relating to constituents/public perception as to whether the LGU has met constituents/public requirements? *(Clause 8.2.1 ISO 9001:2008, 15 November 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013)*			

Section II – Risk Assessment

<table>
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OBJECTIVES:

a. To obtain sufficient knowledge/information of the LGU's overall process in the following:
    i. Identifying, analyzing, and evaluating relevant risks to the achievement of the control objectives, and determining the appropriate response.

b. To identify and document the LGU's risk assessment procedure as a component of ICS.

These questions are used to identify and assess the external and internal factors that could impact on the achievement of control objectives and provide a basis for certain management controls.

</td></tr>
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QUESTIONS	YES	NO	Cite Reference Documents
1. Does the LGU identify, analyze and evaluate relevant risks to the achievement of the control objectives and determine the appropriate response? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)" p. 29; International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector" 16 October 2004, p. 22.; and Clause 4, 4.3.4, EC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009]			
2. Is the LGU's risk assessment fully integrated into the other components in the risk management process which include the following: a. Communication and consultation? b. Establishing the context? c. Risk assessment (comprising risk identification, risk analysis, and risk evaluation)? d. Risk treatment? e. Monitoring and review? (Clause 4, 4.3.1, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009.)			
3. In establishing the external context, does the LGU consider familiarization with the environment in which the organization and the system operations including the following: a. Cultural, political, legal, regulatory, financial, economic and competitive environment factors, whether international, national, regional or local? b. Key development drivers and trends having an impact on the objectives of the LGU? For example, population growth and its impact on the natural environment and infrastructure demand; c. Perceptions and values of external stakeholders? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)" p.30 and Clause 4, 4.3.3a, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques, 1 December 2009]			

QUESTIONS	YES	NO	Cite Reference Documents
4. In establishing the internal context, does the LGU consider an understanding of the following:			
a. Capabilities of the LGU in terms of resources and knowledge?			
b. Information flows and decision-making processes,			
c. Internal stakeholders?			
d. Objectives and the strategies that are in place to achieve them?			
e. Perceptions, values, and culture?			
f. Policies and processes?			
g. Standards and reference models adopted by the LGU?			
h. Structures (e.g. governance, roles, and accountabilities)? [DBM) Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)" p.30 and Clause 4, 4.3.3b, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques, 1 December 2009]			
Risk Identification			
5. Does the LGU make an identification of the following:			
a. Opportunities and threats to the achievement of the control objectives?			
b. The most important areas to which resources in risk assessment should be channeled?			
c. Determine responsibility for the management of the risk? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)" p. 30 and 2.2 Risk Assessment, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 23-24.]			
6. Does the LGU identify the causes and sources of the risk (the hazard in the context of physical harm), events, situations or circumstances which could have a material impact on objectives and the nature of that impact? (Clause 5, 5.2, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009.)			
Risk Analysis			
7. Does the LGU systematically use information to identify sources and to estimate the risk? [DBM) Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 30-31]			
8. Does the LGU identify the factors that affect consequences and likelihood of the risk? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 30-31]			
9.			
a. Does the LGU determine the consequences and their probabilities for identified risk events?			
b. In determining said consequences and their probabilities, does the LGU take into account the presence (or not) and the effectiveness of any existing controls? (Clause 5, 5.3.1, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009)			
Risk Evaluation			

QUESTIONS	YES	NO	Cite Reference Documents
10. Does the LGU evaluate the significance of the risk and assess the likelihood of its occurrence? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)," p. 31 and 2.2 Risk Assessment, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 22-23]			
11. In evaluating the risk, does the LGU compare estimated levels of risk with risk criteria defined when the context was established, in order to determine the significance of the level and type of risk? (Clause 5, 5.4, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009)			

Section III – Control Activities

<table>
<tr><td colspan="4">OBJECTIVES:

a.   To obtain sufficient knowledge/information about the policies and procedures established by the LGU to address risks (tolerated, transferred, terminated or treated) and to achieve its objectives;
a.   To obtain sufficient knowledge/information about the LGU's performance review and compliance review; and
b.   To identify and document the LGU's control activities: risk response, performance review and compliance review process.

These questions involve policies or procedures that help ensure that the LGU's objectives are achieved and directives are completed.</td></tr>
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QUESTIONS	YES	NO	Cite Reference Documents
A. Risk Response			
1. Does the LGU establish policies and procedures to address risks and to achieve the LGU's objectives?[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, pp. 31-32 and 2.3 Control Activities, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2 p. 28			
2. a. Are all the money and properties officially received by a public officer, in any capacity or upon any occasion, accounted for as government funds and government properties? b. Are government properties taken up in the books of the LGU concerned? (Sec. 42, Chapter 7, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")			
3. Are the LGU's officers whose duties permit or require the possession or custody of government funds properly bonded in accordance with law? (Sec. 50, Chapter 9, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")			
4. Does the LGU include the results expected for each budgetary program and project, the nature of work to be performed, estimated costs per unit of work measurement, including the various objects of expenditures for each project in its budget estimates? (Sec. 14(7), Chapter 3, Book VI, EO 292, "Administrative Code of 1987")			
5. Are the frontline services complemented with adequate staff by adopting mechanisms such as rotation system among office personnel, sliding flexitime, reliever system especially in peak times of transactions or providing skeletal personnel during lunch and snack times? (Section 3, Rule VI, Implementing Rules and Regulations of RA 9485, "Anti-Red Tape Act of 2007")			
6. Is disbursement of government funds made in pursuance of an appropriation law or other specific statutory authority? (Section 45 (1), Chapter 8, Subtitle B, Title I, Book V, EO 292, Administrative Code of 1987")			
B. Performance Review			
7. If accomplishments do not meet established objectives or standards, are the processes and activities reviewed to determine if improvements are needed? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 33 and 2.3 Control Activities, No. 6. Reviews of Operating Performance, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 30]			
C. Compliance Review			

QUESTIONS	YES	NO	Cite Reference Documents
8. Does the LGU periodically review operations, processes, and activities to ensure that they are in compliance with current regulations, policies, procedures, or other requirements? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 33 and 2.3 Control Activities, No. 7. Reviews of operations, processes and activities, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 30-31]			

Section IV – Information and Communication

OBJECTIVES:
a. To obtain sufficient knowledge/information about the LGU's information and communication systems;
b. To determine if relevant information is communicated throughout the LGU, as well as to its network of organizations and sectors; and
c. To identify and document the LGU's information and communication process.

These questions involve how the LGU identifies, captures, processes and reports information needed to achieve its objectives. |

QUESTIONS	YES	NO	Cite Reference Documents
1. Does the LCE establish measures and standards that will ensure transparency of and openness in public transactions, e.g., biddings, purchases, other internal transactions, including contracts, status of projects, and other matters involving public interest? (Sec. 2, Rule IV, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")			
2. Does the LCE establish information system that will inform the public of the following:
a. Policies, rules, and procedures?
b. Work programs, projects and performance targets?
c. Performance reports?
d. All other documents classified as public information? (Sec. 2, Rule IV, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")			
3. a. Does the LGU have a workflow chart showing procedures or flow of documents?
b. Is the chart posted in conspicuous places in the LGU for the information and guidance of all concerned? (Sec. 4, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")			
4. Are the LGU's transactions and events promptly recorded and properly classified? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 34 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 36.]			
5. Is relevant information communicated throughout the LGU, as well as to its network of organizations and sectors? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p.33 and 2.4 Information and Communication, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 36-39]			
6. Is relevant information identified, captured and communicated in a form and timeframe that enables personnel to carry out internal controls and other responsibilities? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 34 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 36]			

QUESTIONS	YES	NO	Cite Reference Documents
7. a. Does communication flow down, across, and up the organization, throughout all components and the entire structure? b. Does the LGU have an effective communication with external individuals and organizations? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 36 and 2.4 Information and Communication, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 38]			

8.
    a. Does the LGU consult the public they serve for the purpose of gathering feedback and suggestions on the efficiency, effectiveness and economy of frontline services?
    a. b. Do they establish mechanisms to ensure the conduct of public consultations and hearings? (Rule III, Rules Implementing Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 21 April 1989.)			

9. Does the LGU communicate frequently with the constituents or the public they serve and stakeholders to ensure continual understanding of their requirements, needs and expectations? Clause 5.1.1. ISO 9000, the "Introduction and Support Package: Guidance on the Concept and Use of the Process Approach for Management Systems," ISO/TC 176/SC 2/N 544R3, 15 October 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.)			
10. Are written requests, petitions or motions sent to the L G U by means of letters, or the like, acted upon by the official or employee in charge within fifteen (15) days from receipt thereof? *(Sec. 3, Rule VI, Rules Implementing RA 6713,* "Code of Conduct and Ethical Standards for Public Officials and Employees"			
11. In the evaluation of official forms for departments/offices rendering frontline services, are the number of signatories limited to a maximum of five (5) signatures of officers or employees directly supervising the evaluation, approval or disapproval or the request, application, or transaction? (Section 3, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
12. Does the LGU prescribed rules, through appropriate office order, on the proper authority to sign in the absence of regular signatory? (Sec. 5, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees"); (Section 3, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
13. Do all heads or other responsible officers of the LGU prepare and submit to the CSC a report of compliance with the provisions of RA 6713 and its IRR? (Sec. 7, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")			

QUESTIONS	YES	NO	Cite Reference Documents
14. a. Do the public officers and employees file under oath their Statements of Assets, Liabilities and Net Worth (SALN) and a Disclosure of Business Interests and Financial Connections (DBIFC) and Identification and Disclosure of Relatives (IDR) in the government? (Sec. 1 & 2, Rule VII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees") b. Does it contain a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of the public officer or employee income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year? (Section 7, Republic Act (RA) No. 3019, the "Anti-Graft and Corrupt Practices Act," as amended, 17 August 1960 and Pleyto vs. PNP- CIDG, G.R. No.169982, 23 November 2007.)			
15. Does the LGU have compliance procedures for the review of the SALN, to determine whether said statements have been properly accomplished? (Sec. 1, Rule VIII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")			
16. a. Does the LGU determine which processes or transactions constitute frontline service? b. Does the LGU undertake reengineering of its transaction systems and procedures, including time and motion studies, if necessary? c. Does the LGU set up their respective service standards to be known as the Citizens' charter? (Section 1, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
17. Does the LGU's reengineering process include a review for purposes of streamlining the following: a. Steps in providing the service? b. Forms used? c. Requirements? d. Processing time? and e. Fees and charges? (Section 2, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
18. Does the LGU review the location of the offices providing frontline services and put in place directional signs to facilitate transactions? (Section 2, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
19. Are the stakeholders, users, and beneficiaries of the frontline services taken into consideration in the preparation of the Citizens' Charter? (Section 3, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
20. Is the LGU's Citizens' Charter in the form of information billboards and published materials written in English, Filipino, or in the local dialect? (Section 2, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
21. Is the Citizens' Charter posted at the office's main entrance or at the most conspicuous place? (Section 2, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			

QUESTIONS	YES	NO	Cite Reference Documents
22. Does the Citizens' Charter include the following information: a. Vision and mission of the LGU? b. Identification of the frontline services offered, and the clientele? c. The step-by-step procedure to obtain a particular service? d. The officer or employee responsible for each step? e. The maximum time to conclude the process? f. Document/s to be presented by the client, with a clear indication of the relevance of said document/s? g. The amount of fees, if necessary? h. The procedure for filing complaints in relation to requests and applications, including the names and contact details of the officials/channels to approach for redress? i. Allowable period for extension due to unusual circumstances; e.g. unforeseen events beyond the control of government office or agency concerned? j. Feedback mechanisms, contact numbers to call and/or persons to approach for recommendations, inquiries, suggestions, as well as complaints? (Section 1, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
23. Is the implementation of the LGU's Citizens' Charter continually monitored and periodically reviewed? (Section 3, Rule IVI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
24. Are all the transactions and processes made with the permission or clearance from the LCE? (Section 1, Rule V, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
25. Does the LGU adopt working schedules to ensure that all clients who are within the premises prior to the end of official working hours are attended to and served even during lunch break and after regular working hours? (Section 3, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
26. Does the LCE adopt appropriate mechanisms to ensure the uninterrupted delivery of frontline services? (Section 3, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
27. Are all officers and employees transacting with the public provided with an official identification card which should be worn during office hours? (Section 4, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
28. a. Does the LGU have a public assistance/complaints desk in all their offices? b. Is there an officer or employee knowledgeable on frontline services who is at all times available for consultation and advice? c. Is the desk attended to even during break time? (Section 5, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
29. Does the LGU institute mechanisms by which clients may adequately express their complaints, comments or suggestions such as hotline numbers, short message service or information and communication technology? (Section 5, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
30. Does the responsible officer or employee acknowledge receipt of written applications, requests, and/or documents being submitted by clients? (Section 2, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			

QUESTIONS	YES	NO	Cite Reference Documents
31. Does the acknowledgement indicate, by writing or printing clearly thereon, the name of the receiving officer or employee, the unit where he/she is connected with, and the time and date of receipt? (Section 2, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
32. Is the prescribed period to act upon all applications and/or requests not longer than five (5) working days (in the case of simple transactions) and ten (10) working days (in the case of complex transactions) from the time the same was received? (Section 2 (4), Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
33. Are all applications and/or requests in frontline services acted upon within the period prescribed under the Citizens' Charter? (Section 2 (4), Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")			
34. Does the LGU keep and preserve a logbook in which shall be recorded in chronological order, all final official acts, decisions, transactions or contracts, pertaining to the agency/ organization? (Sec. 52, Chapter 11, Book IV, EO 292, "Administrative Code of 1987")			

Section V – Monitoring

OBJECTIVES:

a. To obtain sufficient knowledge/information on how management ensures that controls are operating as intended and that they are modified appropriately for changes in conditions through ongoing monitoring activities, separate evaluations, or a combination of both; and

b. To identify and document the LGU's monitoring process.

These questions involve the LGU's activities taken to assess the achievement of control objectives and the quality of internal control system performance.
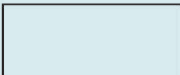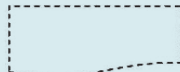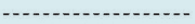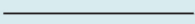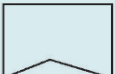
QUESTIONS	YES	NO	Cite Reference Documents
1. a. Does the LGU ensure that controls are operating as intended and that they are modified appropriately for changes in conditions? b. If yes, is it accomplished through ongoing monitoring activities, separate evaluations or a combination of both? [DBM Circular Letter No. 2008-8, the 23 October 2008, "National Guidelines on Internal Control Systems (NGICS)," p. 37 and 2.5 Monitoring, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," p.41] c. Monitoring, International Organization of Supreme Audit Institutions (INTOSAI), the 16 October 2004, "Guidelines for Internal Control Standards for the Public Sector," p. 41]			

2.
 a. Does the ongoing monitoring of internal control occur in the course of the normal, recurring operations of the LGU?
 b. Is the ongoing monitoring:
    i. performed continually and on a real-time basis?
    i. ingrained in the LGU's operations? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)," p. 37 and 2.5 Monitoring, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for internal Control Standards for the Public Sector," p. 41]			

Annex 4. Example of Flowchart

Diagrams and Flowcharts of Internal Audit Process:

Appendix D : Diagram and Flowcharts of Internal Audit Key Process

D. 1 Flowcharting symbols[25]

Symbol	Description
(rounded rectangle)	Start/end of audit process
(rectangle)	Description of process
(document shape)	Document
(dashed document shape)	Reference document
(diamond)	Decision box
(arrow)	Process flow direction
(dashed line)	Link to reference document
(solid line)	Link to document
(off-page reference shape)	Off-page reference
(incoming reference shape)	Incoming reference

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[25] PNS ISO 5807:2004 – "Information processing – Documentation symbols and conventions for data, program and system flowcharts, program network charts and system resources charts"; UN Audit Manual, Internal Audit Division, Office of Internal Oversight Services, March 2009.

183

Flowcharting Symbols

D. 6   Flowchart of Strategic Audit Planning
D.6. 1   Conduct of Baseline Assessment of Internal Control System

Head of Internal Audit (HoIA)	Audit Team Leader	Audit Team Members
Issue Office Order for the conduct of strategic and annual work plan sometime September	Formulate internal control questionnaire	
	Internal Control Questionnaire (ICQ)	
	Guide staff and monitor progress of audit and analyze gaps/deficiencies	Administer internal control questionnaire
	Interim Report, if critical	ICQ Working Papers
	Guide staff and monitor progress of audit and analyze gaps/deficiencies	Evaluate system/process flowcharts
	Interim Report, if critical	Flowcharts Working Papers
	Guide staff and monitor progress of audit and analyze gaps/deficiencies	Evaluate system/process narrative
	Interim Report, if critical	Narrative Descriptive Statement Working Papers
	Guide staff and monitor progress of audit and analyze gaps/deficiencies	Conduct of walkthrough
	Interim Report, if critical	Flowcharts and Narratives Working Papers
		D.6.1a

186

132

Annex 5. Types of Sampling

Sampling

Sampling is a scientific method of selecting the transactions to be subjected to audit. It promotes efficiency and economy in the audit process. Sampling allows the auditor to test less than 100% of the population to form audit findings. The assumption is that the sample selected is representative of the population.

There are various sampling methods available. The main types of sampling methods available to the auditor are as follows:

1. Systematic Sampling

Systematic sampling is a statistical method involving the selection of elements from an ordered sampling frame. The most common form of systematic sampling is an equal-probability method, in which every Kth element in the frame is selected, where k, the sampling interval (sometimes known as the 'skip'), is calculated as: sample size (n) = population size (N)/k.

This involves selecting every n^{th} item in the population. The interval is derived by dividing the population number by the sample size. A random starting point is selected. Technically, it is a practical approach that approximates the random sample.

The auditor must ensure that the chosen sampling interval does not hide a pattern. Any pattern would threaten randomness. A random starting point must also be selected.

Systematic sampling is to be applied only if the given population is logically homogeneous, because systematic sample units are uniformly distributed over the population.

For example, if you determined that your sampling interval is 50 and your starting point is number 1, every 50th sampling unit is selected to form part of the sample.

2. Statistical Sampling

This type of sampling involves defining the population and related confidence intervals. Based on these assumptions, a sample size is determined and the results of testing can be reasonably extrapolated to the overall population, thus, a quantifiable conclusion can be drawn (e.g., we are 95% confident that the true value of the accounts receivable balance is between X and Y).

There are several things that the IA should be aware of when using statistical sampling. Some of them are indicated hereunder.

- Use statistical sampling only when necessary to satisfy an objective.
- The IA must be able to define and know the characteristics of the population in order to effectively use statistical sampling in testing.
- The IA must ensure that every item in the population has an equal chance of being selected as part of the sample.
- The IA must ensure that the population does not have manipulated patterns in it that would affect the randomness of selection.
- Use an error rate that is reasonable.
- If there are defined striations of data within the population, stratify it and sample from within the striations.

In general, there are some basic steps that are common to the statistical testing process, to wit:

- Determine the objectives of the test; Define the population;
- Define acceptable levels of sampling risk (e.g. 5%, 10%, etc.);
- Calculate the sample size using tables, formulae, or software applications; Select the sampling approach (e.g. random, stratification, etc.);

- Pull the actual sample and evaluate; and
- Document the sample results and approach.

The size of the sample will generally be impacted by the sample size (the larger the population, the larger the sample is likely to be), the acceptance risk (the smaller the accepted risk, the larger the sample will likely be), and the population variability (the more dispersed or variable the population is, the larger the sample will likely be).

3. Non-statistical Sampling

Judgemental sampling - This type of sampling involves the selection by the auditor of items for his/her sample based on some types of methodology in an attempt to select items that exhibit some types of features. This method purposefully biases the sample, thus, the results of the testing cannot be extrapolated to the larger population.

a. Random Sampling

This is a selection procedure whereby each item in the population has a known and equal chance of being selected. Random number tables or certain computer software may be used to generate a random sample. Following ISO 24153:2009, random sampling and randomization procedures may also be used. Several methods are provided, including approaches based on mechanical devices, tables of random numbers, and portable computer algorithms.

b. Simple Random Sampling

Under this method, the sample is a subset of individuals/transactions (a sample) chosen from a larger set (a population). Each individual/transaction is chosen randomly and entirely by chance, such that each individual/transaction has the same probability of being chosen at any stage during the sampling process, and each subset has the same probability of being chosen for the sample as any other subset.

Conceptually, simple random sampling is the simplest of the probability sampling techniques. It requires a complete sampling frame, which may not be available or feasible to construct for large populations. Even if a complete frame is available, more efficient methods may be possible if other useful information is available about the units in the population.

Its advantages include its being free of classification error, and it requires minimum advanced knowledge of the population other than the frame. Its simplicity also makes interpretation of data collected relatively easy. For these reasons, simple random sampling best suits situations where not much information is available about the population and data collection can be efficiently conducted on randomly distributed items, or where the cost of sampling is small enough to make efficiency less important than simplicity. If these conditions are not true, stratified sampling or cluster sampling may be a better choice.

c. Stratified Sampling

In statistics, stratified sampling is a method of sampling from a population. When subpopulations vary considerably, it is advantageous to sample each subpopulation (stratum) independently. Stratification is the process of grouping members of the population into relatively homogeneous subgroups before sampling. The strata should be mutually exclusive: every element in the population must be assigned to only one stratum. The strata should also be collectively exhaustive: no population element can be excluded. After which, random or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

Stratified sampling strategies involve:

i. Proportionate allocation which uses a sampling fraction in each of the strata that is proportional to that of the total population. If the population consists of 60% in the male stratum and 40% in the female stratum, the relative size of the two samples (e.g., three males, two females) should reflect this proportion.

ii. Optimum allocation (or Disproportionate allocation) - Each stratum is proportionate to the standard deviation of the distribution of the variable. Larger samples are taken from the strata with the greatest variability to

generate the least possible sampling variance.

A real world example of using stratified sampling would be for a Philippine political survey. If the respondents needed to reflect the diversity of the population of the Philippines, the researcher would specifically seek to include participants from the various groups such as tribe, religion, gender and income level, based on their proportionality to the total population as mentioned above. A stratified survey could thus claim to be more representative of the population than a survey of simple random sampling or systematic sampling.

Similarly, if population density varies greatly within a region, stratified sampling will ensure that estimates can be made with equal accuracy in different parts of the region, and those comparisons of sub-regions can be made with equal statistical power. For example, in the Visayas, a survey taken throughout the island might use a larger sampling fraction in the less populated north, since the disparity in population between the north and the south may be so great that a sampling fraction based on the provincial sample as a whole might result in the collection of only a handful of data from the north.

Randomized stratification can also be used to improve population representativeness in a study.

Advantages Over Other Sampling Methods

a. Focuses on important subpopulations and ignores irrelevant ones;
b. Allows use of different sampling techniques for different subpopulations;
c. Improves the accuracy/efficiency of estimation; and
d. Permits greater balancing of the statistical power of tests of differences between each stratum by sampling equal numbers from the stratum varying widely in size.

Disadvantages

a. Requires selection of relevant stratification variables which can be difficult;
b. Is not useful when there are no homogeneous subgroups;
c. Can be expensive to implement; and
d. Requires accurate information about the population or introduces bias as a result of either measurement error/s (effects of which can be modelled by the errors-in-variables model) or selection bias.

4. Practical Example

In general, the size of the sample in each stratum is taken in proportion to the size of the stratum. This is called proportional allocation.

Suppose that in an organization, the staff is composed of the following:

male, full time:	90
male, part time:	18
female, full time:	9
female, part time:	63
Total:	**180**

A sample of 40 staff, stratified according to the above categories, may be taken.

The first step is to find the total number of staff (180) and calculate the percentage in each group.

% male, full time	=	(90 / 180) x 100 =	50%
% male, part time	=	(18 / 180) x 100 =	10%
% female, full time	=	(9 / 180) x 100 =	5%
% female, part time	=	(63 / 180) x 100 =	35%

This tells us that in our sample of 40;

50% should be male, full time;
10% should be male, part time;
5% should be female, full time; and
35% should be female, part time.

Compute the absolute number of samples based on the percentage per staff allocation in each group.

50% of 40 is 20.
10% of 40 is 4.
5% of 40 is 2.
35% of 40 is 14.

The following references on sampling may be used:

a. Philippine Standard on Auditing (PSA) 530 on "Audit Sampling and Other Selective Testing Procedures" – It established standards and provides guidance on the use of audit sampling procedures and other means of selecting items for testing to gather audit evidence;

b. United States Government Accounting Office (US GAO) GAO/PEMD-10.1.6, "Using Statistical Sampling" – The purpose of the series is to provide GAO evaluators with guides on various aspects of audit and evaluation methodology, to illustrate applications, and to indicate where more detailed information is available; and

c. United Nations Internal Audit Division Audit Manual – In the choice of sampling method and technique, if the auditor is seeking to determine how many cases or how much (the amount) of something exists, the IA should use a statistical sampling method. If on the other hand, the auditor wants to determine whether a problem exists, the IA should use non-statistical sampling.

Source: PGIAM

Annex 6. Frequently-Asked Questions

1. *Is it necessary to follow the Manual step by step, for instance, prepare the strategic plan, annual work plan, audit engagement plan before executing internal audit of the auditable area?*

ANSWER: The Manual provides the steps to be undertaken to complete an internal audit cycle, which ideally should be observed in all cases. However, it is recognized that for the internal audit function to gain more support in the local government units (LGUs), newly-established Internal Audit Services/Units (IAS/Us) must be able to quickly demonstrate the benefits of having a functional IAS/U. On the other hand, embarking on a full scale audit cycle may take a long time, thus, dissuade the LGUs from supporting and strengthening the IAS/U.

The challenge, therefore, is in striking a balance between being able to comply with all the steps provided in the Manual and being able to deliver quick results. To enable the newly-established IAS/Us to strike this balance, they may opt to focus on specific auditable areas, as prioritized by the Local Chief Executive (LCE), instead of covering the LGUs' entire internal control system. The IAS/U may then proceed to carry out the steps outlined in this Manual but on a scaled-down or more simplified manner.

2. *Is the IAS/U in the LGU directly under the Accountant or the Local Chief Executive (LCE) and can it be integrated into the existing Accounting Office?*

ANSWER: The IAS/U is directly under the LCE. Moreover, the IAS/U cannot be under the Office of the Local Accountant because the latter functions as part of regular operations while the IAS/U should be detached from the regular operations.

Section 474 of the Local Government Code of 1991 (LGC) states that the accountant shall take charge of both accounting and internal audit services of the LGU and shall install, maintain an internal audit system in the LGU concerned. On the other hand, Section 76 of the LGC provides that every LGU shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability, subject to the minimum standards and guidelines prescribed by the Civil Service Commission (CSC).

However, Administrative Order (AO) No. 278 dated April 28, 1992 "Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, in their Operations" provides that the IAS shall be detached from all functions of routine operating character. The nature of the functions of the accountant is of a routine and operating character, therefore, IAS should not be under the Accountant. Corollary, Budget Circular No. 2004-4 dated March 22, 2004 on the "Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)" provides that the LGUs shall determine their own staffing modifications that the establishment of IAS/U will require, subject to the approval of the Sanggunian.

3. *Can the LCE assign policy formulation to the IAS/U and can the Sanggunian of the LGU ask for a copy of the Internal Audit Report?*

ANSWER: No. Policy formulation is a function of the Sanggunian and LCE. However, results of internal audit may point out findings which may serve as a basis/guide for formulating policy that can be used by the LCE and Sanggunian. If the Sanggunian is the subject of the internal audit then it may ask for a copy of the internal audit report as reference in the exit conference, provided, the same pertains only to the result of internal audit in the Sanggunian. In cases of Internal Audit Reports that pertain to other offices, they can be provided with the said reports, subject to approval of the LCE.

4.   *The Internal Audit Manual (IAM) states that internal audit is a separate component of internal control, yet it also states that it is an integral part of internal control, are these two statements contradictory?*

ANSWER: No. Internal audit is an integral part of internal control because it is instituted to provide independent objective assessment of whether internal controls are well designed and properly operated. As such, it is separate from the 5 interrelated components of internal control — (i) control environment; (ii) risk assessment; (iii) control activities; (iv) information; and (v) communication and monitoring.

5.   *Is the creation of positions to staff the IAS/U subject to PS Limitation?*

ANSWER: Yes, because IAS/U positions are not among those mandatory positions wherein the PS limitation is waived pursuant to the provisions of the General Appropriations Act.

6.   *Is it necessary to adopt internal control first before an LGU can establish Internal Audit?*

ANSWER: Yes. From the definition of internal control and internal audit, the latter will assess the adequacy and effectiveness in the implementation of internal controls. Therefore, internal audit comes later.

7.   *If the IAS/U will be created in the LGU, will it be separate and distinct from the Commission on Audit (COA) Resident Auditor?*

ANSWER: Yes, Internal Audit Service is created by the LGU with functions that are inherent to be internal. The Internal Auditor reports directly to the Local Chief Executive. On the other hand, the Resident Auditor is a personnel of the COA who does the external audit and is not administratively under the LCE.

8.   *Can the LCE be compelled to install IAS/U?*

ANSWER: Yes. Administrative Order (AO) No. 70 dated April 14, 2003 mandates all heads of government agencies, GOCCs, GPIs, SUCs and LGUs to immediately organize an IAS in their respective offices, which shall function in accordance with the policies established by the provisions of RA No. 3456, as amended by RA No. 4177.

9.   *Can the internal auditor in a municipality/city conduct an internal audit in barangays?*

ANSWER: No. Barangays are autonomous and not under the direct administrative control of the municipality/city.

10.   *What is the minimum qualification for an Internal Auditor?*

ANSWER: CSC MC No. 12 s. 2006 provides the minimum qualifications for an Internal Auditor, however, in selecting the necessary skills, competence and character, the guide as described in Part 2.5.3 of this Manual must be considered.

11.   *How is the performance of an Internal Auditor measured?*

ANSWER: Since LGUs are already adopting the use of Strategic Performance Management System (SPMS) as a tool in performance assessment, the Internal Auditor will be rated based on Office/Individual Performance Commitment and Review (O/IPCR).

12. *What will be the status of employment of the Head of IAS/U?*

ANSWER: Internal audit function is a continuing activity, hence, the Head of IAS/U must have a permanent appointment, subject to CSC rules and regulations.

13. *With the active participation of CSOs in the budgeting process of LGUs, should a copy of the Internal Audit Report be made available to them anytime to promote transparency?*

ANSWER: Internal Audit Report is primarily for internal use of the LGU Management only. However, furnishing the report or parts thereof to external stakeholders as part of transparency and to promote citizen participation is subject to the discretion of the LCE.

14. *For LGUs that already exceeded the PS Limitation what are the options available for the creation of IAS/U?*

ANSWER: LGUs may resort to full time designation of permanent employees from other units/departments to the IAS/U until such time that the PS Limitation is no longer exceeded.

Annex 7. Glossary

Accountability

The obligation of an individual or institution to account for its activities, accepts responsibility for them, and disclose the results in a transparent manner.

Annual Work Plan

It contains the coverage of the audit for a given calendar year and approved by the LCE. The plan should outline the deficiencies in internal control and vulnerability being addressed, audit title, specific audit area, type of audit, summary description of the audit, expected benefit, priority and resources to be used, estimated duration and cost, and proposed timing of the audit, among others.

Auditee

An organization (or part of an organization) that is being audited as represented by the department/division/section/unit head.

Computer Assisted Audit Techniques and Tools

Computer tools and techniques in performing various auditing procedures and improving the effectiveness and efficiency of obtaining and evaluating audit evidence. It provides effective tests of controls and substantive procedures where a wide range of techniques and tools are used to automate the test procedures for evaluating controls, obtaining evidence and data analysis.

Compliance Audit

Review of the degree of adherence with laws, regulations, managerial policies and operating procedures of government, including compliance with accountability measures and ethical standards and contractual obligations. It is a necessary first step to, and part of management and operations audits.

External Stakeholders

The persons, organizations and other service groups that are outside a specific public service sector but may have an interest and can influence the achievement of the sectoral goals of the agency concerned. External stakeholders must always deal with the principal (LCE) and not directly with the IAS/U

Expert

Person who is knowledgeable in a specialized field, that knowledge being obtained from either education or personal experience. He/she is one who by reason of education or special experience has knowledge respecting a subject matter about which persons having no particular training are incapable of forming an accurate opinion or making a correct deduction.

Four Cs in Audit Findings. Stands for criteria, condition, cause and conclusion.

- Criteria are the standards against which a condition is compared; standards can be laws, rules, regulations, policies, orders, guidelines, procedures, plans, targets, best practices, etc.

- Condition is a fact, backed up by a substantial evidence (includes consequence, effects or impact); this is also referred to as the "finding of facts" which is defined as the written statement of the ultimate facts essential to support the audit findings.

- Cause refers to the probable cause, in case of compliance audit; or root cause, in case of management audit or operations audit. Relatedly, a finding of probable cause needs only to rest on evidence showing that more likely than not the act/s or omission/s of the person responsible had caused the non-compliance which may warrant the conduct of administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true cause of the control weaknesses or incidences and the actions necessary to eliminate it.

- Conclusion is the evaluation of the criteria and the conditions that could either result in compliance or non-compliance with laws, regulations and policies, as supported by substantial evidence; control effectiveness; determination of adequacy or inadequacy of controls; determination of the efficiency, effectiveness, ethicality, and economy of agency operations; this is also referred to as the "conclusion of facts" which is defined as an inference drawn from the subordinate or evidentiary facts.

Four Es of Operations. Stands for efficient, effective, economical and ethical.

- Efficient refers to "doing things right" given the available resources/inputs and within a specified timeframe. This is about delivering a given quantity and quality of outputs with minimum inputs or maximizing outputs with a given quantity and quality of inputs.

- Effective refers to "doing the right things". Effective operations mean that operating units are able to deliver their major final outputs and outcomes and able to achieve the expected results and contribute to the achievement of the sectoral and societal goals.

- Economical refers to the performance of functions and tasks using the least amount of resources/inputs within a specific timeframe. It implies that the resources/inputs should be acquired at the right cost, at the right time, at the right place, in the right quantity and of the right quality.

- Ethical refers to conformity with the norms of conduct and ethical standards as contained in RA 6713, otherwise known as the "Code of Conduct and Ethical Standards for Public Officials and Employees".

Head of Internal Audit

The highest official in the Internal Audit Service of an LGU. He/she has overall responsibility for auditing the LGU, managing the entire audit cycle and a team of internal auditors, and ensuring the quality of audit products produced by the team.

Internal Audit

The evaluation of management control and operations performance and the determination of the degree of compliance with laws, regulations, managerial policies, and contractual obligations. It is the appraisal of the plan of organization and all the coordinate methods and measures to recommend courses of action on all matters relating to management control and operations audit.

Internal Stakeholders

These are the individuals and groups that can affect and be affected by the LGU's operation within a particular public service sector. These include those within the sector (e.g., Civil Service Commission, Office of the Ombudsman, Presidential Anti-Graft Commission, and relevant professional bodies; other review and oversight bodies). In terms of relationship, the IAS/U basically coordinates with internal stakeholders and collaborates with external stakeholders.

Management Audit

The separate evaluation of the effectiveness of the internal controls adapted in the operating and support services units/systems, whether it achieves the control objective over a specific date or period of time. It is a review and appraisal of systems and processes, organizational structure and staffing, operations and management practices, records, reports and performance standards of the agencies/units covered. It includes the determination of the extent of compliance with laws, rules, regulations, managerial policies, operating procedures, accountability measures and contractual obligations covering specific timeframes. Examples of support services systems are human resource management system, financial management system, quality management system, risk management system, and their sub-system; while operating systems of bureaus, regional offices and local government units include, among others, the rules of engagement in the conduct of arrest, search and seizure, and rules on vaccination and immunization.

Management Audit Division

This is one of the two divisions forming part of the IAS/U in departments and equivalent agencies. It is responsible for, among other functions, conducting a separate evaluation of the effectiveness of the internal controls adapted in the operating and support services systems. It conducts an appraisal and review of management controls of the operating or support units to determine if the control objectives are being achieved, conducts root cause analysis in case the controls are weak, and recommends courses of action to address the control weaknesses.

Management Monitoring

The plethora of measures taken by management to ensure that internal control systems are operating as intended (see paragraph 3.5 of the NGICS). Ongoing monitoring occurs in the course of operations. It is performed regularly on a real time basis, responds dynamically to changing conditions and is embedded in an LGU's operations.

Operations Audit

The separate evaluation of the outcome, output, process and input to determine whether government operations, including management and personnel structure in programs/projects are effective, efficient, ethical and economical. Operations audit of organizations, programs, and projects involves an evaluation of whether or not expected results were achieved and targets were attained.

Operations Audit Division

This is one of the two divisions forming part of the IAS/U in departments and equivalent agencies. It is responsible for conducting a separate evaluation of the outcome, output, process and input to determine whether government operations, including management and personnel structure in programs/projects are effective, efficient, ethical and economical.

Performance Indicator

Performance measures reflecting the central importance of evidence and information to support performance results. It is important that the key performance indicators for internal audit are aligned with the Strategic and Annual Internal Audit Plans.

Philippine Government Internal Audit Manual

The documentation of the standards and procedures for conducting management and operations audits. It serves as a friendly tool to internal auditors in appraising the internal control systems of the public entities (agencies). It provides details on the nature and scope of internal audit in the Philippine public sector, including the institutional arrangements of the internal audit function, as well as the protocols and processes for the conduct of internal audit. The PGIAM is divided into two parts. Part I - Guidelines (PGIAM I) outlines the basic concepts and principles of internal audit, and the policies and standards that will guide government agencies in organizing, managing, and conducting an effective internal audit. Part II – Practices (PGIAM 2) contains tools, techniques, and approaches that will facilitate the conduct of internal audit activities

Public Service Organizations These are classified into: (1) Public Entities; and (2) Private Entities Providing Public Services.

- Public Entities generally pertain to: (1) Agencies of Government, and (2) Public Offices. Agencies of Government refer to any of the various units of government, including a department, bureau, office, instrumentality, or government-owned and/or -controlled corporation, or a local government or distinct unit therein.

- Private Entities providing public services, as mandated and authorized by law, include: (1) Utility and Service Providers; (2) Withholding Tax Agents; (3) Procurement Observers; (4) Private Contractors; and (5) Volunteers.

Qualifications Standards

Minimum and basic requirements for positions in the government. These shall serve as the basic guide in the selection of personnel and in the evaluation of appointments to all positions in the government.

Related Audit Services

Related activities such as being a resource person (e.g. attending to functions outside the organization) for external organizations like the COA, Office of the Ombudsman, the oversight or regulatory bodies and financing institutions; training of IAS/U staff, and intervening activities or tasks that may be assigned to the IAS/U.

Report Card Survey

An evaluation tool that provides a quantitative measure of actual public service user perceptions on the quality, efficiency and adequacy of different frontline services, as well as a critical evaluation of the office or agency and its personnel. It is an instrument that also solicits user feedback on the performance of public services for the purpose of exacting public accountability and, when necessary, proposing change.

Risk Assessment

The process of identifying, analyzing and evaluating relevant risks to the achievement of the control objectives and determining the appropriate response. In other words, it is the identification, analysis and evaluation of what could go wrong and how to address it.

Risk Management

The coordinated activities to direct and control an organization with regard to risks. It is not a stand-alone activity that is separate from the main activities and processes of the organization. Risk management is part of the responsibilities of management and an integral part of all organizational processes.

Root Cause Analysis

A method that is used to address a deficiency in order to get the "root cause" of the problem. It is used in order to correct or eliminate the cause and prevent the problem from recurring. It attempts to identify the root or original causes instead of dealing with the immediately obvious symptoms. It is a structured review and evaluation that aims to identify the true cause of the deficiency and the courses of action necessary to address it. RCA is continuing to ask why the control deficiency occurred until the fundamental process element that failed is identified.

Separate Evaluation

Covers the periodic evaluation of the effectiveness of the internal control system and ensuring that internal controls achieve the desired results based on predefined methods and procedures. It includes the appraisal of the internal control system to determine whether controls are well designed and properly operated. In the conduct of separate evaluation, the IAS/U shall determine the extent of compliance and assess the adequacy of controls embedded in functional and operating systems/units, as well as evaluate the performance of programs, projects and activities of the agency.

Stakeholder

A person or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity. The IAS/U relates with both internal and external stakeholders.

Strategic Plan

An internal audit strategic plan outlines the broad strategic direction of internal audit over the medium term (i.e., three years) and provides an important basis for managerial policies from the LCE and the detailed internal audit annual work plan. It is approved by the LCE.

It should articulate the primary focus and direction of the internal audit function over the period covered by the plan; outline the objectives to be achieved in the period, and identify the key management strategies (i.e., plans and programs) and actions that will be needed to achieve these objectives.
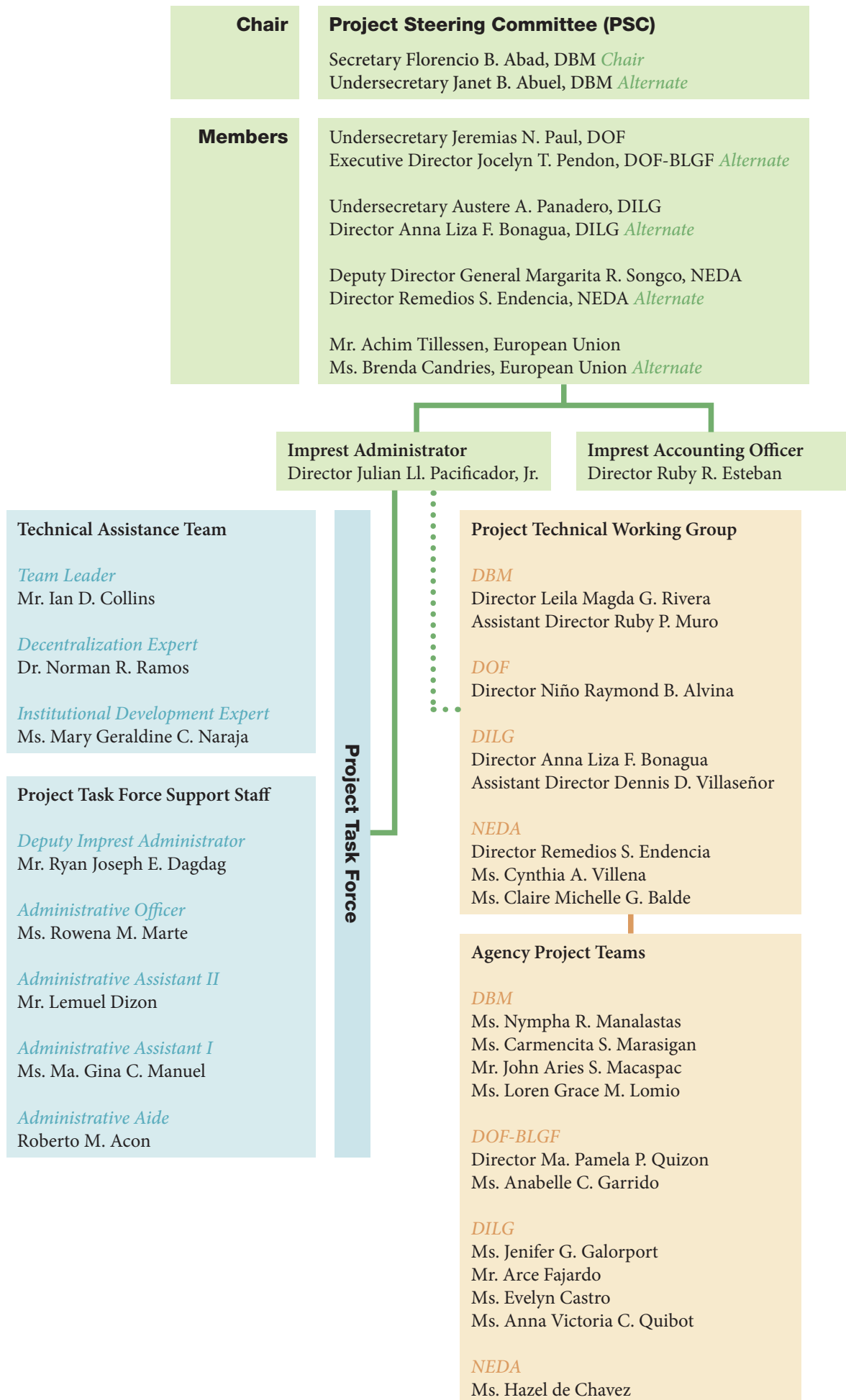
TASK FORCE FOR THE DEVELOPMENT OF THE INTERNAL AUDIT MANUAL FOR LGUs

Chair: Director Annabelle C. Echavez
Assistant Chair: Director Gary R. Martel
Members: Director Annabelle M. Atillo   Director Akmad J. Usman   Director Achilles Gerard C. Bravo

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DBM RO XI:	Assistant Director Maria Fe D. Jagna	Ms. Carolina C. Armada
DBM RO XII:	Ms. Arlyn B. Adajar	Ms. Shara D. Abdul
DBM RO XIII:	Assistant Director Jenneth C. Patosa	Ms. Edna P. Jamolin

TRAINERS OF THE INTERNAL AUDIT MANUAL (IAM) FOR LGUs

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	Edith G. Wenceslao	Budget and Management Specialist II
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II	Mavidette D. Alvarado	Supervising Budget and Management Specialist
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	Lynnie S. Baban	Senior Budget and Management Specialist
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	Irene S. Tabada	Chief Budget and Management Specialist
	Carolina C. Armada	Chief Budget and Management Specialist
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	Libertine G. Cagang	Chief Administrative Officer
	Pamela Joy C. Yutiamco	Budget and Management Analyst
	Arlyn B. Adajar	Accountant III
XIII	Achilles Gerard C. Bravo	Regional Director
	Jenneth C. Partosa	OIC Assistant Regional Director
	Edna P. Jamolin	Chief Budget and Management Specialist
	Paul A. Abarca	OIC Chief Budget and Management Specialist
PEMB	Leila Magda G. Rivera	Bureau Director
	John Aries S. Macaspac	OIC Chief Budget and Management Specialist
	Rainier H. Diaz	OIC Chief Budget and Management Specialist

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