



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF BUDGET AND MANAGEMENT  
GENERAL SOLANO STREET, SAN MIGUEL, MANILA

**LOCAL BUDGET CIRCULAR**

No. 110  
Date: June 10, 2016

TO : Local Chief Executives, Members of the Local Sanggunian, Local Budget Officers, Local Treasurers, Local Development and Planning Officers, Local Accountants, and All Others Concerned

SUBJECT : **INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS**

**1.0 PURPOSE**

- 1.1 This Circular is being issued to encourage all provinces, cities and municipalities to adopt the Internal Audit Manual for Local Government Units (IAM for LGUs) as a guide in establishing, maintaining and operating an Internal Audit Service/Unit (IAS/U).

**2.0 THE INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS**

- 2.1 Considering that internal audit is one of the vital aspects of an open and orderly public financial management (PFM) system, the IAM for LGUs aims to help LGUs: (i) establish and maintain a functional and operational IAS/U, which prepares and timely submits regular internal audit reports; and, (ii) follow up and implement audit recommendations.
- 2.2 The IAM for LGUs is a comprehensive step by step guide, consistent with the following provisions of laws, rules and regulations:
- 2.2.1 Republic Act (RA) No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, which mandated the creation, organization and operation of IAS/U in all government agencies to help management achieve an efficient and effective fiscal administration, and to assist in the performance of agency affairs and functions;
- 2.2.2 Presidential Decree (PD) 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, and merged the function with that of the Management Division of the Financial and Management Service in the Departments pursuant to item 3, Article IV, Chapter I, Part IV of the PD;

- 2.2.3 Section 1 of Administrative Order (AO) No. 119 dated March 29, 1989, which mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with DBM;
- 2.2.4 Memorandum Order No. 277 dated January 17, 1990, which directed 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;
- 2.2.5 AO No. 278 dated April 28, 1992 (Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, GOCCs, including Government Financial Institutions and LGUs, in their Operations), which provided the functions, duties and activities of the IAS/U. It also provided that IAS/U shall be detached from all functions of routine operating character;
- 2.2.6 AO No. 70 dated April 14, 2003 (Strengthening of the Internal Control Systems of Government Offices, Agencies, GOCCs, including Government Financial Institutions, State Universities and Colleges and LGUs), which reiterated the authority for the creation of the IAS/U and its functions;
- 2.2.7 Budget Circular No. 2004-4 dated March 22, 2004 (Guidelines on the Organization and Staffing of Internal Auditing Units), which provided for the policy guidelines in the organization, staffing, positions and salary grades of the IAS/U in Departments/Agencies/GOCCs/Government Financial Institutions/LGUs concerned;
- 2.2.8 DBM-Civil Service Commission (CSC) Joint Resolution No. 1, s. 2006 dated May 12, 2006 (Rationalization Program's Organization and Staffing Standards and Guidelines), which provided for the creation of the IAS/U and enumerated its functions in line with Executive Order No. 366, as supplemented by CSC Memorandum Circular No. 12, s. 2006 issued on June 22, 2006; and
- 2.2.9 DBM Circular Letter No. 2008-8 dated October 23, 2008, which provided the National Guidelines on Internal Control Systems.
- 2.3 The Manual reiterates that internal audit is not an adversarial function. Instead, it enables the LGUs to independently evaluate whether internal controls are well designed and properly operated.

Accordingly, it provides a clear description of internal audit roles and responsibilities, organizational structure and staffing of the IAS/U, and the methodology for performing compliance, operations and management audits.

Guidance on how to report internal audit findings and follow up on internal audit recommendations, and the templates and forms to be used during the entire internal audit planning and internal audit process, are also included in the Manual.



- 2.4 Overall, the IAM for LGUs seeks to contribute to the development of a well-functioning IAS/U in all LGUs for an enhanced, integrated, more transparent and accountable PFM system.

### 3.0 ROLL-OUT ACTIVITIES

- 3.1 Trainings for the LGUs on the IAM for LGUs shall be conducted by the Regional Inter-Agency Teams on PFM led by the DBM Regional Offices.

### 4.0 EFFECTIVITY

This Circular shall take effect five days after its publication.

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**FLORENCIO B. ABAD**  
Secretary

