



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

**CIRCULAR LETTER**

No.: **2020-8**  
May 26, 2020

For : Heads of Departments, Bureaus, Offices and Agencies of the National Government, Including Government-Owned or -Controlled Corporations (GOCCs)/Government Financial Institutions (GFIs), State Universities and Colleges (SUCs), Local Government Units (LGUs), and All Others Concerned

Subject : **REVISED PHILIPPINE GOVERNMENT INTERNAL AUDIT MANUAL (PGIAM)**

**1.0 Background**

1.1 The PGIAM was first issued by the Department of Budget and Management (DBM) through Circular Letter No. 2011-5 dated 19 May 2011 pursuant to its mandate under Executive Order No. 292, s. 1987<sup>1</sup>, and the following Office of the President (OP) issuances directing said Department to promulgate the necessary rules and regulations for the strengthening of the internal control systems in government:

- a. Administrative Order (AO) No. 119, s. 1989<sup>2</sup>, as amended by AO No. 278, s. 1992<sup>3</sup> and AO No. 70, s. 2003<sup>4</sup>;
- b. Memorandum Order No. 277, s. 1990<sup>5</sup>; and
- c. Memorandum Circular No. 89, s. 2005<sup>6</sup>.

<sup>1</sup> *Administrative Code of 1987*, 25 July 1987, as amended

<sup>2</sup> *Directing the Strengthening of Internal Control Systems of Government Offices, Agencies, Government-Owned or Controlled Corporations and Local Government Units in their Fiscal Operations*, 29 March 1989

<sup>3</sup> *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*, 28 April 1992

<sup>4</sup> *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*, 14 April 2003

<sup>5</sup> *Directing the Department 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*, 17 January 1990

<sup>6</sup> *Reiterating Compliance with A.O. 70, s. 2003 "Strengthening of the Internal Control Systems of the Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges and Local Government Units" and Its Implementing Guidelines under DBM Budget Circular No. 2004-4*, 18 August 2005

- 1.2 The PGIAM complements the DBM-issued **National Guidelines on Internal Control Systems (NGICS)**<sup>7</sup>, which serves as a guide to the heads of agencies in strengthening their respective internal control systems to better respond to the requirements of the publics they serve.
- 1.3 Section 124 of Presidential Decree No. 1445, s. 1978<sup>8</sup>, as amended, stipulated that the direct responsibility to install, implement and monitor a sound system of internal control rests with the agency head.

Accordingly, all heads of government agencies were directed under the aforesaid OP issuances to strengthen their respective internal control systems, and establish an Internal Audit Service/Unit (IAS/IAU) as may be necessary to be a key part thereof.

- 1.4 After nine (9) years since its issuance, the 2011 PGIAM has been revised to clarify and address various emerging issues and concerns that are relevant in the effective and efficient conduct of internal audit in the government.

Such issues and concerns were gathered from internal auditors during the series of internal audit fora for departments and GOCCs that were conducted by the DBM in 2019, as well as the focus group discussions with departments concerned during the implementation of the DBM project under the Budget Reform Program entitled, "Assessment of Internal Control and Internal Audit in National Government Agencies" in 2018 and 2019.

- 1.5 Moreover, the Manual has been revised to have certain provisions clarified and/or harmonized with pertinent laws, rules, regulations, guidelines and standards on the matter, including the Commission on Audit's (COA) Internal Audit Standards for the Philippine Public Sector (IASPPS)<sup>9</sup>. These provisions of the IASPPS were previously coordinated by the DBM with the COA so as to clarify and/or address the matter.

## 2.0 Purposes

- 2.1 The PGIAM primarily aims to assist government agencies concerned in the Executive Branch in establishing and thereafter strengthening their internal audit function to promote effective, efficient, economical and ethical operations in government, among other objectives.
- 2.2 Specifically, it serves as a generic guide for internal auditors in government to help them **(1)** understand the legal bases, nature and scope of the internal audit function in the Philippine public sector, including the institutional arrangements, protocols and processes for the conduct of the same, **(2)** identify and prioritize potential audit areas for appraisal as they progress in the internal audit activity, and **(3)** describe the procedures logically to facilitate a structured and systematic approach in internal auditing.

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<sup>7</sup> Issued through **DBM Circular Letter No. 2008-8**, 23 October 2008

<sup>8</sup> *Government Auditing Code of the Philippines*, 11 June 1978

<sup>9</sup> Issued under COA Resolution No. 2018-007, 1 February 2018

2.3 Among the major changes that have been effected in the revised Manual are as follows:

- a. Delineation of roles and responsibilities of various key players in the organization on internal control and internal audit to foster participation and involvement at all levels;
- b. Improvement in the communication between the IAS/IAU and its principal, including the reportorial line of the IAS/IAU to the head of the department or agency;
- c. Provision of more comprehensive and detailed workflow charts/diagrams of key internal audit processes, and generic templates on internal audit reports, plans and communications to better guide internal auditors;
- d. Inclusion of actual examples of non-audit functions, as well as the appropriate series of actions to be taken by the IAS/IAU when it is instructed to do the same;
- e. Inclusion of good practices by the IAS of certain departments in the Executive Branch relative to organizing the IA, as well as certain phases of the IA process;
- f. Clarification on the distinction between internal audit and internal quality audit, the latter of which is being conducted as part of the implementation of an ISO 9001 certified quality management system;
- g. Clarification on certain provisions of the COA IASPPS, which include the following:
  - i. Authority, purpose and functions of an IAS/IAU;
  - ii. Involvement of internal auditors in the improvement of operations, and the provision of assistance on the effectiveness of governance, risk management and control processes;
  - iii. Appropriate series of actions to be taken by the IAS/IAU when it receives a request from internal and external parties for a copy of internal audit plans, reports and other related/supporting documents; and
  - iv. Exhaustion of administrative remedies in the case of non-resolution of certain issues within the agency.

2.4 The revised PGIAM is divided into two (2) parts:

- a. **Part I: Guidelines** – outlines the basic concepts and principles of internal audit and the internal control system, as well as the policies and standards that will guide government agencies in organizing, managing, and conducting an effective internal audit; and
- b. **Part II: Practices** – contains the approaches, tools and techniques that could be used to facilitate the conduct of internal audit activities by the IAS/IAU, to assist the agency head in undertaking a separate evaluation of the internal control system to determine if controls are well designed and properly implemented.

### 3.0 **Applicability**

- 3.1 The content of the revised PGIAM is consistent with existing national laws, rules and regulations, as well as international best practices to the extent allowed by Philippine jurisprudence.

Hence, the same is applicable to all departments and agencies of the Executive Branch, including GOCCs/GFIs and SUCs.

- 3.2 While the PGIAM is also applicable to LGUs, an **Internal Audit Manual for LGUs** was issued through Local Budget Circular No. 110, s. 2016 to serve as a practical guide in establishing and operationalizing internal audit in the Philippine local government setting.

Pending the revision of the Internal Audit Manual for LGUs to harmonize the same with the changes made in the revised PGIAM, the LGUs shall adopt the applicable provisions of the latter to further strengthen their respective internal control systems through the conduct of internal audit.

- 3.3 The Judicial and Legislative Branches and the Constitutional Offices are also encouraged to utilize the revised PGIAM in the operationalization of their internal audit function.

### 4.0 **Guidelines**

- 4.1 The revised PGIAM, which is made an integral part of this Circular Letter and could be downloaded from the DBM website<sup>10</sup>, shall govern the internal audit work in the agencies under the Executive Branch of the Philippine government.

Thus, government agencies concerned are directed to make use of the same as their guide in executing the internal audit function in their respective offices. They should refrain from using other guidelines and standards on internal auditing that are inconsistent with existing Philippine laws, rules and regulations, and/or not applicable for adoption by the Philippine public sector.

- 4.2 Internal audit is the evaluation of management controls and operations performance, and the determination of the degree of compliance of internal controls 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 audit and management control.

It is drawn from the power of control and supervision of the agency head.

- 4.3 The IAS/IAU shall focus on the performance of their functions consistent with the Administrative Code of 1987, as amended, as reiterated in the NGICS, other DBM issuances and the revised PGIAM.

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<sup>10</sup> <https://www.dbm.gov.ph/>

The IAS/IAU should not perform non-audit functions, which include participation in the operations and processes of another unit in the organization, such as governance, supervision and control, management and process improvements, risk management, and risk assessment. These are in conflict with the post-audit function of the IAS/IAU.

4.4 The conduct of audit shall adhere to the principles of internal auditing indicated in the revised Manual that would help make internal audit an effective and reliable tool in support of management policies and controls. These principles include, among others, the following:

- a. Practice of objectivity and impartiality, and avoidance of conflict of interest;
- b. Use of evidence-based approaches;
- c. Adherence to the code of conduct and ethics in the Philippine public sector; and
- d. Adherence to the hierarchy of applicable standards and practices.

4.5 All agencies shall be guided by the delineation of the roles and responsibilities on internal control and internal audit as provided in the revised PGIAM.

In particular, internal auditors should not be responsible for establishing internal controls. As a management control, internal control requires the participation and involvement of the agency head, officials and personnel at all levels, including the various organizational units therein, in order to ensure that the agency's mandate and sectoral goals are achieved efficiently, effectively economically, and ethically.

For internal audit, the Department Secretary/Head of Agency or the Governing Body/Audit Committee shall provide the overall strategic direction in the conduct of internal audit in the organization, from planning to performance evaluation. On the other hand, the auditees shall play a cooperative role in the course of the conduct of internal audit by the IAS/IAU.

## 5.0 **Resolution of Issues**

Issues and concerns that may arise in the implementation of this Circular, including cases/situations not covered herein, shall be submitted to the DBM for resolution.

## 6.0 **Separability**

If any part or provision of this Circular Letter is held invalid or unconstitutional, the other provisions not affected thereby shall remain in force and effect.

## 7.0 **Repeal**

DBM Circular Letter No. 2011-5 dated 19 May 2011 is hereby repealed. All other existing guidelines, circulars or issuances, or parts thereof, which are inconsistent with this Circular Letter are hereby repealed, amended or modified accordingly.

## 8.0 **Effectivity**

This Circular Letter shall take effect fifteen (15) days after its complete publication in the Official Gazette and the filing of three (3) certified true copies thereof with the Office of the National Administrative Register of the University of the Philippines Law Center.

  
**WENDEL E. AVISADO**  
Secretary

