REVISED PHILIPPINE GOVERNMENT INTERNAL AUDIT MANUAL

2020

PREFACE

Internal audit, a component of the internal control system, is a strategic function in ensuring good governance throughout the bureaucracy.

Internal auditors in the Philippine Government are mandated to carry out fundamental role of assisting their respective department secretaries/heads of agencies or the governing bodies/audit committees in promoting effective, efficient, ethical and economical operations by appraising the adequacy of internal controls, consistent with the National Guidelines on Internal Control Systems (NGICS) that was issued through DBM Circular Letter (CL) No. 2008-8 dated 23 October 2008. The findings on the appraisal of the effectiveness and adequacy of internal controls are provided to said officials/bodies to institute corrective and preventive measures and achieve the agency objectives.

The role of the internal auditor is not about fault-finding, neither investigative, nor punitive. As one of the accountability mechanisms in public service organizations, the internal auditor reviews the degree of compliance of internal controls with laws and policies under the authority of the Department Secretary/Head of Agency or the Governing Board/Audit Committee.

As a component of the performance management framework of departments, agencies, government-owned or -controlled corporations (GOCCs), government financial institutions (GFIs), state universities and colleges (SUCs) and local government units (LGUs), internal auditors assess the levels of performance against agreed measures, targets and objectives. The internal audit function is separate from, but complementary to, the day-to-day monitoring of internal controls and the conduct of continual management improvement, which are within the responsibility of operating units.

The 2020 Philippine Government Internal Audit Manual (PGIAM) is an updated version of the PGIAM developed in 2011 and issued under DBM Circular Letter No. 2011-05 dated 19 May 2011.

This revised Manual has been issued 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 in 2018 and 2019 of the DBM project under the Budget Reform Program entitled, Assessment of Internal Control and Internal Audit in National Government Agencies.

Moreover, the Manual has been revised to clarify and/or harmonize with pertinent laws, rules, regulations, guidelines and standards on the matter, including the Commission on Audit's Internal Audit Standards for the Philippine Public Sector (IASPPS).

Similar to the first version of the PGIAM, it aims to assist departments, agencies, GOCCs, GFIs, SUCs, LGUs and other agencies of government in establishing, and thereafter strengthening, the internal audit function in their institutions.

It is divided into two parts:

- **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
- **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.

  In addition, more comprehensive and detailed workflow charts/diagrams of key internal audit processes and generic templates on internal audit reports, plans, and communications to serve as guide to internal auditors are included in the Manual.

The Department of Budget and Management, in conjunction with the Office of the President – Office of the Deputy Executive Secretary for Internal Audit, will regularly review this Manual to ensure that it remains updated, relevant and attuned to the developments in the bureaucracy.

TABLE OF CONTENTS

LIST OF BOXES

LIST OF FIGURES

LIST OF TABLES

LIST OF APPENDICES

LIST OF ACRONYMS

2Cs	Criteria and Condition
4Cs	Criteria, Condition, Conclusion and Cause
4Es	Effective, efficient, ethical and economical
AFNM	Audit Follow-Up Notification Memorandum
AO	Administrative Order
ANM	Audit Notification Memorandum
AuditCom	Audit Committee
AWP	Annual Work Plan
BAICS	Baseline assessment of the internal control system
BAC	Bids and Awards Committee
BAR	Baseline Assessment Report
BC	Budget Circular
CBA	Cost-Benefit analysis
CHED	Commission on Higher Education
CL	Circular Letter
CMNM	Closing Meeting Notification Memorandum
COA	Commission on Audit
CSC	Civil Service Commission
CU	Control Universe
CUD	Control Universe Document
DBIFC	Disclosure of Business Interests and Financial Connections
DBM	Department of Budget and Management
DepEd	Department of Education
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DPWH	Department of Public Works and Highways
DS	Department Secretary
DTS	Document Tracking System
EO	Executive Order
ExeCom	Executive Committee
FMS	Financial management system
GAA	General Appropriations Act
GAS	General administration and support
GB	Governing Body
GFI	Government Financial Institution
GISP	Government Information Systems Plan
GOCC	Government-Owned or -Controlled Corporation
GQMSS	Government Quality Management Systems Standards
HACCP	Hazard analysis and critical control points
HoA	Head of Agency
HoIA	Head of Internal Audit
HRM	Human Resources Management
IAS/IAU	Internal Audit Service/Unit
IAR	Internal Audit Report

ICQ	Internal Control Questionnaire
IDR	Identification and Disclosure of Relatives
ISO	International Organization for Standardization
IT	Information technology
KPI	Key performance indicator
LGU	Local Government Unit
LOPA	Layers of protection analysis
ManCom	Management Committee
MC	Memorandum Circular
MCA	Multi-criteria analysis
MO	Memorandum Order
NEP	National Expenditure Program
NGICS	National Guidelines on Internal Control Systems
OP	Office of the President
OPIF	Organizational Performance Indicators Framework
OPS	Operations
OSEC	Office of the Secretary
PAPs	Programs, activities, projects
PD	Presidential Decree
PGIAM	Philippine Government Internal Audit Manual
PNS	Philippine National Standards
PREXC	Program Expenditure Classification
PT	Planning Team
PTL	Planning Team Leader
QMS	Quality management system
RA	Republic Act
RCA	Root Cause Analysis
RM	Risk management
SALN	Statement of Assets, Liabilities and Networth
SG	Salary Grade
STO	Support to operations
SUCs	State Universities and Colleges
TCWP	Test of Control Work Paper
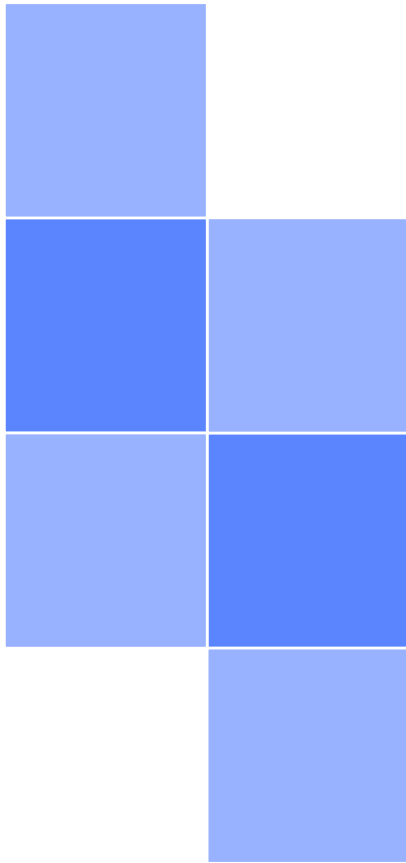
Part I: Guidelines

INTRODUCTION

To complement the implementation of the National Guidelines on Internal Control Systems (NGICS), the **Philippine Government Internal Audit Manual (PGIAM)** was issued in 2011 to explain and clarify the legal bases, nature and scope of internal audit in the Philippine public sector, including its institutional arrangements, as well as its protocols and processes.

The NGICS was issued by the Department of Budget and Management (DBM) in October 2008 pursuant to its mandate to promulgate the necessary rules, regulations and circulars for the strengthening of the internal control systems of government agencies per Administrative Order No. 119 dated 29 March 1989, as amended, and Memorandum Order No. 277 dated 17 January 1990 that were both issued by the Office of the President.
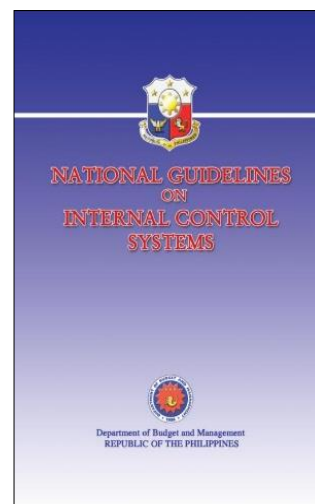
Following the pertinent provisions of the 1987 Philippine Constitution, existing national laws, rules and regulations (e.g., Government Auditing Code of the Philippines, as amended, and Administrative Code of 1987, as amended) and the United Nations Convention Against Corruption, the NGICS serves as a guide to the heads of departments and agencies in designing, installing, implementing and monitoring a strong and responsive internal control system.

In fulfilling their mandates and missions, departments and agencies must consider and observe the general objectives of internal control, namely to:

1. Safeguard assets;
2. Check the accuracy and reliability of accounting data;
3. Ensure efficient, effective, ethical and economical operations;
4. Comply with laws and regulations; and
5. Adhere to managerial policies.

To achieve these objectives, five (5) interrelated internal control components as enumerated below need to be set in place:

1. Control environment;
2. Risk assessment;
3. Control activities;
4. Information and communication; and
5. Monitoring and evaluation.

While it is the direct responsibility of the agency head to install, implement and monitor a sound system of internal control, the **Internal Audit Service/Unit (IAS/IAU)** assists him/her by conducting a separate evaluation of the internal control system to determine if controls are well designed and properly implemented.

This function of the IAS/IAU is separate or distinct from the function of the operating and support units in regular agencies, and their equivalent in government-owned or -controlled corporations, government financial institutions, and state universities and colleges, which monitor and institute continual improvement of internal controls within their respective agencies to support the achievement of performance targets and organizational objectives.

From a baseline assessment of the internal control system that aims to identify gaps or control deficiencies, the IAS/IAU recommends an audit agenda for approval by the Department Secretary/Head of Agency (DS/HoA) or the Governing Body/Audit Committee (GB/AuditCom). Once approved, internal audit is conducted based on set procedures and criteria. The results of internal audit are submitted to the DS/HoA or the GB/AuditCom with appropriate recommendations. The PGIAM provides guidelines and protocols in the performance of these internal audit functions.

After nine (9) years since its issuance, this Manual is revised to clarify and address various emerging issues and concerns that are relevant to the effective and efficient conduct of internal audit in the government, as well as to harmonize with pertinent laws, rules, regulations, guidelines and standards on the matter.

CHAPTER 1

CONCEPTS AND PRINCIPLES OF INTERNAL AUDIT

1. Definition of Internal Audit

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.

The foregoing definition of internal audit is adopted from the existing provision under the Administrative Code of 1987[1], as amended. Internal audit, being a separate component of internal control, is instituted to determine whether internal controls are well designed and properly implemented.[2]

The power to conduct internal audit is drawn from the power of control and supervision of the Secretary.[3] Specifically, the Administrative Code of 1987, as amended, provides that supervision includes the conduct of management audit.[4]

The results of internal audit undertaken by the Internal Audit Service/Unit (IAS/IAU) are provided to the Department Secretary/Head of Agency (DS/HoA) or the Governing Body/Audit Committee (GB/AuditCom) to assist the same in achieving organizational objectives in an effective, efficient, economical and ethical manner.

2. Legal Bases for Internal Audit

The establishment of the internal audit function is based on the Philippine Constitution, laws and related issuances.

The creation of the IAS was first mandated under Republic Act (RA) No. 3456 *(Internal Auditing Act of 1962)*, as amended by RA No. 4177, s. 1965. With the reorganization of the Executive Branch of government under Presidential Decree (PD) No. 1, s. 1972, the IAS was effectively abolished or dissolved with its

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[1] Section 8, Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[2] Section 55 (b), Title II-Internal Control System, Volume III, Commission on Audit Circular No. 91-368 (Government Accounting and Auditing Manual), 19 December 1991; Section 8(3), Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended; and National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 39

[3] "Petitioner VFP is a public corporation. As such, it can be placed **under the control and supervision of the Secretary of National Defense, who consequently has the power to conduct an extensive management audit** of petitioner corporation." (emphasis supplied) [The Veterans Federation of the Philippines v. Reyes, G.R. No. 155027, 28 February 2006, SC E-Library]

[4] "SECTION 38. *Definition of Administrative Relationship.* – x   x   x
(1) x x x
(2) Administrative Supervision. – (a) x x x to generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically but without interference with day-to-day activities; or require the submission of reports and **cause the conduct of management audit**, performance evaluation and inspection to determine compliance with policies, standards and guidelines of the department; to take such action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration;
x x x." (emphasis supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292, (Administrative Code of 1987), 25 July 1987, as amended]

merger with the Management Division of the Financial and Management Service of departments, said division being the surviving entity.[5] Consequently, there was no longer an IAS under RA No. 3456, as amended, by virtue of PD No. 1.

Thereafter, the Administrative Code of 1987[6], as amended, mandated the creation of the present IAS and provided the corresponding internal audit functions, making the same as an integral part in the organizational structure of the Department of Public Works and Highways (DPWH)[7]. Essentially, the present IAS created under the Administrative Code of 1987, as amended, is different and distinct from the IAS under RA No. 3456, as amended, which was further abolished by PD No. 1.

Accordingly, the IAS based on the Administrative Code of 1987, as amended, and the functions defined therein were subsequently adopted and applied across other departments, agencies, government-owned or -controlled corporations (GOCCs) and local government units (LGUs) through various executive issuances.[8] Subsequent administrative orders mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with the Department of Budget and Management (DBM).

The chronological summary of issuances on the organization, functions, activities and staffing on internal audit is provided hereunder.

a. **RA No. 3456** dated 16 June 1962 *(Internal Auditing Act of 1962)*, as amended by RA No. 4177 dated 26 March 1965 *(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")*, mandated the creation, organization and operation of the IAS 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. **PD No. 1** *(Reorganizing the Executive Branch of the National Government)* or the Integrated Reorganization Plan of 1972, which was adopted on 24 September 1972 to effect the desired changes and reforms in the social, economic and political structure of the country, merged the IAS with the Management Division under the Financial and Management Service in departments pursuant to Item 3, Article IV, Chapter I, Part V of the PD.

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[5] "3. The Internal Audit Service and the Management Division in the agencies are merged into a Management Division to which applicable appropriations, records, equipment, property and such personnel as may be necessary are transferred." [Item 3, Article IV – Financial and Management Service, Chapter I – General Policy, Part V – Budgeting and Financial Control, Volume I – Integrated Reorganization Plan, March 1972 as approved by Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), 24 September 1972]

[6] Section 8, Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[7] "SECTION. 4. *Organizational Structure*. – The Department shall be composed of:
(1) The Department Proper consisting of the Office of the Secretary, the Offices of the Undersecretaries and Assistant Secretaries, the Internal Audit Service, Monitoring and Information Service, Planning Service, x x x." (underscoring supplied) [Chapter 1 – General Provisions, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[8] Item 2.4 of DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Department/ Agencies/GOCCs/GFIs Concerned), 14 April 2008, citing Section 8, Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

The surviving entity is the Management Division. There is no longer an IAS under RA No. 3456, as amended, by virtue of PD No. 1 since it was effectively abolished or dissolved through its merger with the Management Division.

c. **Department of Justice (DOJ) Opinion No. 153** dated 27 September 1974 noted that the IAS was abolished by the Integrated Reorganization Plan under PD No. 1 and found no legal basis to allow the payment of salary differentials to seven Auditing Examiners II serving in the defunct IAS of the then Bureau (now Department) of Public Highways.

d. **Executive Order (EO) No. 292** dated 25 July 1987 *(Instituting the Administrative Code of 1987)*, as amended, created an IAS in the DPWH under Section 4, Chapter 1 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, and included the supervision of internal audit activities as one of the functions of the Department of Finance (DOF)'s Central Financial Management Office under Section 12, Chapter 3 – Department Services, Title II – Finance, Book IV – The Executive Branch.

e. **Office of the President (OP) Administrative Order (AO) No. 119** dated 29 March 1989 *(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)*, as amended by **OP AO No. 278** dated 28 April 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)*, mandated government offices and agencies to strengthen their internal control systems and organize systems and procedures, in coordination with the DBM. Furthermore, these offices/agencies were directed to organize their respective IAS/IAU, whose functions, duties and activities are provided therein, to assist the 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 (COA). On the other hand, the DBM was mandated to organize and strengthen the internal control systems and procedures in coordination with the COA, and promulgate the proper and appropriate rules, regulations or circulars.

f. **OP Memorandum Order No. 277** dated 17 January 1990 *(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)* directed the DBM to promulgate the necessary rules, regulations and circulars for the strengthening of the internal control systems of government offices, agencies, GOCCs and LGUs. It clarified the role of the DBM in the strengthening of the internal control systems which is through the promulgation of rules, regulations and circulars.

g. **OP AO No. 70** dated 14 April 2003 *(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)* reiterated the authority for the creation of the IAS/IAU and its functions.

h. **DBM Budget Circular (BC) No. 2004-4** dated 22 March 2004 *(Guidelines on the Organization and Staffing of Internal Auditing Units)* provided the policy guidelines in the organization, staffing and salary grades of the IAS/IAU in departments, agencies, GOCCs/GFIs, state universities and colleges (SUCs), LGUs, and other entities concerned.

i. **OP Memorandum Circular (MC) No. 89** dated 18 August 2005 *(Reiterating Compliance with A.O. 70 s. 2003 "Strengthening of the Internal Control Systems of the Government Offices, Agencies, Government-Owned and/or Controlled Corporation, Including Government Financial Institutions, State Universities and Colleges and Local Government Units" and Its Implementing Guidelines under DBM Circular No. 2004-4)* enjoined all heads of agencies to: *(a)* create an IAS/IAU in compliance with OP AO No. 70, s. 2003; *(b)* observe the guidelines set forth under DBM BC No. 2004-4; and *(c)* submit a report of compliance with AO No. 70, s. 2003 and DBM BC No. 2004-4 to the Office of the Executive Secretary.

j. **Executive Committee on the Rationalization Program (DBM-Civil Service Commission [CSC]) Resolution No. 1** dated 12 May 2006 *(Rationalization Program's Organization and Staffing Standards and Guidelines)* provided under Annex D the guidelines on the creation of the IAS/IAU in departments/agencies concerned, including GOCCs/GFIs, under the agency's Rationalization Plan, pursuant to EO No. 366, s. 2004.

k. **DBM Circular Letter (CL) No. 2008-5** dated 14 April 2008 *(Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFIs Concerned)* provides the guidelines in the organization of the IAS/IAU, clarifying its functions, and specifying the rank and salary grade of the head of the IAS/IAU. The CL states, among others, that the head of the IAS/IAU shall directly report to the DS/HoA in the case of dpartments and regular attached agencies, and to the AuditCom of the GB in the case of GOCCs/GFIs.

l. **DBM CL No. 2008-8** dated 23 October 2008 *(National Guidelines on Internal Control Systems)* issued the NGICS wherein the IAS/IAU, as a key part of the agency's internal control system, is mandated in the agency structure to conduct a separate evaluation or appraisal of the internal control system to determine whether internal controls are well designed and properly implemented.

3. 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 audit and management control.

Among others, internal audit encompasses the evaluation of the degree of compliance of supervision or control with laws, rules and regulations governing the operations of the agency, the appraisal of the adequacy of internal controls and the evaluation of the results of operations, focusing on the effectiveness of controls of operating and support services units/systems in the attainment of agency objectives.

4. Types of Internal Audit

There are three (3) types of internal audit: compliance audit, management audit, and operations audit.

4.1 Compliance Audit

Compliance audit is the evaluation of the degree of compliance of supervision or control with laws, regulations, managerial policies, systems and processes of government, including compliance with accountability measures, ethical standards and contractual obligations.

It also covers the determination of whether or not all other internal control components are well designed and properly implemented.

This type of audit is a necessary first step to, and part of, management and operations audits.

Figure 1 below shows the compliance audit flow diagram.

Components of Internal Control System	Established Criteria/ Standards	Supervision or Control	Output
1. Control environment 2. Risk assessment 3. Control activities 4. Information and communication 5. Monitoring and evaluation	1. The Philippine Constitution 2. Laws and jurisprudence 3. Presidential issuances 4. Issuances of oversight and regulatory bodies 5. Agency issuances	1. Well-designed 2. Properly implemented	Compliance with laws, regulations and policies

Figure 1– Compliance Audit Flow Diagram

4.1.1 Compliance Review as Distinguished from Compliance Audit

Compliance audit should be distinguished from compliance review which is the periodic review conducted by the heads of operating and support offices/units to ensure that operations and processes are in compliance with laws, regulations, policies, procedures, or other requirements. It is not enough that a unit regularly reviews the level of its performance, they must also review its compliance with laws and regulations, among others.

4.2 Management Audit

Management audit is a separate evaluation of the effectiveness of internal controls adopted in the operating and support services units/systems to determine whether or not they achieve the control objectives over a period of time or as of a specific date. It includes the determination of the degree of compliance of control or supervision 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.

Management audit may encompass a comprehensive and thorough examination of an organization or a specific operating or support system or work process. Operating systems include aspects such as the rules of engagement in the conduct of arrest, search and seizure in the case of investigating agencies, and the rules on vaccination and immunization in the case of health facilities. Examples of support services systems are human resource management (HRM) system, financial management system (FMS), quality management system (QMS), risk management system and their sub-systems. The audit is conducted to identify issues and control weaknesses or management deficiencies in the organization, thus providing DS/HoA or GB/AuditCom with courses of action to address the problem area.

Figure 2 below shows the management audit flow diagram.

Components of Internal Control System	Control Objectives	Supervision or Control	Output
1. Control environment 2. Risk assessment 3. Control activities 4. Information and communication 5. Monitoring and evaluation	1. Safeguard assets 2. Check accuracy and reliability of accounting data 3. Adherence to managerial policies 4. Compliance with laws, regulations and policies 5. Ensure "4Es" of operations	1. Operations 2. Support to operations (STO) 3. General administration and support (GAS)	Control effectiveness

Figure 2 – Management Audit Flow Diagram

4.2.1 Control Effectiveness

Management audit focuses on results, evaluating the effectiveness and suitability of supervision or control by reviewing or appraising existing measures and methods. It includes compliance audit and root cause analysis. When performed correctly, it is a potentially useful evaluation method because it can be the basis of corrective or preventive measures.

Control effectiveness refers to the achievement of control objectives. When these control objectives are achieved, it can be concluded that management controls are effective.

Management control refers to internal control, which comprises the plan of organization and all the coordinated 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. Management controls are essential in managing any organization. It is not enough to enact laws or issue regulations, to appropriate budgets, or to establish policies if there can be no effective controls to ensure that they will be properly implemented.

4.2.2 Management Review as Distinguished from Management Audit

Management audit should be distinguished from management review.

Management review is usually conducted by the executive committee (ExeCom)/management committee (ManCom) of a department/agency or the top management of a GOCC, or delegated to the Management Division or the equivalent unit that is usually under the planning or finance service/division of the agency. On the other hand, management audit is conducted by the Management Audit Division of the IAS or the equivalent unit in the IAU.

Other distinctions between management review and management audit are summarized in Table 1 below.

Table 1 – Distinction Between Management Review and Management Audit

Particulars	Management Review	Management Audit
Focus	Review of existing organizational structure, methods, measures, systems and processes to ensure continuing suitability, adequacy and effectiveness, and identify and assess opportunities for improvement	Evaluation of management control effectiveness, and determination of the probable/root cause of control deficiencies, if any
Scope	Existing management system and practices, procedures and processes, organizational structure, staffing standards and manpower requirements	Degree of compliance of supervision or control with laws, rules, policies and contractual obligations, and supervision or control effectiveness on operations, STO and GAS for a specific date or period

Particulars	Management Review	Management Audit
Timing	Conducted anytime prior to, during or even after the implementation of a system or process	Takes place "after the fact" and covers a complete cycle of operations
Action to be taken	Improve the existing management system and practices or develop new management system and practices, procedures and processes, staffing standards and manpower requirements	Report to the DS/HoA or GB/AuditCom all matters relating to management control, and recommend realistic courses of action, i.e. management and/or administrative action/s, to address inadequacy in internal controls

4.3 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 (4Es). It likewise includes the determination of the degree of compliance of supervision or controls with laws, regulations, managerial policies, accountability measures and contractual obligations.

Figure 3 below shows the operations audit flow diagram.

EFFICIENT
"Doing things right" given the available inputs and within a specified timeframe

EFFECTIVE
"Doing the right things," achieving expected results and contribute to sectoral goals

ECONOMICAL
Perform using the least amount of inputs within a specific timeframe

ETHICAL
Consistent with the Code of Conduct and Ethical Standards

Input
Law, mandate, program, organization, staff, system, resources (e.g., physical), managerial policies, and citizen's needs

Process
Implementation, risk response, performance and compliance reviews

Outputs
Products/goods and services

Outcomes
Benefits and impact/change

Figure 3 – Operations Audit Flow Diagram

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 4Es of government operations is to contribute to better public services, accountability and 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 in the evaluation.

4.3.1 Operations Review as Distinguished from Operations Audit

Operations audit should be distinguished from operations review being conducted by the heads of operating and support offices/units which involves the determination on whether or not actual accomplishments meet established objectives and standards, and implementation of improvements when necessary.

In the conduct of an operations review, performance is reviewed on a regular basis. If actual accomplishments do not meet the established objectives or standards, the processes established to achieve the objectives should be reviewed to determine if improvements are needed.

4.3.2 Work Back Approach

Essential to the conduct of operations audit is the assessment of progress with respect to processes, projects and programs, and their respective outputs and outcomes or impact/change towards improving the condition of intended beneficiaries. This is the work back approach of operations audit wherein the evaluation is done on the outcome-output-processes-input as they relate to the 4Es. This approach starts with a set of objectives (e.g., statutory policy objectives) that the DS/HoA or GB/AuditCom wants to achieve (expected outputs and outcomes) which have been formulated in a SMART manner (i.e., specific, measurable, attainable, realistic and time-bound).

Figure 4 below shows the work back approach (outcome-output-process-input) flow diagram.

Input Audit Evaluation	Process Audit Evaluation	Output Audit Evaluation	Outcome Audit Evaluation
Input	**Process**	**Outputs**	**Outcomes**
Law, mandate, program, organization, staff, system, resources (e.g., physical), managerial policies, and citizen's needs	Implementation, risk response, performance and compliance reviews	Products/goods and services	Benefits and impact/change

Figure 4 – Work Back Approach Flow Diagram

The work back approach of operations audit requires proper identification of programs/projects/processes and their respective outputs and outcomes. This is to establish causality between programs and projects, projects and processes, as well as their respective outputs and outcomes.

a. Programs/Projects/Processes

    i. Activities are equivalent to a process.

Activity is defined as a recurring work process that contributes to the implementation of a program or sub-program.[9] A group of interrelated activities with inputs to deliver outputs is considered a process.[10] Activities in public service sector organizations through which inputs are transformed into outputs are equivalent to a process[11] referred in the Government Quality Management Systems Standards (GQMSS) and NGICS.

The concept of an activity referred to in the Organizational Performance Indicator Framework (OPIF),[12] which evolved into the Program Expenditure Classification (PREXC) approach, under a program, activity, project (PAP – strategy and manner for effectively and efficiently delivering outputs and goods) is the same concept in the GQMSS and NGICS. These activities must add value to inputs to generate intended outputs. The organization can discontinue an activity that does not contribute to the attainment of a particular output.

    ii. A project is a component of a program.

The Administrative Code of 1987, as amended, defines programs and projects. A program refers to the functions and activities necessary for the performance of a major purpose for which a government agency is established, while a project is a component of a program covering a homogenous group of activities that result in the accomplishment of an identifiable output.[13]

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[9] Item 4.1, DBM National Budget Circular No. 569 [Adoption of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018], 8 February 2017

[10] Item 2.4.1.3, "Quality management systems – Fundamentals and vocabulary," PNS ISO 9000:2015 (ISO published 2015), 2015-09-1

[11] Process refers to the "set of interrelated or interacting activities of the public sector organization which transforms input elements (policies, resources, citizen needs and expectations, etc.) into outputs/outcomes (the products and services provided to the citizens)." (underscoring supplied) [Clause 3.5, Government Quality Management System Standards (Quality Management Systems – Guidance Document for the Application of ISO 9001:2000 in Public Sector Organizations), Government Quality Management Committee Resolution No. 1, 21 June 2007]; Executive Order No. 605 s. 2007; and Republic Act No. 9013 (Philippine Quality Award Act), 28 February 2001

[12] DBM Circular Letter No. 2007-05 [Conduct of FY 2007 Organizational Performance Indicator Framework (OPIF) Review and Consultation Meetings with the Agencies], 8 February 2007

[13] Section 2, Chapter 1 – General Provisions, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

Under the PREXC-Based Performance-Informed Budgeting (PIB), a program is a "group of activities and projects that contribute to a common particular outcome."[14] The PREXC provides that a program should have the following: "(1) unique expected results or outcomes, (2) a clear target population or client group external to the agency, (3) a defined method of intervention to achieve the desired result, and (4) a clear management structure that defines accountabilities."[15]

Under the PREXC, a program can have a sub-program "with either a more specific method of intervention or more defined target clients that is contained within a bigger program of an agency."[16] A sub-program has a distinct set of interrelated activities directed to the achievement of a common objective. All sub-programs under a particular program contribute to achieving the program outcome.[17]

Based on the foregoing, the following can be construed:

❖ A process is a set of interrelated or interacting activities of the public sector organization which transforms input elements (policies, resources, citizens' needs and expectations, etc.) into outputs (the products and services provided to the citizens) and outcomes. A process requires inputs to produce an identifiable output. An output of one process may be an input to another process.

❖ A project as a component of a program covers a homogeneous group of activities or processes needed in the accomplishment of an identifiable output or outputs to be carried out within a definite time frame.

❖ A program is composed of several activities and projects necessary for the accomplishment of a major output and attainment of a program outcome of an agency. An aggregation of these major outputs generates the program outcome of an agency.

❖ Activities and projects are grouped under programs and sub-programs.

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[14] Item 4.10, DBM National Budget Circular No. 569 [Adoption of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018], 8 February 2017
[15] Item 4.10, Id.
[16] Item 4.16, Id.
[17] PREXC Primer, Program Expenditure Classification, The Next Phase of the Performance-Informed Budget, p. 4

Figure 5 below shows how activities/projects are grouped under programs and sub-programs following the PREXC approach.
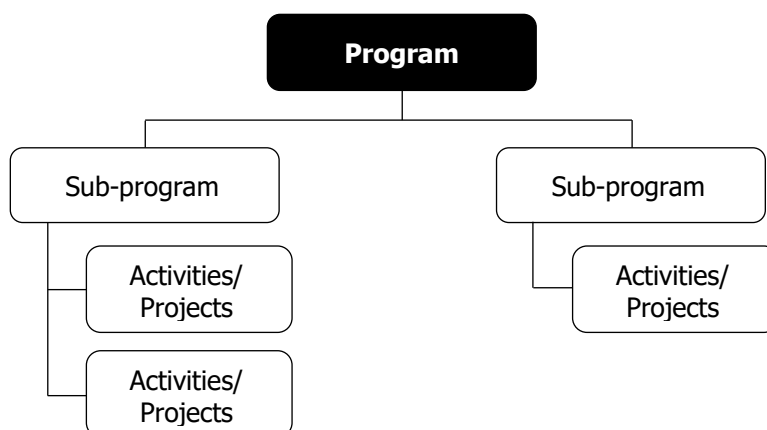
Source: PREXC Primer, Program Expenditure Classification, the Next Phase of the Performance-Informed Budget, p. 5

Figure 5 − Group Activities and Projects under a Program or Sub-Program

b. Program Outcomes/Outputs

A department/agency is expected to achieve their organizational outcome which is a "short to medium-term result produced by an agency that contributes to the achievement of its legislated mandate and is achieved through the delivery of its programs."[18] The achievement of said organizational outcome will be through the delivery of the programs of the department/agency.

Program outputs and outcomes under the PREXC (previously the major final outputs and organizational outcome under the OPIF) are the same as the output and outcome referred to in the GQMSS and NGICS. The achievement of a program (performance) could be measured through its output and outcome indicators.

Specifically, an outcome is any change, effect, or result brought about by an agency's programs or strategies upon individuals, social structures, or the physical environment.[19] On the other hand, an output is any good or service that an agency delivers to a target population or client group external to the agency.[20] Outputs generated from the projects and processes subsequently contribute to the achievement of the program outputs, which is why projects and activities are grouped under the programs following the PREXC approach.

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[18] Item 4.4, Id.
[19] Item 4.6, Id.
[20] Item 4.7, Id.

c. Identification of Delivery Units

Organizations are composed of delivery units defined as "the primary subdivision of the department/agency performing substantive line functions, technical services or administrative support, as reflected in the Department's/Agency's organizational structure/functional chart."[21]

The identification of a delivery unit, as indicated in Table 2, will depend on the type of government entity, with due consideration to its mandate, organizational level, and scope of operations.

Table 2 – Delivery Units per Type of Government Entity

TYPE OF GOVERNMENT ENTITY	DELIVERY UNITS
Department or Department-Level Entity	➢ Offices ➢ Bureaus ➢ Services ➢ Regional offices, if any
Agency	<u>Intermediate Level</u> ➢ Offices ➢ Bureaus ➢ Services ➢ Regional/field units, if any <u>Bureau Level</u> ➢ Divisions ➢ Field units, if any
SUC	➢ Offices ➢ Services ➢ Campuses ➢ Colleges
GOCC	➢ Offices ➢ Departments

Source: Item 7.2 (a), Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems Memorandum Circular No. 2019-1 (Guidelines on the Grant of the Performance-Based Bonus (PBB) of Fiscal Year (FY) 2019 under Executive Order No. 80, s. 2012 and Executive Order No. 201, s. 2016), 3 September 2019

In consonance with the PREXC-PIB and with the OPIF[22], and subject to type of clients (internal or external), delivery units may be categorized into cost structure/cost component: OPS, STO and GAS.[23] Figure 6 in the next page provides a general depiction of the PREXC budget structure.

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[21] Item 7.2(a), Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems Memorandum Circular No. 2019-1 [Guidelines on the Grant of the Performance-Based Bonus (PBB) of Fiscal Year (FY) 2019 under Executive Order No. 80, s. 2012 and Executive Order No. 201, s. 2016], 3 September 2019

[22] "PAPs [program, activities and projects] are classified by cost structure into: General Administration and Support (GAS), Support to Operations (STO), and Operations." (words in brackets supplied) [DBM, Organizational Performance Indicator Framework (OPIF) Reference Guide, p. 57, DBM Circular Letter No. 2012-9, 13 June 2012]

[23] Item 4, DBM National Budget Circular No. 569 [Adoption of program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018], 8 February 2017

The outputs of the delivery units that relate to the main purpose for which an agency has been created and directed towards external clients belong to operations since they produce the outputs[24]. Accordingly, outputs of delivery units that support the entire agency operations are categorized as GAS while those that provide substantial support to operations but are not directed to external clients are under STO. Delivery units under the STO and GAS produce internal/intermediate outputs[25] delivered from one part of a department/agency to other parts of the same department/agency that contributes to the production of an MFO.
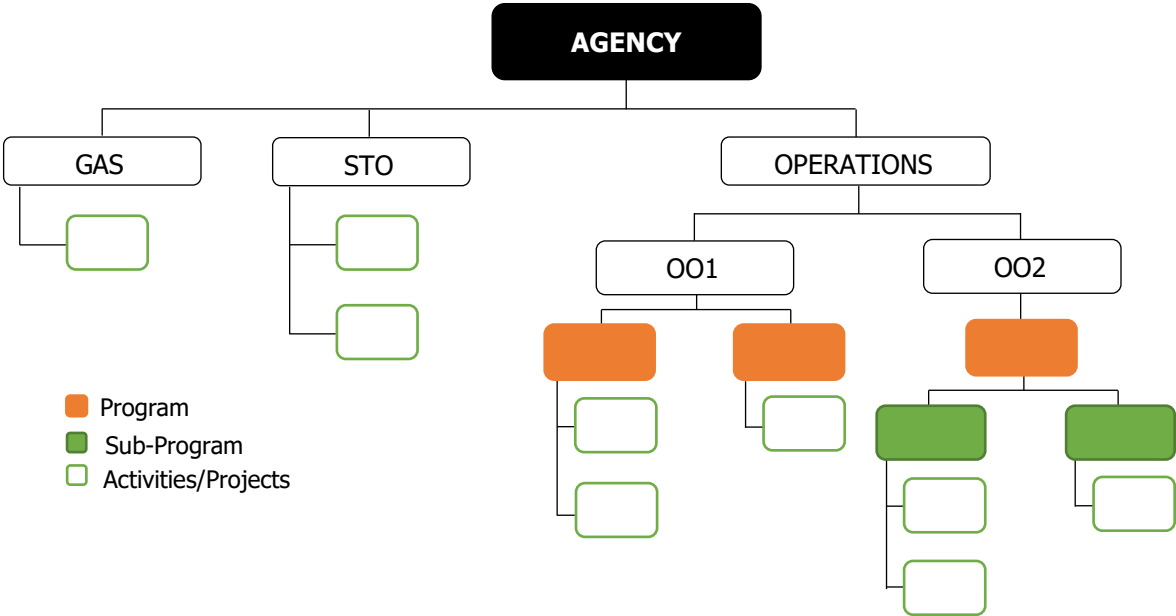
Source: PREXC Primer, Program Expenditure Classification, the Next Phase of the Performance-Informed Budget, p. 8

Figure 6 − PREXC Budget Structure

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[24] "a good[s] or service that a department is mandated to <u>deliver to external clients</u> through the implementation of programs, activities and projects." (underscoring supplied) [Item 4.1, Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems Memorandum Circular 2012-1 (Guidelines on the Cascading of Department Performance Targets in Line with Executive Order [EO] No. 80), 13 August 2012]

[25] "The output delivered from one part of a department/agency <u>delivered to other parts of the same department/agency</u>; contributes to the production of an MFO, <u>but does not form part of the performance measure for the MFO</u> to which it contributes." (underscoring supplied) [Appendix 5. Glossary, Organizational Performance Indicator Framework (OPIF) Reference Guide, p. 94, DBM Circular Letter No. 2012-9, 13 June 2012]

d. Outcome, Output, Process and Input Evaluation

In the work back approach, auditors perform sequential evaluations of the outcome, output, process and inputs. These evaluations are conducted to determine the extent of the direct contribution of inputs, processes and outputs to the achievement of the outcome or impact/change.

i. Outcome Evaluation

In the work back approach of operations audit, an outcome evaluation is conducted to assess the contribution and proper attribution of an agency outcome to the benefits/impact or change in the condition of the intended beneficiaries by comparing the outcomes with the baseline data. An estimate of what would have happened in the absence of program/s of a department/bureau/regional office is determined.

In the conduct of outcome evaluation, proper identification and attribution of the outputs to the outcome or impact/change to the intended beneficiaries should be carried out. Likewise, an assessment should be made on the extent to which a program outcome or impact/change fulfills client/citizens' needs and expectations, as well as on the contribution of such program outcome to raising the quality of life of intended beneficiaries.

❖ Attribution of program outputs to the program outcome

There is a need to disaggregate an agency's program outcome into outputs to establish/document whether such outputs are relevant components of a program and the corresponding organizational outcome. This is to determine the extent of contribution of the actual/observed outputs to a program or organizational outcome.

❖ Attribution of program outcome to impact/change in the condition of intended beneficiaries

There are instances when benefits and impact/change are contributed by several government agencies. For example, an outcome of 80% passing rate of graduating pupils is not only attributable to the Department of Education (DepEd) (and to the private learning institutions and internal stakeholders), as the external stakeholders of the DepED also contribute to the attainment of this outcome, which include other public service sectors such as the public works sector (i.e., DPWH and its internal stakeholders) for roads going to the school, the health sector (i.e., DOH and its internal stakeholders) for the health and nutrition of the students. This form of evaluation is employed when external factors are known to influence the organization's/program's objectives, in order to identify the organization's/program's contribution to the achievement of its targeted outcome.

In the event when benefits and impact/change are contributed by several government agencies, there is a need to identify and accurately measure the particular contribution or intervention of a program outcome to the impact or change in the condition of intended beneficiaries. In this way, causality between the program outcome and the impact/change to the condition of intended beneficiaries is established. This is to determine the extent of the contribution of the programs to the outcome and to the actual/observed impact or change in the condition of intended beneficiaries.

ii. Output Evaluation

An output evaluation is undertaken to assess the extent to which a program achieves its output (products/goods and services). It focuses on outputs to determine the effectiveness of a program, but the project or process/activity may also be assessed to understand how the outputs are produced. Output evaluations establish causality of project/process outputs to program outputs, as well as the correlation of these processes/interrelated activities to a particular program.

In the conduct of output evaluation, proper identification and attribution of project/process outputs to program outputs should be carried out. Likewise, assessment is made on the relevance and contribution of the projects or processes/interrelated activities to the achievement of the respective project/process outputs which contributed to program outputs. In this way, the auditor determines the correlation of projects or processes interrelated activities to a particular program, and their contribution to the achievement of program outputs. Also, the assessment is performed to determine the extent to which program outputs contribute to program outcomes for the fulfillment of client/citizens' needs and requirements.

❖ Attribution of project/process outputs to program outputs

There is a need to disaggregate program outputs into project/process outputs to establish/document whether the latter are relevant components of the former delivered by the agency. This is to determine the extent of contribution of the actual/observed project/process outputs to the program outputs.

iii. Process Evaluation

Process evaluation involves the assessment of the efficiency and ethicality of a process (transformation of an input to an output). A review is conducted to assess the process as to the efficiency in the use of available resources/inputs, as well as its conformity to norms of conduct and ethical standards.

A review is also conducted on interrelated activities to determine whether or not processes have been properly implemented and there is proper conduct of risk response, performance and compliance reviews, as well as the contribution of each activity within a process to the achievement of a process output. Likewise, input elements such as policies, organizational structure, resources, client/citizens' needs and requirements to achieve the process outputs are properly identified.

Process evaluation entails the assessment of the following:

❖ Implementation of processes/interrelated activities as to conformity with established standards and policies. This is to determine whether or not such processes/interrelated activities add value to the inputs for their transformation into outputs.

❖ Internal controls embedded within processes/ interrelated activities as to their design and implementation.

➢ The risk response/treatment is designed to contain uncertainty in achieving the process outputs.

➢ Conduct of performance review to determine whether or not actual process outputs meet established objectives and/or whether processes/ interrelated activities are efficient and effective. In the event when processes/interrelated activities and process outputs fall short of the established standards, the same should be reviewed to determine if process improvements are needed.

➢ Conduct of compliance review to determine the extent of compliance of processes/interrelated activities with established objectives, policies, methods, procedures, laws and regulations.

Processes/interrelated activities are also evaluated as to their ability to meet the requirements of quality outputs. Process evaluation determines whether or not processes/interrelated activities are quality processes that contribute to the delivery of quality outputs to meet client/citizens' needs and expectations.

iv. Input Evaluation

Input evaluation is the assessment of the appropriate and economical sourcing and leveraging of resources/inputs (e.g., statutory policy, mandate, organization, laws, regulations, managerial policies, resources, client/citizens' needs). This is also a review on whether or not resources/inputs are acquired at the right cost, at the right time, at the right place, in the right quantity and of the right quality.

As provided for in the Administrative Code of 1987, as amended, among the inputs, the budget "shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently."[26]

Inputs/resources should be evaluated if they have the ability to meet the requirements of quality outputs. Input evaluation determines whether or not inputs/resources are quality inputs that contribute to the delivery of quality outputs through which client/citizens' needs and requirements are met.

At each phase of the evaluation, emphasis is given to quality results (output and outcome or impact/change), quality processes and quality inputs as these are defined through the identification of the needs and requirements of the clients/citizens.

The GQMSS supports client/citizen satisfaction through the identification and documentation of client/citizens' needs and expectations as basis for the formulation of public sector organization programs.

"The top management of the public sector organization should identify current and (where possible) future needs and expectations of its citizens to meet them and achieve citizen satisfaction within the framework of its legal powers and resources available. The requirements of the citizens should be defined and documented as requirements in public sector organization programs; specific objectives and performance indicators should be identified to ensure that these are being met. The needs and expectations of citizens should be reviewed at planned intervals and updated as necessary to ensure citizen satisfaction."[27]

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[26] "SECTION. 3. *Declaration of Policy.* – x x x. The budget shall be supportive of and consistent with the <u>socio-economic development plan</u> and shall be oriented towards the achievement of <u>explicit objectives</u> and <u>expected results</u>, to ensure that funds are utilized and operations are conducted effectively, economically [and efficiently. x x x." (underscoring supplied) [Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[27] Clause 5.2, Government Quality Management Systems Standards (Quality Management Systems – Guidance Document for the Application of ISO 9001:2000 in the Public Sector Organizations), Government Quality Management Committee Resolution No. 1, 21 June 2007

Citizen-focused public service sector organizations are characterized by producing/providing quality results (outputs and outcomes), having quality processes and quality inputs. Quality is defined in terms of its ability to meet citizens' needs and expectations. Hence, quality results, quality processes and quality inputs of public service sector organizations are geared towards the fulfillment of these needs and expectations.

4.3.3 The 4Es (Effective, Efficient, Ethical and Economical) of Operations Audit

Public service requires that the organization's outputs and outcomes are measured in terms of how these directly affect the quantity, quality, timeliness and cost of public service delivery through effective, efficient, ethical, and economical operations.

a. **Effective** means being able to "do the right things." Effectiveness refers to the achievement of objectives. It involves an assessment of the outcomes of the department/bureau/regional office programs and outputs of the program which accrue to the public, measured in terms of performance measures or targets.

Every department/agency has a legislated mandate and functions. Each operating unit has a responsibility in achieving the department/agency's mandate and functions. Effective operations mean that operating units are able to deliver their outputs and outcomes, able to achieve the expected results, and contribute to the achievement of sectoral and societal goals.

Effectiveness is concerned with the relationship between goals and objectives, outputs and outcomes. Are the stipulated aims being met by the means employed, the outputs delivered and when aggregated will achieve the outcome? Are the impacts or change observed really the results of operations rather than other circumstances?

In auditing effectiveness, operations audit may, for instance undertake the following:

i. Assess whether or not government programs have been formulated and approved with clear and specific objectives;

ii. Assess whether or not the means provided (budget, etc.) for a new or ongoing government program are adequate, consistent, suitable or relevant;

iii. Assess whether or not the quantity, quality and timeliness of the public services meet the client/citizens' needs or the statutory objectives;

iv. Assess the effectiveness of government investments and programs and/or their individual components, i.e., ascertain whether or not the goals and objectives are met; and

v. Identify the relative utility of alternative approaches to yield better performance or eliminate factors that inhibit program/project effectiveness.

b. **Efficient** means being able to "do 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. It follows the principle of prioritization and leveraging by determining the critical path and assigning available resources. Efficiency means optimum utilization of resources keeping in mind the objectives of the organization.

In evaluating efficiency, the main question is whether or not available inputs have been put to optimal or satisfactory use or whether the same or similar results in terms of quantity, quality and turn-around time could have been achieved when compared with other public service sector organizations, both public and private.

For instance, are the processes generating the most output – in terms of quantity and quality – from the inputs? The question refers to the relationship between the quality and quantity of products/goods and services generated and the inputs utilized to produce them, in order to achieve the desired results.

The efficiency of a process is audited by examining the inputs based on available resources utilized, determining whether or not policy and regulatory measures are properly in place, or assessing the degree of leverage with other public service sector organizations.

Any finding on efficiency is usually only relative, while occasionally, inefficiency is immediately apparent. A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods, or with a standard that has been explicitly adopted.

There is a need for a process evaluation to review the efficiency and the ethicality of a process. As previously mentioned, efficiency is "doing things right" given the available resources/inputs and within a specified timeframe, while ethicality is about conforming to the norms of conduct and ethical standards in the course of the delivery of services to the public. A three-pronged approach is done involving the review of implementation, risk response, performance review and compliance review. It is a typical work back approach to evaluate the conformity of the organization/program/project to statutory and regulatory requirements, design, standards, and client/citizens' needs and expectations.

In essence, efficiency indicates how well an organization uses its inputs to produce or deliver quality products/goods and services. Thus, it focuses on the transformation of inputs to outputs, and the rate (productivity) at which inputs are used to produce or deliver the outputs. Output dimensions include quantity, quality and timeliness. The quantity of outputs delivered to the public are in terms of amount, volume, or number of products/goods produced and/or level of services delivered. Outputs should meet the quality requirements; statutory and regulatory requirements; agency requirements; process design and standards; and the needs and expectations of the citizens. In short, quality outputs are delivered to improve the quality of life of the public being served.

c. **Ethical** means being able to conform to the norms of conduct and ethical standards as contained in RA No. 6713 dated 20 February 1989, otherwise known as the "Code of Conduct and Ethical Standards for Public Officials and Employees."

The Code of Conduct and Ethical Standards for Public Officials and Employees declares that public officials and employees shall at all times be accountable to the people and shall discharge their duties with utmost responsibility, integrity, competence, and loyalty, act with patriotism and justice, lead modest lives, and uphold public interest over personal interest.

Every public official and employee is expected to observe the standards of personal conduct in the discharge and execution of official duties which, among others, include the following:

i. *Commitment to public interest.* Public officials and employees shall always uphold public interest over and above their personal interest. All government resources and powers of their respective offices must be employed and used efficiently, effectively, honestly and economically, particularly to avoid wastage in public funds and revenues.

ii. *Professionalism.* Public officials and employees shall perform and discharge their duties with the highest degree of excellence, professionalism, intelligence and skill. They shall enter public service with utmost devotion and dedication to duty. They shall endeavor to discourage wrong perceptions of their roles as dispensers or peddlers of undue patronage.

A compliance audit shall be made to determine conformity with the norms of conduct and ethical standards. The procedures for fact-finding review in administrative cases (e.g., 2017 Rules on Administrative Cases in the Civil Service or Rules of Procedure of the Office of the Ombudsman) can be used in the evaluation of ethicality.

d. **Economical** means being able to perform 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.

Organizations are enjoined to exercise prudence and restraint in the use of their resources by focusing on their core functions and prioritizing their programs/projects to those which would contribute best to the attainment of agency objectives. A compliance audit is made in an input evaluation (economy). Adherence to the Government Procurement Reform Act (RA No. 9184 dated 10 January 2003) and its Revised Implementing Rules and Regulations will also help in ensuring economy.

Audits of economy may provide answers to questions such as the following:

i. Do the means chosen, policy, organization (public or private service entities) – the inputs – represent the most economical in the achievement of the organization's objectives and goals?
ii. Have the human, financial and non-financial resources been used economically?

It is often a challenging task for an auditor to assess whether or not the inputs chosen represent the most economical use of public funds and property and whether or not the least amount of resources available have been used economically. These are considered as inputs: statutory policy, mandate, organization, laws, regulations, managerial policies, and resources (manpower, money, minutes, materials, machines, methods and measures).

5. Principles of Internal Auditing

Internal auditing is characterized by reliance on a number of principles that auditors must adhere to. These principles should help make it an effective and reliable tool in support of management policies and controls.[28]

5.1 Objectivity and Impartiality, and Avoidance of Conflict of Interest

Objectivity and impartiality are vital to the effectiveness of the internal audit function. In order to maintain objectivity and impartiality and uphold public interest, the internal auditor should avoid conflict of interest at all times. He/she should maintain an impartial, unbiased attitude, characterized by integrity and an objective approach to work, and be constantly conscious of and alert to factors which may give rise to conflict of interest.

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.[29]

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 himself/herself or his/her related interests.

To be objective and impartial, the internal auditor shall at all times uphold public interest over and above personal interest. He/she should have no direct authority or responsibility for the activities he/she reviews and no responsibility for developing or implementing processes or systems. He/she should not engage in regular functions or activities which are the primary duties of another unit of the agency, as noted in the NGICS. He/she should not have a vested interest in the activity being audited.

Internal auditors are not allowed to make the rules – they shall audit against performance standards that are already in place and accepted by the agency. If they develop the rules, they cannot impartially evaluate the effectiveness and application of these rules.

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[28] PNS ISO 19011:2018 (ISO published 2018), Guidelines for auditing management systems, p.5
[29] This was aptly illustrated in Veneracion and Linatoc v. Office of the Court Administrator, A.M. No. RTJ-99-1432, 21 June 2000 and Muro v. State Prosecutors, A.M. No. RTJ-92-876, 11 December 1995. "What is required on the part of the judges is objectivity. An independent judiciary does not mean that judges can resolve specific disputes entirely as they please. They are bound by limitations on their authority, by substantive and procedural rules of law, more importantly by Constitutional precepts and the recognition of their places in the hierarchy of courts."

5.2 Professional Competence

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

5.3 Authority and Confidentiality

Based on the audit objectives and subject to compliance with the internal security policies of public service organizations,[30] the head of agency should authorize internal auditors to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the IAS/IAU head considers necessary in undertaking internal audit activities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The internal auditor should respect the confidentiality of information acquired in the course of performing the audit activities and should not use or disclose any such information without proper and specific authority, unless there is a legal or professional right or duty to disclose.

Confidentiality is not only a matter of disclosure of information. It also requires that the internal auditor acquiring information in the course of the audit neither uses nor appears to use that information for personal advantage or for the advantage of a third party.

The IAS/IAU head 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.

In case the IAS/IAU receives a request for a copy of internal audit plans, reports and other related or supporting documents, the requesting entity, whether an internal or external party, should only be given the same after proper authorization by the DS/HoA/GB/AuditCom. In addition, access to such documents should be in accordance with agency-specific policies on security of information and disclosure.

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[30] Public service organizations are classified into two: (1) public entities and (2) private enterprises providing public services. [Item 3.1.1(a), Chapter 3 – Components of Internal Control, National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008,]

5.4 Evidence-Based Approach

Internal auditors should be able to gather sufficient evidential matters in support of their findings and recommendations.[31] Audit evidence covers all information that permit the auditor to reach reliable conclusions through valid reasoning. Pieces of evidence need to be relevant, sufficient and appropriate.

(Refer to PGIAM Part II – Practices, Chapter 2 for the discussion of the tools and techniques in gathering and analysis of evidence.)

5.5 Code of Conduct and Ethics

As public servants, internal auditors are bound by the Code of Conduct and Ethical Standards for Public Officials and Employees in the performance of their functions. Rule X of the Rules Implementing said Code affirms as grounds for administrative disciplinary action at least twenty-three (23) acts or omissions declared unlawful or prohibited by the Code (see Box 1).

Box 1 – Rule X: Grounds for Administrative Disciplinary Action

Section 1. In addition to the grounds for administrative disciplinary action prescribed under existing laws, the acts and omissions of any official or employee, whether or not he holds office or employment in a casual, temporary, hold-over, permanent or regular capacity, declared unlawful or prohibited by the Code, shall constitute grounds for administrative disciplinary action, and without prejudice to criminal and civil liabilities provided herein, such as:

a. Directly or indirectly having financial and material interest in any transaction requiring the approval of his office. Financial and material interest is defined as a pecuniary or proprietary interest by which a person will gain or lose something;

b. Owning, controlling, managing or accepting employment as officer, employee, consultant, counsel, broker, agent, trustee, or nominee in any private enterprise regulated, supervised or licensed by his office, unless expressly allowed by law;

c. Engaging in the private practice of his profession unless authorized by the Constitution, law or regulation, provided that such practice will not conflict or tend to conflict with his official functions;

d. Recommending any person to any position in a private enterprise which has a regular or pending official transaction with his office, unless such recommendation or referral is mandated by (1) law, or (2) international agreements, commitment and obligation, or as part of the functions of his office;

These acts shall continue to be prohibited for a period of one (1) year after resignation, retirement, or separation from public office, except in the case of paragraph (c) above, but the professional concerned cannot practice his profession in connection with any matter before the office he used to be with, within one year after such resignation, retirement, or separation provided that any violation hereof shall be a ground for administrative disciplinary action upon re-entry to the government service.

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[31] Section 3.2, 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), 28 April 1992

e. Disclosing or misusing confidential or classified information officially known to him by reason of his office and not made available to the public, to further his private interests or give undue advantage to anyone, or to prejudice the public interest;

f. Soliciting or accepting, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary value which in the course of his official duties or in connection with any operation being regulated by, or any transaction which may be affected by the functions of, his office. The propriety or impropriety of the foregoing shall be determined by its value, kinship or relationship between giver and receiver and the motivation. A thing of monetary value is one which is evidently or manifestly excessive by its very nature.

Gift refers to a thing or a right disposed of gratuitously, or any act of liberality, in favor of another who accepts it, and shall include a simulated sale or an ostensibly onerous disposition thereof.

Loan covers both simple loan and commodatum as well as guarantees, financing arrangement or accommodations intended to ensure its approval. Commodatum refers to a contract whereby one of the parties deliver to another something not consumable so that the latter may use the same for a certain time and return it.

This prohibition shall not include:

(1) Unsolicited gift of nominal or insignificant value not given in anticipation of, or in exchange for, a favor from a public official or employee or given after the transaction is completed, or service is rendered. As to what is a gift of nominal value will depend on the circumstances of each case taking into account the salary of the official or employee, the frequency or infrequency of the giving, the expectation of benefits, and other similar factors.

(2) A gift from a member of his family or relative as defined in the Code on the occasion of a family celebration, and without any expectation of pecuniary gain or benefit.

(3) Nominal donations from persons with no regular, pending, or expected transactions with the department, office or agency with which the official or employee is connected, and without any expectation of pecuniary gain or benefit.

(4) Donations coming from private organizations, whether local or foreign, which are considered and accepted as humanitarian and altruistic in purpose and mission.

(5) Donations coming from government to government entities.

As to gift or grants from foreign governments, the Congress consents to:

(i) The acceptance and retention by a public official or employee of a gift of nominal value tendered and received as a souvenir or mark of courtesy;

(ii) The acceptance and retention by a public official or employee of a gift in the nature of a scholarship or fellowship grant or medical treatment; or

(iii) The acceptance by a public official or employee of travel grant or expenses for travel taking place entirely outside the Philippines (such as allowances, transportation, food and lodging) of more than nominal value, if such acceptance is appropriate or consistent with the interests of the Philippines, and permitted by the head of office, branch, or agency to which he belongs. Nothing in the Code shall be construed to restrict or prohibit any educational, scientific or cultural exchange programs subject to national security requirements.

g. Obtaining or using any statement filed under the Code for any purpose contrary to morals or public policy or any commercial purpose other than by news and communications media for dissemination to the general public;

h. Unfair discrimination in rendering public service due to party affiliation or preference;

i. Disloyalty to the Republic of the Philippines and to the Filipino people;

> j. Failure to act promptly on letters and requests within fifteen (15) days from receipt, except as otherwise provided in these Rules;
>
> k. Failure to process documents and complete action on documents and papers within a reasonable time from preparation thereof, except as otherwise provided in these Rules;
>
> l. Failure to attend to anyone who wants to avail himself of the services of the office, or to act promptly and expeditiously on public personal transactions;
>
> m. Failure to file sworn statements of assets, liabilities and net worth and disclosure of business interests and financial connections; and
>
> n. Failure to resign from his position in the private business enterprise within thirty (30) days from assumption of public office when conflict of interest arises, and/or failure to divest himself of his shareholdings or interests in private business enterprise within sixty (60) days from such assumption of public office when conflict of interest arises, provided however, that for those who are already in the service and a conflict of interest arises, the official or employee must either resign or divest himself of said interests within the periods here-in above provided, reckoned from the date when the conflict of interest had arisen.

5.6 Hierarchy of Applicable Internal Auditing Standards and Practice

The hierarchy in determining government internal auditing standards in the Philippine public sector, in the order of authority, is as follows:

a. The Philippine Constitution;
b. Laws, rules, and regulations on public governance and accountability, and applicable jurisprudence;
c. Government policies, standards, guidelines, and regulatory issuances;
d. Standards and other issuances of intergovernmental organizations such as those of the United Nations' specialized committees and agencies; and
e. Relevant or applicable standards and best practices in governance, accountability, and operations, both local and international, such as those of the International Organization for Standardization (ISO) and other officially recognized organizations and associations.

5.7 IAS/IAU Functions as Distinguished from the Operations and Processes of Other Units

Pursuant to the Administrative Code of 1987[32], as amended, the IAS/IAU is responsible for the conduct of a comprehensive audit of various activities of the agency. It shall cover audit areas in all units of the agency, including agencies under its supervision and control and administrative supervision.[33]

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[32] Section 8, Chapter 3 – Department Services, Title V– Public Works and Highways, Book IV – The Executive Branch, Executive Order N. 292 (Administrative Code of 1987), 25 July 1987, as amended
[33] Section 2.1, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFIs Concerned), 14 April 2008

Inasmuch as the scope of internal audit is broad such that the agency operations, programs and projects, including their systems and processes, are subject to it, the IAS/IAU should refrain from participating in the operations and processes of another unit as this is in conflict with the post-audit (ex post facto or after the fact/transaction) function of the internal audit.

The IAS/IAU is not responsible for or required to participate in activities which are essentially part of the regular operating functions or the primary responsibility of another unit in the organization.[34] These include management and process improvements of operating and support services systems, such as quality management, HRM, and financial management, which are the responsibilities of the operating and support services units concerned.

The following examples of activities are considered as non-internal audit functions that should not be undertaken by the IAS/IAU:

a. Conduct of internal quality audit as part of the ongoing implementation of the QMS;
b. Participation in procurement procedures, including membership in the Bids and Awards Committee, its secretariat or technical working group;
c. Preparation or review of draft policies, guidelines, standards or operating procedures of other offices;
d. Review and certification of financial reports before approval by the agency head;
e. Pre-audit of vouchers and counter-signature of checks;
f. Inspection of deliveries, although the internal auditor may, as part of his examination, observe inspection;
g. Preparation of treasury and bank reconciliation statements;
h. Development and installation of systems and procedures, except in exceptional cases wherein the internal auditor may assist by way of giving suggestions;
i. Conduct of physical inventories; and
j. Maintenance of property records.

Internal auditors are not precluded from joining investigation teams/committees as long as the same is in line with their internal audit functions. For instance, there are areas under investigation that should be backed by internal audit reports.

In case the IAS/IAU is instructed to undertake non-internal audit tasks, it should communicate in official writing (e.g., memorandum) to the agency head that it is prohibited from performing the same, citing the foregoing provisions of this Manual. Notwithstanding its position on the matter, the

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[34] Section 1 (2.0), 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), 28 April 1992

IAS/IAU must comply with the decision of the agency head, who will act/decide on the matter based on his/her sound discretion.

A sample template of such communication that could be used by the IAS/IAU in informing its principal regarding the matter is in **Appendix A – Suggested Templates.**

5.7.1 Risk Management

Under the Philippine National Standard (PNS) on risk management, risk is the effect or consequence of uncertainty on the agency's objectives.[35] Moreover, risk management refers to the coordinated activities and methods used to direct an organization and to control the many risks that can affect its ability to achieve objectives.[36]

Risk management is an inherent function of the government agencies, as shown in the following agency policies and objectives that are specifically mandated by law:

a. "The National Security Council (NSC) shall serve as the lead agency of the government for coordinating the formulation of policies, relating to or with implications on the national security."[37] Among other powers and functions of the NSC is to "[e]valuate and analyze all information, events, and incidents in terms of the risks they pose or implications upon or threats to the overall security and stability of the nation, for the purpose of recommending to the President appropriate action thereon"[38] As such, it is the NSC who shall assess the risks that may have impact on achieving national security and choose the appropriate risk treatment.

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[35] Risk – "<u>effect</u> of uncertainty on objectives" *(underscoring supplied)* [Clause 1, 1.1, PNS ISO Guide 73:2010 (ISO published 2009), Risk management – Vocabulary, 11 March 2010; PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02; ISO/IEC 310101, Edition 2.0, 2019-06, Risk Management – Risk assessment techniques]
[36] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02
[37] Section 3, Chapter 2 – National Security Council, Subtitle I – Preliminary Provisions, Title VIII – National Defense, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[38] Section 5 (2), Id.

b. The Department of Foreign Affairs (DFA)[39] advises and assists the President in the field of foreign relations in pursuit of national sovereignty, territorial integrity, national interest, and the right to self-determination. Under the Administrative Code of 1987, as amended, the Secretary, who shall have supervision and control of the Department, has the authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions.[40] The DS shall assess the risks that may affect the formulation and implementation of foreign policy.

c. Similarly, the Department of National Defense (DND)[41] shall conduct risk management[42] to assess risks that may affect its mandate to maximize its effectiveness for guarding against external and internal threats to national peace and security, and provide support for social and economic development.

d. The Department of Justice (DOJ)[43] is mandated to administer the criminal justice system in accordance with the accepted processes thereof consisting of the investigation of the crimes, prosecution of offenders and administration of the correctional system under the supervision and control of the DS. The DS shall assess the risks that may affect the effective and efficient administration of the justice system.

e. The Department of the Interior and Local Government (DILG)[44] is mandated to promote peace and order, ensure public safety and further strengthen local government capability aimed towards the effective delivery of basic services to the general public under the supervision and control of the DS. The DS shall assess the risks that may affect the peace and order, public safety and strengthening of local government capability.

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[39] Section 1, Chapter I – General Provisions, Title I – Foreign Affairs, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[40] "SEC. 6 – Authority and Responsibility of the Secretary The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries and Assistant Secretaries, Book IV– The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[41] Section 15, Chapter I – General Provisions, Subtitle II – Department of National Defense, Title VIII – National Defense, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[42] "The effectiveness of risk management will depend on its integration into the governance of the organization, including decision-making. This requires support from stakeholders, particularly top management." [Clause 5.1, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02]; "Top management and oversight bodies, where applicable, should ensure that risk management is integrated into all organizational activities and demonstrate leadership and commitment by x x x. Top management is accountable for managing risk while oversight bodies are accountable for overseeing risk management." [Clause 5.2, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02]

[43] Section 1, Chapter I – General Provisions, Title III – Justice, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[44] Section 2, Republic Act No. 6975 (Department of the Interior and Local Government Act of 1990), 13 December 1990

f. The Department of Health (DOH)[45] is mandated to promote, protect, preserve or restore the health of the people through the provision and delivery of health services and through the regulation and encouragement of providers of health goods and services under the supervision and control of the DS. The DS shall assess the risks that may affect the promotion, protection, preservation or restoration of the health of the people through the provision and delivery of health services and through the regulation and encouragement of providers of health goods and services.

g. The Department of Finance (DOF)[46] is primarily responsible for the formulation, institutionalization and administration of fiscal policies to attain fiscal sustainability by managing assets and debt effectively under the supervision and control of the DS. The DS shall assess the risks that may affect the *(1)* formulation, institutionalization and administration of fiscal policies; *(2)* generation and management of the financial resources of the government, to ensure that said resources are generated and managed judiciously and in a manner supportive of development objectives; *(3)* supervision of the revenue operations of all local government units, with the objectives of making these entities less dependent on funding from the national government; and *(4)* review, approval and management of all public sector debt, whether foreign or domestic to ensure that all borrowed funds are effectively utilized and all such obligations are promptly serviced by the government.

h. The National Privacy Commission (NPC)[47] is mandated to administer and implement the Data Privacy Act of 2012, and to monitor the implementation of the Act and ensure compliance of the country with international standards set for personal data protection. Under the implementing rules and regulations of RA No. 10173, the head of agencies shall ensure the implementation of privacy policies and appropriate security measures with regard to sensitive personal information maintained by an agency.[48]

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[45] Section 2, Chapter I – General Provisions, Title IX – Health, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[46] Section 2, Chapter I – General Provisions, Title II – Finance, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[47] Section 2, Republic Act No. 10173 (Data Privacy Act of 2012), 15 August 2012
[48] "Sensitive personal information maintained by an agency may not be transported or accessed from a location off or outside of government property, whether by its agent or employee, unless the head of agency has ensured the implementation of privacy policies and appropriate security measures. A request for such transportation or access shall be submitted to and approved by the head of agency. The request must include proper accountability mechanisms in the processing of data." (underscoring supplied) [Section 31(b)(1), Implementing Rules and Regulations of Republic Act No. 10173 (Data Privacy Act of 2012), 15 August 2012]

i. Under the implementing rules and regulations of RA No. 10173[49], "[t]he head of each government agency or instrumentality shall be responsible for complying with the security requirements mentioned herein."[50]

ii. Accordingly, "a government agency engaged in the processing of personal data shall, through its head of agency, designate a DPO [Data Protection Officer]"[51] who is "accountable for the agency's compliance with the Act [Data Privacy Act of 2012]"[52] (words in brackets supplied)

iii. Therefore, it is not the function of the internal auditor to facilitate the development and implementation of the privacy program, evaluate the senior management's privacy risk assessment to determine the needs and risk exposures of the agency, or provide assurance on the effectiveness of the privacy policies, practices, and controls across the agency. It is the Data Protection Officer[53], designated by the HoA[54], who has the function to secure all sensitive personal information[55] maintained by the government agency[56], subject to the rules and other issuances of the National Privacy Commission and other applicable laws and regulations relating to privacy and data protection.

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[49] RA No. 10173 (Data Privacy Act of 2012), 15 August 2012

[50] "**Section 30.** *Responsibility of Heads of Agencies.* All sensitive personal information maintained by the government, its agencies, and instrumentalities shall be secured, as far as practicable, with the use of the most appropriate standard recognized by the information and communications technology industry, subject to these Rules and other issuances of the Commission. The head of each government agency or instrumentality shall be responsible for complying with the security requirements mentioned herein. x x x." [Rule VII. Security of Sensitive Personal Information in Government, Implementing Rules and Regulations of Republic Act No. 10173 (Data Privacy Act of 2012), 24 August 2016]

[51] "**WHEREAS,** Section 4 of NPC Circular 2016-01 declares that a government agency engaged in the processing of personal data shall, through its head of agency, designate a DPO [Data Protection Officer]" (emphasis in the NPC Advisory; words in brackets supplied) [6th Whereas Provision, National Privacy Commission Advisory No. 2017-01 (Designation of Data Protection Officers), 14 March 2017]

[52] "F. 'Data Protection Officer' refers to an individual designated by the head of agency to be accountable for the agency's compliance with the Act: *Provided*, that the individual must be an organic employee of the government agency: *Provided further*, that a government agency may have more than one data protection officer;" (italics in the NPC Circular) [Section 3, Definition of Terms, Rule I – General Provisions, National Privacy Commission Circular 16-01 (Security of Personal Data in Government Agencies), 10 October 2016]

[53] Id.

[54] "H. 'Head of Agency' refers to: (1) the head of the government entity or body, for national government agencies, constitutional commissions or offices, or branches of the government; (2) the governing board or its duly authorized official for government owned and controlled corporations, government financial institutions, and state colleges and universities; (3) the local chief executive, for local government units;" [Section 3, Definition of Terms, Rule I – General Provisions, National Privacy Commission Circular No. 16-01 (Security of Personal Data in Government Agencies), 10 October 2016]

[55] "(g) *Personal information* refers to any information whether recorded in a material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." [Section 3, Definition of Terms, Republic Act No. 10173 (Data Privacy Act of 2012), 15 August 2012]

[56] "G. 'Government Agency' refers to a government branch or body or entity, including national government agencies, bureaus, or offices, constitutional commissions, local government units, government-owned and controlled corporations, government financial institutions, state colleges and universities;" [Section 3, Definition of Terms, Rule I – General Provisions, National Privacy Commission Circular No. 16-01 (Security of Personal Data in Government Agencies), 10 October 2016]

Distinct from the objectives of the IAS/IAU are the statutorily mandated core functions of departments and agencies. Under the PNS on risk management, the conduct of the same[57] is the responsibility of management, not of the internal audit of the executive branch. Likewise, risk management, together with governance, control and their process improvement, is the responsibility of the agency head, and not by the internal auditor of the executive branch.

The foregoing is supported by the following:

a. For effective, economical and efficient government operations, the agency head ensures that the budget supports the achievement of explicit objectives and expected results of government agencies consistent with the national socio-economic development plan[58].

b. The DS[59] is vested with powers and functions to effectively perform his/her supervision and control over bureaus, offices and agencies under him/her. He/she is responsible in ensuring that the agency's objectives are fulfilled accordingly.

c. The Undersecretary[60] is expected to oversee the operational activities of the department to ensure that it is economical, efficient and effective.

d. The Heads of Bureaus[61] in general are likewise responsible for the economical, efficient and effective operations of their bureaus.

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[57] "The effectiveness of risk management will depend on its integration into the governance of the organization, including decision-making. This requires support from stakeholders, particularly top management." [Clause 5.1, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02]; "Top management and oversight bodies, where applicable, should ensure that risk management is integrated into all organizational activities and demonstrate leadership and commitment by x x x. Top management is accountable for managing risk while oversight bodies are accountable for overseeing risk management." [Clause 5.2, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02]

[58] "SECTION 3. *Declaration of Policy*. – x x x The budget shall be supportive of and consistent with the socio-economic development plan and shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently. x x x."[58] (underscoring supplied) [Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[59] "SECTION 6. *Authority and Responsibility of the Secretary*. – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[60] "SECTION 10. *Powers and Duties of the Undersecretary*. – The Undersecretary shall:
x x x
(3) Coordinate the programs and projects of the department and be responsible for its economical, efficient and effective administration; x x x" [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[61] "SECTION 18. *Bureaus in General*. – (1) A Bureau is any principal subdivision of the department performing a single major function or closely related functions. Bureaus are either staff or line;
x x x
(3) Each bureau may have as many divisions as are provided by law for the economical, efficient and effective performance of its functions." (italics in the law) [Chapter 4 – Bureaus, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

e. The Regional Directors[62], heads of regional offices, are also responsible for the economical, efficient and effective operations in the regional level.

f. The Board[63] of the GOCCs are primarily responsible for governance. Consequently, it is the board and not the management that is primarily accountable to the state for the operations and performance of the GOCC.

g. The governance committee[64] of GOCCs oversees the periodic performance evaluation of the board and its committees, including the management to ensure operations is economical, efficient and effective.

h. Meanwhile, the risk management committee[65] performs oversight risk management functions.

i. The AuditCom[66] of the GOCCs oversees, monitors and evaluates the adequacy and effectiveness of the GOCC's internal control system.

5.7.2 Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.[67] Similar with risk management, the responsibility to undertake risk assessment on agency, sectoral OPS, STO, and GAS rests with the DS/HoA or GB/AuditCom and the functional, operating and support units concerned.

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[62] "SECTION 26. Functions of a Regional Office. – (1) A regional office shall:
x x x
(b) Provide economical, efficient and effective service to the people in the area;
x x x." (italics in the law) [Chapter 5 – Field Offices, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[63] "**SECTION 5.** *Board Directly Vested with Corporate Powers.* – Having been vested directly by law with the legal capacity and authority to exercise all corporate powers, conduct all the business, and to hold all the properties of the GOCC, the Governing Board is primarily responsible for the governance of the GOCC. Consequently, it is the Board and not Management that is primarily accountable to the state for the operations and performance of the GOCC." (emphasis and italics in the Memorandum Circular; underscoring supplied) [Governance Commission for GOCCs Memorandum Circular No. 2012-07 (Code of Corporate Governance for GOCCs) approved by the President, 28 November 2012]

[64] "*Governance Committee.* – x x x
(a) Overseeing the periodic performance evaluation of the Board and its committees and Management; and also conducting an annual self-evaluation of their performance;
x x x" (italics in the Memorandum Circular) [Item 16.2.3, Governance Commission for GOCCs Memorandum Circular No. 2012-07 (Code of Corporate Governance for GOCCs) approved by the President, 28 November 2012]

[65] "Risk Management Committee.– x x x
(a) Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of the GOCC, and crisis management, x x x ;
x x x" (italics in the Memorandum Circular) [Item 16.2.5, Id.]

[66] "Audit Committee. – x x x
(a) Overseeing, monitoring and evaluating the adequacy and effectiveness of the GOCC's internal control system, engage and provide oversight of the GOCC's internal and external auditors, and coordinate with the Commission on Audit (COA);
x x x" (italics in the Memorandum Circular) [Item 16.2.2, Id.]

[67] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

Relatedly, control risk assessment is primarily performed by the DS/HoA or GB/AuditCom as part of its regular functions. In bureaus, regional offices and LGUs, the bureau director, regional director, governor and mayor performing management control functions shall conduct both operations and control risk assessments. Heads of organizations or units from the DS down to the regional and local government heads who exercise supervision and control or administrative supervision at their levels, i.e., sector, organization/agency, services, bureaus, regions, as well as LGUs, must conduct an assessment of their own control risks.

Except for purposes of planning and prioritizing potential audit areas, the IAS/IAU should not conduct risk assessment. This is in conflict with the post-audit function of the internal audit.

In essence, the internal audit function in the public sector is clearly specified by law, distinct from other government offices whose functions are defined under the law creating the department/agency/office. The IAS/IAU may encroach on the functions of the government entity if it performs an assessment of the risks affecting national and agency policies and objectives, by identifying the highest risk.

5.7.3 Assurance Activity

Assurance activity, which involves the assessment of governance, risk management and control, undermines the "structural, functional and procedural principles of governance"[68] and accountability embodied under the Administrative Code of 1987, as amended.

The power of control and supervision is vested in the Secretary[69]. The power of control encompasses or includes supervision.[70] Assurance in the Administrative Code of 1987, as amended, is actually part of administrative supervision which is "to generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically"[71].

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[68] "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.'" (underscoring supplied) [Ople v. Torres, G.R. No. 127685, 23 July 1998, SC E-Library quoting 3rd and 4th preambulatory clauses of Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[69] "SECTION 6. *Authority and Responsibility of the Secretary.* – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[70] "SECTION 38. *Definition of Administrative Relationship.*– x x x

(1) *Supervision and Control.* – x x x. Unless a different meaning is explicitly provided in the specific law governing the relationship of particular agencies, the word 'control' shall encompass supervision and control as defined in this paragraph." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended; quoted in Remo v. Bueno, G.R. No. 175736 & 175898, 12 April 2016]

[71] "SECTION 38. *Definition of Administrative Relationship.*

Among the functions of the DS/HoA is to ensure economical, efficient and effective government operations. To ensure is part of the duty of supervision.[72]

As such, the Secretary or the head of an agency shall have authority over and responsibility for its operation.[73] The Administrative Code of 1987, as amended, further provides that he/she shall delegate such authority to the bureau and regional directors as may be necessary for them to implement plans and programs adequately.

Delegated authority shall be to the extent necessary for economical, efficient, and effective implementation of national and local programs in accordance with policies and standards developed by each department or agency with the participation of the regional directors. [74]

Supervision is operationalized by requiring the submission of reports which are audited or evaluated and inspected to determine compliance with policies, standards and guidelines.

On the other hand, the internal auditor does not provide an assurance service. As previously discussed, the heads or assistant heads of agencies, as part of their power of supervision, determine compliance with policies, standards and guidelines and take such action as may be necessary for the proper performance of official functions. These are operationalized by requiring the submission of reports which are audited or evaluated and inspected.

Those who supervise are not involved in the day-to-day operations. Hence, it is through management audit or performance evaluation and inspection that compliance with policies, standards and guidelines are determined.

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x x x

(2) *Administrative Supervision*. – (a) Administrative supervision which shall govern the administrative relationship <u>between</u> 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 generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically but without interference with day-to- day activities; x x x." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[72] "It is a standing rule that public officers who are custodians of government funds shall be liable for their failure <u>to ensure that such funds are safely guarded</u> against loss or damage, and that they are expended, utilized, disposed of or transferred in accordance with the law and existing regulations, and on the basis of prescribed documents and necessary records." (underscoring supplied) [Delos Santos v. Commission on Audit, G.R. No. 198457, 13 August 2013]; "x x x public respondents <u>are city officials of Baguio who have the legal duty to ensure the laws are being followed</u>, including laws that define who may enforce regulations on public parking." (underscoring supplied) [Sangguniang Panlungsod ng Baguio City v. Jadewell Parking Systems Corp., G.R. No. 160025, 23 April 2014]

[73] "SECTION 6. *Authority and Responsibility of the Secretary*. – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[74] "SECTION 40. – *Delegation of Authority*. – The Secretary or the head of an agency shall have authority over and responsibility for its operation. He shall <u>delegate such authority to the bureau and regional directors</u> as may be necessary for them to implement plans and programs adequately. Delegated authority shall be to the extent necessary for economical, efficient, and effective implementation of national and local programs in accordance with policies and standards developed by each department or agency with the participation of the regional directors. x x x." (underscoring supplied) [Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

The HoAs prescribe standards, guidelines, plans and programs.[75] They assign to the internal auditor the determination of compliance thereof as prescribed, pursuant to laws, rules and regulations. The internal auditor does not himself/herself prescribe standards, guidelines, plans and programs because it may constitute a conflict of interest or compromise objectivity if the internal auditor prescribes the standards and at the same time determine compliance with the same. Internal audit does not manage or improve operations. Only those with power of control can improve operations because they are the ones who prescribe standards.

The internal auditor, who has no power to supervise, recommends courses of action to the agency head "to take such action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration."[76]

It is the heads of agencies that certify and not the internal auditors because the heads are the ones who have fiscal responsibility[77] and responsible for the agencies' operations[78] to ensure that funds are utilized and operations are conducted effectively, economically and efficiently.[79] Internal audit involves appraisal only.

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[75] "SECTION 38. *Definition of Administrative Relationship.*– x x x
(1) *Supervision and Control.* – Supervision and control x x x; and <u>prescribe standards, guidelines, plans and programs.</u> x x." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[76] "SECTION 38. *Definition of Administrative Relationship.*
<center>x x x</center>
(2) *Administrative Supervision.* – (a) Administrative supervision which shall govern the administrative relationship <u>between</u> 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 generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically but without interference with day-to- day activities; or require the submission of reports and <u>cause the conduct of management audit</u>, performance evaluation and inspection <u>to determine compliance with policies, standards and guidelines of the department; to take such action as may be necessary for the proper performance of official functions,</u> including rectification of <u>violations, abuses and other forms of maladministration</u>; x x x." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[77] "SECTION 10. *Statement of Objectives.*– In keeping with the constitutional mandate, the Commission adheres to the following objectives:
 (1) Determine whether or not <u>the fiscal responsibility that rests directly with the head of the government agency</u> has been properly and effectively discharged;" (underscoring supplied) [Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[78] "SECTION 40. *Delegation of Authority.* – The Secretary or the head of an agency shall have authority over and responsibility for its operation. x x x." [Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]; "SECTION 29. *Powers and Duties in General.* – The head of bureau or office shall be its chief executive officer. He shall exercise overall authority in matters within the jurisdiction of the bureau, office or agency, including those <u>relating to its operations,</u> and enforce all laws and regulations pertaining to it." (underscoring supplied) [Chapter 6 – Powers and Duties of Heads of Bureaus or Offices, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[79] "SECTION 3. *Declaration of Policy.* – x x x The budget shall be supportive of and consistent with the socio-economic development plan and shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently. x x x." (underscoring supplied) [Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

Under the Philippine setting, the IAS/IAU is not involved in assurance activity. The internal audit function or appraisal activity as conducted by the IAS/IAU constitutes a separate component of internal control, the objective of which is <u>to determine whether or not internal controls are well designed and properly implemented</u>.[80] Said appraisal by the IAS/IAU does not include an assurance that the agency's internal controls and operations are 4Es.

Section 1, Chapter 1, Subtitle B, Book V of the Administrative Code of 1987, as amended, provides the policy on fiscal responsibility 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 <u>to ensure</u> efficiency, economy and effectiveness in the operations of the government.*" Said law further provides that "*the responsibility to take care that such policy is faithfully adhered rests directly with the chief or head of the government agency concerned.*"

Section 124 of the Government Auditing Code of the Philippines categorically provides that "*it shall be the direct responsibility of the agency head to install, implement and monitor a sound system of internal control.*" It is, therefore, the responsibility of the agency head to ensure, not only to assure, adequate internal control.

Corollary thereto, Section 4, Chapter 19, Volume I of the Government Accounting Manual for National Government Agencies, requires the agency to submit a Statement of Management's Responsibility for Financial Statements which shall serve as a covering letter in transmitting the entity's financial statements to the COA, and other regulatory agencies and entities.[81] The statement has to be signed by the Chief of Financial and Management Office/Comptroller or the Chief of Office who has direct supervision and control over the agency's accounting and financial transactions, and the Head of Agency or his/her authorized representative. In said statement, those signatories have to certify that "*management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.*"

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[80] Section 8(3), Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended; and Section 55 (b), Title II – Internal Control System, Volume III, Government Accounting and Auditing Manual, COA Circular No. 91-368, 19 December 1991, p.82
[81] COA Circular No. 2015-007 (Prescribing the Government Accounting Manual for Use of All National Government Agencies), 22 October 2015

The IAS/IAU does not exercise direct supervision and control and is not responsible for procedures which are essentially a part of regular operating activities or in operations which are the primary responsibility of another unit in the agency/organization.[82] Thus, it is not the function of the IAS/IAU to ensure and even assure that the agency's internal controls and operations are characterized by the 4Es.

5.7.4 Process or System Improvement

The improvement of systems and processes is a mandated responsibility of government agencies so as to promote integrity, accountability and good governance in the public service.[83] All offices/units involved in the delivery of government services are required to undertake the same.

The IAS/IAU does not engage itself in undertaking process or systems improvement for, or providing assistance to, operating and support service units in departments and agencies. Instead, it conducts root cause analysis in cases where the controls are weak, and recommends courses of action (corrective or preventive measures) for the DS/HoA or GB/AuditCom to take.

Corrective measures refer to an organization's actions to eliminate the causes of noncompliance to policies, rules and regulations in order to prevent recurrence. These actions shall be appropriate to the effects of the nonconformities encountered.

Preventive measures refer to determined actions of the organization to eliminate the causes of potential noncompliance in order to prevent their occurrence. These actions shall be appropriate to the effects of the potential problems.

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[82] Section 1, (2.0), Administrative Order No. 278 (Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or –Control Corporations, Including Government Financial Institutions and Local Government Units, in their Operations), 28 April 1992

[83] "Sec. 5. Reengineering of Systems and Procedures. – All offices and agencies which provide government services are hereby mandated to regularly undertake cost compliance analysis, time and motion studies, undergo evaluation and improvement of their transaction systems and procedures and reengineer the same if deemed necessary to reduce bureaucratic red tape and processing time." [Republic Act No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018), 28 May 2018]

5.8 Internal Audit as Distinguished from Internal Quality Audit

Internal audit should be distinguished from internal quality audit, which is part of the implementation of a QMS, which is a management system.

Internal quality audit is being undertaken to assess conformance of the agency's QMS with the requirements of the ISO 9001:2015 Standard, and to provide information whether or not the QMS is effectively being implemented and maintained.[84] It is limited to the implementation of the scope of the QMS. Particularly, it is conducted after the QMS is established/installed in the agency and ideally prior to the conduct of a certification/surveillance audit by the third party certification body.

It is undertaken by a team, which is ideally composed of representatives from the different units of the organization, depending on the scope of the QMS and sites covered. The results of the internal quality audit are used in the conduct of management reviews for continual improvement of the QMS.[85]

The distinctions between internal quality audit and internal audit are summarized in Table 3 below.

Table 3 – Distinction Between Internal Quality Audit and Internal Audit

Particulars	Internal Quality Audit	Internal Audit
Focus/ Purpose	▪ Assessment of whether or not the agency's QMS conforms to the organization's own requirements for its QMS and the requirements of ISO 9001:2015 Standard ▪ Provision of information if the QMS is effectively implemented and maintained	▪ Appraisal of the adequacy of internal controls, conduct of management audit, evaluation of the results of operations, focusing on the effectiveness of controls
Scope	▪ Limited to the implementation of the scope of the QMS	▪ Covers all matters relating to operations and management control, including the operating systems and support services units/systems (e.g., HRM system, FMS, **QMS**, risk management system)

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[84] Clause 9.2.1, PNS ISO 9001:2015 (ISO published 2015, Quality management systems – Requirements), 15 September 2015
[85] Clauses 9.3.2 and 10.3, Id.

Particulars	Internal Quality Audit	Internal Audit
Timing	• Undertaken as part of the implementation of the QMS; conducted after the QMS is established/installed in the agency and ideally prior to the conduct of a certification/ surveillance audit by the third party certification body	• Takes place "after the fact" and covers a complete cycle of operations
Responsibility	• *Audit team (including the audit team leader and auditors)* conducts the audit or the systematic, independent and documented process for obtaining objective evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled	• *Agency head* has the direct responsibility to install, implement and monitor a sound internal control system • *IAS/IAU* assists the agency head by conducting a separate evaluation of the internal control system to determine if controls are well designed and properly implemented

CHAPTER 2

INTERNAL CONTROL SYSTEM
AND
INSTITUTIONAL ARRANGEMENTS

1. Definition of Internal Control

Internal control "is 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."[86]

2. Internal Control Framework

The most basic competence that an internal auditor must possess is the knowledge of internal controls. Pursuant to DBM CL No. 2008-5, the NGICS was issued to strengthen internal control systems of government agencies. Among the functions of the IAS/IAU is to conduct an appraisal of the organization's internal control system.

Figure 7 shows the Internal Control Framework consisting of the internal control objectives and the internal control components in the context of the public service organization.
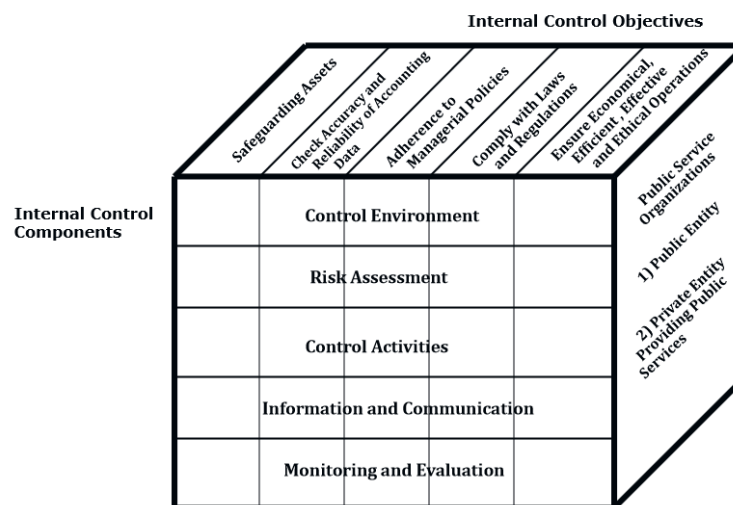
Figure 7 – Internal Control Framework

2.1 Components of Internal Control

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

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[86] "SECTION 123. <u>Definition of internal control</u>. – Internal control is the plan of organization and all the coordinate 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." [Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended, cited in Delos Santos v. Commission on Audit, G.R. No. 198457, 13 August 2013 and Paraiso-Aban v. Commission on Audit, G.R. No. 217948, 12 January 2016; National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 7]

Internal control has five (5) interrelated components:

   a. Control environment;
   b. Risk assessment;
   c. Control activities;
   d. Information and communication; and
   e. Monitoring and evaluation.[87]

2.2 Control Environment

Control environment is the general framework serving as basis for the other four components of internal control. It is the scope and coverage of an organization's internal control system which impacts on its structural and operational framework.[88]

This component integrates all the other four internal control components that influence the direction and quality of an agency's strategies and outcomes. The DS/HoA or GB/AuditCom plays an important role in instilling control consciousness within the organization.

The control features are built into, not on, and made as integral part of the plan of organization and all the coordinated methods and measures implemented by DS/HoA or GB/AuditCom and personnel to achieve the control objectives.

2.2.1 Plan of Organization

The plan of organization comprises the organizational structure, as well as the management and the personnel set-up which enable the organization to carry out its functions. This plan defines and distributes powers, functions and responsibilities to various units and personnel in the organization to enable the various parts to contribute to the attainment of the overall objectives. The details of the roles and the distribution of functions to the different units are drawn into an organizational chart. The distribution of functions may be revised from time to time to reflect management decisions resulting in structural changes.

The plan of organization includes the nature of public office which is a public trust;[89] the functional distribution of the work of the President to the Departments and the performance of their

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[87] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p.16.
[88] Id., p.17.
[89] "SECTION. 32. *Nature of Public Office*.- Public office is a public trust. x x x" [Chapter 9 – General Principles Governing Public Officers, Book I – Sovereignty and General Administration, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

functions;[90] and the proper delegation of authority.[91] It covers the segregation of functions for processing, reviewing, approving, recording and safekeeping; and also the verification of transactions.[92]

2.2.2 Coordinated Methods and Measures

Coordinated methods and measures pertain to managerial policies, rules, regulations, and processes which underlie the proper functioning of the OPS, STO and GAS to enable the various units to accomplish their functional objectives.

The Secretaries of Departments promulgate rules, regulations and administrative issuances; and exercise disciplinary powers.[93] The Administrative Service and Planning Service of Departments provide economical, efficient and effective services.[94] The budget process is comprised of budget preparation, budget authorization, budget execution, and budget accountability.[95] Methods and measures also include the control of records[96], control of documented information[97], qualification standards[98], performance evaluation system[99], performance rating[100], and the various modes of discipline[101].

The control environment in the public service organization context is also sectoral and is not restricted by organizational boundaries. Thus, it includes the following:

a. Public service sector organizations providing public services, which refer to public entities which generally pertain to agencies of the government and public offices, and private entities providing public services, e.g., utility and service providers and withholding tax agents;
b. Constituents or the publics to serve; and
c. Stakeholders.

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[90] "SECTION 1. *Purpose and Number of Departments*.- The Executive branch shall have such Departments as are necessary for the functional distribution of the work of the President and for the performance of their functions." [Chapter I – The Departments, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[91] "SECTION. 40. *Delegation of Authority*.- x x x Delegated authority shall be to the extent necessary for economical, efficient and effective implementation of national and local programs in accordance with policies and standards developed by each department or agency x x x." [Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[92] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, pp. 27-28

[93] Section 7, Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[94] Sections 13 and 15, Chapter 3 – Department Services, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[95] Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[96] National Archives of the Philippines General Circular No. 1 (Rules and Regulations Governing the Management of Public Records and Archives Administration) 20 January 2009

[97] ISO/IEC 27000:2018 (E), (Information technology – Security techniques – Information security management – Overview and vocabulary), February 2018; PNS ISO 9001:2015(E) (ISO published 2015, Quality management systems – Requirements), 15 September 2015

[98] Section 22, Chapter 5 – Personnel Policies and Standards, Subtitle A – Civil Service Commission, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[99] Section 33, Id.

[100] Section 103, Rule 20 – Dropping from the Rolls, 2017 Rules on Administrative Cases in the Civil Service, 3 July 2017

[101] Section 1, Article XI – Accountability of Public Officers, Constitution of the Republic of the Philippines, 2 February 1987

For example, the public service sector organization of the elementary and secondary education sector consists of the following: (a) schools - public and private educational institutions; (b) learning centers – formal and non-formal sources of knowledge and skills; and (c) the DepEd.

As to constituency, the publics served by the DepEd in the elementary and secondary education sector are classified into internal public (such as its teaching and non-teaching personnel), and external public (e.g., students as the object and subject of instructions).

Control environment operates in a cross-functional network of organizations and sectors that can assist the agency or which may have an influence in the achievement of its mandate. It includes not only the public agency concerned, but also other public service sector organizations, the public they serve and other stakeholders. In effect, it coordinates or converges government and private entities. Thus, the governance and accountability of the Head of Agency is on the specific sector which transcends or goes beyond his/her agency.

2.3 Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. It should be conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders. It should use the best available information, supplemented by further enquiry as necessary.[102] Risk is defined as the effect of uncertainty on objectives.[103]

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[102] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02
[103] Clause 3, 3.1, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

Figure 8 below shows risk assessment as part of the risk management process.
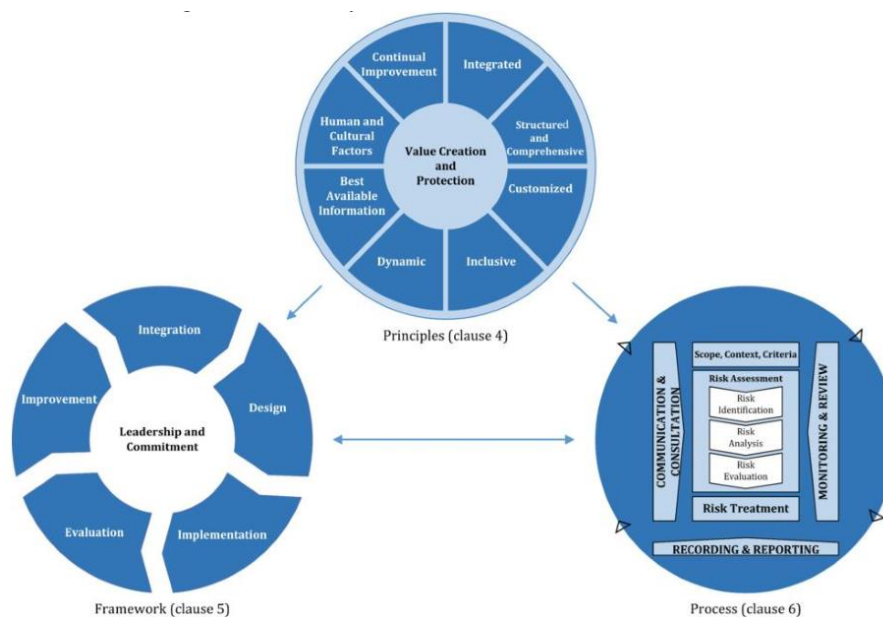
Figure 8 – Risk Management Principles, Framework and Process under PNS ISO 31000:2018

2.3.1 Risk Assessment Process

a. Risk Identification

Risk identification refers to the identification of opportunities and threats to the achievement of the control objectives. It involves pinpointing the most important areas where resources in risk assessment should be channeled or directed. It also determines who is best responsible for the management of the risk.

The purpose of risk identification is to find, recognize and describe risks that might help or prevent an organization from achieving its objectives.[104]

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[104] 1st paragraph, Clause 6.4.2 , PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

b. Risk Analysis

Risk analysis is the systematic use of information to identify the sources and to estimate the extent of the risk. This is about developing an understanding of the risk and providing an input to risk evaluation and to decisions on whether or not risks need to be responded to, as well as on what the most appropriate response strategies and methods are. This involves consideration of the causes and sources of risks.

The purpose of risk analysis is to comprehend the nature of risk and its characteristics, including, where appropriate, the level of risk. Risk analysis involves a detailed consideration of uncertainties, risks sources, consequences, likelihood, events, scenarios, controls and their effectiveness. An event can have multiple causes and consequences and can affect multiple objectives.[105]

c. Risk Evaluation

Risk evaluation is the process of evaluating the significance of the risk and assessing the likelihood of its occurrence. With risk evaluation, management becomes aware of the actions which need to be undertaken and their relative priority or urgency.

The purpose of risk evaluation is to support decisions. Risk evaluation involves comparing the results of the risk analysis with the established risk criteria to determine where additional action is required. This can lead to a decision to:

i.   do nothing further;
ii. consider risk treatment options;
iii. undertake further analysis to better understand the risk;
iv. maintain existing controls; or
v.   reconsider objectives.[106]

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[105] 1st paragraph, Clause 6.4.3, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02
[106] 1st paragraph, Clause 6.4.4, Id.

2.3.2 Other Core Elements of Risk Management Process

Aside from risk assessment, the other core elements of the risk management process are as follows:

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; and
b. Recording and reporting.

As with all the other elements in the risk management process, risk assessment should not be taken in isolation. Indeed, it should be seen as an integral part of organizational processes and decision-making.

Risk assessment, along with the other foregoing elements of the risk management process, is the basis for determining how those risks should be managed, to assess the relative susceptibility of agencies to uncertainties due to internal and external opportunities and threats.

As global, national and operating conditions are in constant change, risk assessment should be an ongoing iterative process.

Generally, the purpose of risk assessment is to provide evidence-based information and analysis to make informed decisions on how to treat particular risks and how to select between options.

Risk assessment provides an understanding of risks, context, risk criteria, risk sources, potential events, their causes, consequences, their likelihood/probabilities, analysis and evaluation.

2.3.3 Risk Assessment at the Organizational Level

Risks can be assessed at the organizational and sectoral levels. Risk assessment must cover not only the risk of public agencies/ organizations, but also the risk to the network of public service sector organizations, the public to serve and stakeholders that are involved in the achievement of their sectoral goals and objectives.

a. Assessment of Control Risks

The DS/HoA or GB/AuditCom primarily performs control risk assessment as part of its regular functions. In the course of control risk assessment, the DS/HoA or GB/AuditCom identifies, analyzes and evaluates control risks which could have an impact on its control objectives, and forms a basis for determining how the risks should be managed. The DS/HoA or GB/AuditCom should have identified and initiated measures to modify the significant control risks, based on probability and impact, before the Internal Auditors begin an audit.

In the bureaus and regional offices, the bureau director and regional director performing management control functions shall conduct both control and operations risk assessments.

Except for planning and prioritizing audit areas, the internal auditor should not conduct control risk assessment. Heads of agencies or units from the DS down to the regional heads who exercise supervision and control over the sector, organization/agency, service, bureau, and region must make an assessment of their own control risks. They must conduct identification, analysis, and evaluation of those risks which may undermine the achievement of the control objectives, e.g., risks that their policies and guidelines may not be achieved.
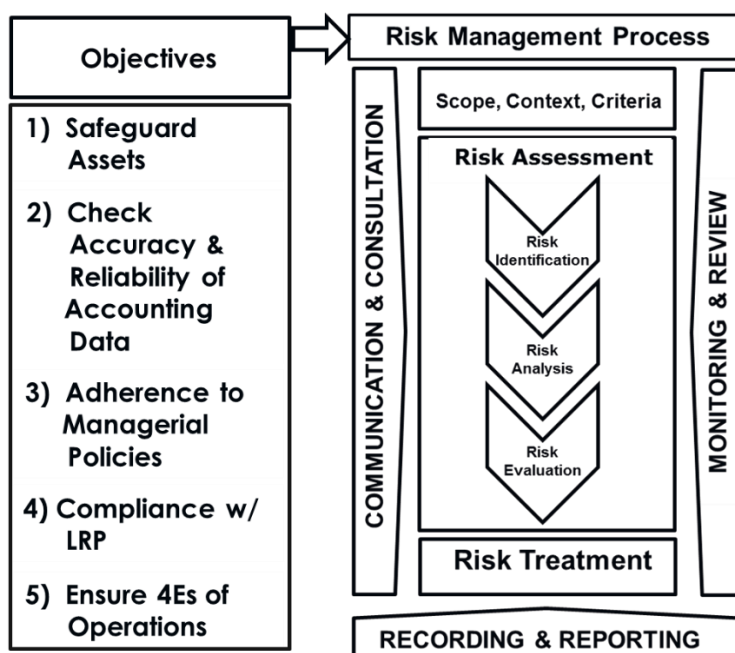
Figure 9 – Assessment of Control Risks Diagram

b. Assessment of Operations Risks

Operations is the cost structure which consists of programs and corresponding expenditures that relate to the main purpose for which an agency has been created. It involves direct production of goods or delivery of services or direct engagement in regulations.[107]

Everyone in the agency plays a role in ensuring successful operations risk assessment. The units responsible for addressing risks must make the assessment of their own risks. 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.

The determination on whether or not the risk management system would address the risk in operations is the responsibility of the operating and functional units concerned, i.e., the bureaus and offices, including the regional and field units. The IAS/IAU should not undertake agency and sectoral operational risk assessment.
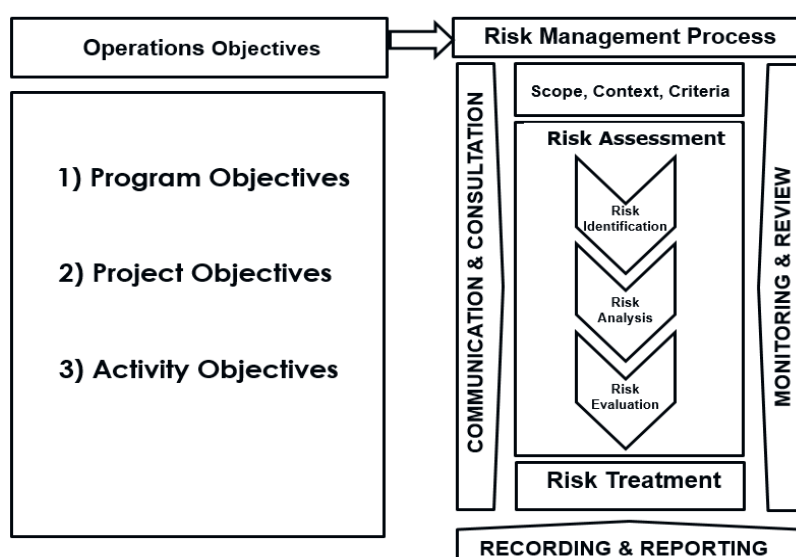
Figure 10 – Assessment of Operations Risks Diagram

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[107] Item 4.3, DBM National Budget Circular No. 569 [Adoption of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018] 8 February 2017

c. Assessment of STO Risks

STO is a cost component of an agency budget which consists of activities and projects which provide staff, technical, and/or substantial support to operations, but do not produce goods or deliver services directed at a target population or client group external to the agency. This also includes expenditures that are indivisible across programs.[108]

Examples of STO include policy formulation, program monitoring and evaluation tools, research and development, planning and statistical services, and information systems development.[109]
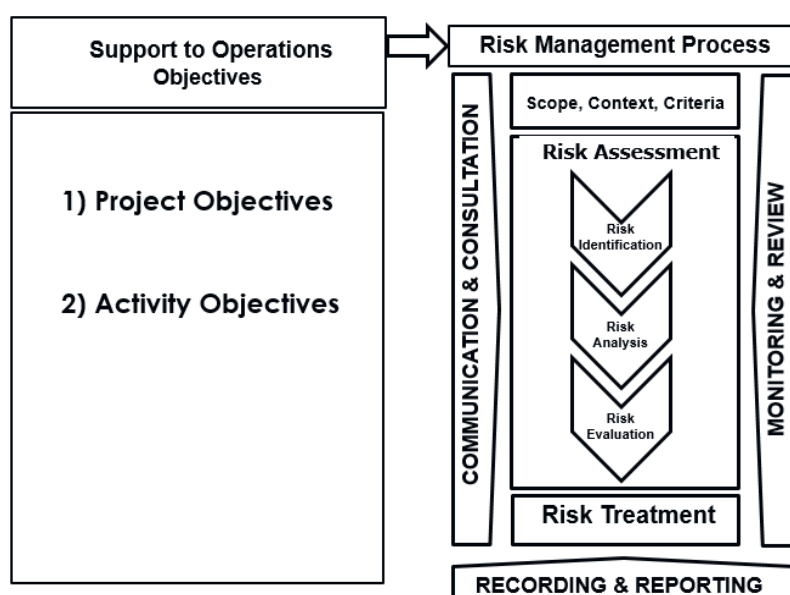
Figure 11 – Assessment of STO Risks Diagram

Likewise, it is the responsibility of the units providing STO services to conduct an assessment of STO risks.

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[108] Item 4.17, DBM National Budget Circular No. 569 [Adoption of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018], 8 February 2017
[109] Organizational Performance Indicator Framework (OPIF) Reference Guide, p. 58, DBM Circular Letter No. 2012-9, 13 June 2012

d. Assessment of GAS Risks

GAS is a cost component of the agency budget which consists of the activities and projects dealing with the provision of overall administrative management and operational support to the entire agency operations.[110]

It includes activities such as general management and supervision, human resource development, and financial and administrative services.[111]
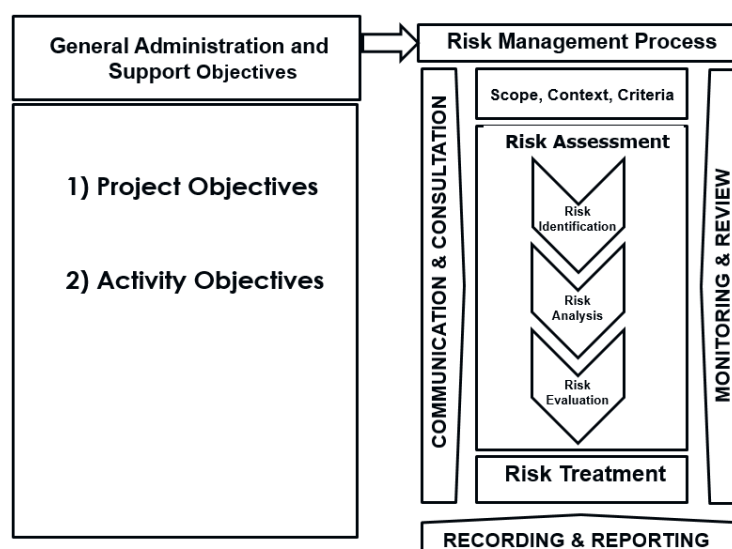
Figure 12 – Assessment of GAS Risks Diagram

In like manner, administrative and financial risks are the responsibility of the functional units concerned.

2.4 Control Activities

Control activities are the policies and procedures established to address risks and achieve the agency's mandate and objectives. Control is a measure that maintains and/or modifies risk. Controls include, but are not limited to, any process, policy, device, practice, or other conditions and/or actions which maintain and/or modify risk.[112]

These are the mechanisms that management establishes to ensure that their policies and guidelines are carried out, including the processes identified to address the risks. They occur at all levels and in all functions throughout and across the agency. They are the response to a risk designed to contain the uncertainty of an outcome that has been identified.

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[110] Item 4.2, National Budget Circular No. 569 [Adoption Of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) For The Preparation Of The Proposed National Budget For Fiscal Year 2018], 8 February 2017
[111] Organizational Performance Indicator Framework (OPIF) Reference Guide, p. 57, DBM Circular Letter No. 2012-9, 13 June 2012
[112] Clause 3, 3.8, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

Control activities must be appropriate, cost effective, comprehensive, reasonable, and must directly relate to the control objectives and mandate of the agency. 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. The control activities should also be doable and should function consistently with the design or plan.

2.4.1 Risk Response

Determining a risk and the response to it is an important part of decision-making. Because risks are uncertain, deciding whether to accept or avoid a risk-related activity can have significant consequences for an organization.

In general, there are ways to effectively respond to a risk. In some instances, risks can be transferred, tolerated or terminated. In most instances, however, the risk will have to be treated with a combination of several options at various levels and stages. In particular, the four (4) risk response are as follows:

a. For some risks, the best response is to transfer them. This is done by removing the impact or the consequences of the risk event. An example of a risk transfer is through insurance coverage, that is, by paying a third party to take the risk in another way.

b. Tolerating a risk is done when the ability to do something about it may be limited, or the cost of taking an action is disproportionate to the potential benefits that could be derived.

c. Terminating the risk is usually done by eliminating the cause since some risks could only be addressed or contained to acceptable levels by terminating the activity.

d. Risk treatment involves one or more options for modifying risks and implementing those options. Once implemented, treatments provide or modify the risks.

Risk treatment options are not necessarily mutually exclusive or appropriate in all circumstances. The options can include the following:

a. Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk;
b. Taking or increasing the risk in order to pursue an opportunity;
c. Removing the risk source;
d. Changing the likelihood;
e. Changing the consequences;
f. Sharing the risk with another party or parties (including contracts and risk financing); and
g. Retaining the risk by informed decision.[113]

2.4.2 Performance Review and Improvement of Operations and Processes

All units of the agency have to conduct performance reviews of their operations. If performance reviews determine that actual accomplishments do not meet established objectives or standards, the processes established to achieve the objectives should be reviewed to determine if improvements are needed.

2.4.3 Compliance Review and Improvement of Operations and Processes

Operations and processes should be periodically reviewed to ensure that they are in compliance with current regulations, policies, procedures, and other requirements. It is not enough that a unit regularly evaluates the level of its performance. It must at the same time conduct compliance review.

2.5 Information and Communication

Information and communication are vital in attaining all the five control objectives. They go hand in hand and cut across all other internal control components. Information and communication include the records system which will ensure the transfer of the required information to employees and DS/HoA or GB/AuditCom, to the public it serves, to other public service organizations, and to its network of organizations and sectors that need the information. Information must be shared in a determined format and communicated in a given time period which enables the parties concerned to fulfill internal control objectives and other responsibilities.

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[113] Clause 6.5.2, Id.

2.5.1   Information

Information, in the context of internal control, refers to the act of receiving or giving data and information needed by public officials and employees in doing their jobs and understanding 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.

Management requires information to make effective decisions. However, information alone is not enough; it must be the right information, in an understandable format, which is timely enough to be useful. Information systems produce reports containing operational, management, and compliance-related information to operate and control an organization. This information should reveal the organization's progress towards meeting goals and objectives. Management also needs information that allows it to evaluate the efficiency of operations and to ensure that the organization follows applicable laws and regulations.

The prompt recording and proper classification of transactions and events are preconditions for reliable and relevant information. Relevant information should be identified, captured and communicated in a form and timeframe that enables personnel to carry out internal controls and other responsibilities. As such, the internal control systems and all transactions and significant events should be fully documented.

Relevant information must be communicated throughout the agency, to the public it serves, to other public service sector organizations, as well as to its network of organizations and sectors. Organizations within the sector must clearly understand the standards set by management, including any reportorial obligation to the agency concerned.

2.5.2   Communication

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 sector organizations and sectors concerned.

Communication is multi-faceted – verbal, non-verbal and written. Effective verbal communication is two-way, requiring that management welcomes, and listens to, suggestions and feedback. Employees must be comfortable enough to share their awareness of problems with the DS/HoA or GB/AuditCom who can act on this information. Verbal communication should be in support of, not in place of, written documentation of policies and procedures. All written documentations, whether they are an official policy/procedure, memorandum, or e-mail, must be distributed to everyone who require the information in the performance of their responsibilities.

Communication is also multi-level – from the top down, bottom up, and across the organization. Effective communication informs all levels of the organization and must be ongoing.

The DS/HoA or GB/AuditCom is responsible for facilitating communications and information flow within the agency, with the public it serves, other public service sector organizations, including its network of organizations and sectors. The DS/HoA or GB/AuditCom must establish a feed forward and feedback mechanism to ensure that relevant information coming from the DS/HoA or GB/AuditCom is communicated and clearly understood throughout the agency and to all persons concerned and vice versa.[114]

The agency and its management must be kept up-to-date on the performance, developments, risks and the functioning of internal controls, as well as other relevant events and issues.

External parties can provide inputs that may have highly significant impact on the extent to which an agency achieves its goals, thus, the agency should also ensure adequate means of communicating with, and obtaining information from them.

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[114] "Section 5. Every department, office and agency shall consult the public they serve for the purpose of gathering feedback and suggestions on the efficiency, effectiveness and economy of services. They shall establish mechanisms to ensure the conduct of public consultations and hearings." [Rule III, Rules Implementing Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), 21 April 1989]

2.5.3 Accountability for Transparency

Public service sector organizations are accountable for transparency.

Accountability for transparency requires that heads of agencies must establish mechanisms to inform their constituents about their policies, rules and procedures; plans, work programs, projects, services and performance targets/expected results; and all other documents which may be classified as public information. These may include the following:

a. Ease of doing business and efficient delivery of government services[115] involving the implementation of the:

    i.   Citizen's Charter;
    ii. Public assistance/complaints desk; and
    iii. Report card survey.

b. RA No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees) and RA No. 3109 (Anti-Graft and Corrupt Practices Act) requiring the following:

    i.   Submission of Statements of Assets, Liabilities and Net Worth, Disclosure of Business Interests and Financial Connections, and Disclosure of Relation in Government Service by all public officials and employees;
    ii. Establishment of review and compliance procedures for the review of statements to determine whether said statements have been properly accomplished; and
    iii. Establishment of a mechanism to make documents available to the public for inspection within reasonable working hours.

c. The Administrative Code of 1987, as amended, and RA No. 6713 require the heads of departments, bureaus, offices and agencies of government to submit performance reports to document accomplishments for a particular period.

Thus, in addition to providing information, the heads of agencies must also report to their constituents on the results of those plans and programs implemented and services delivered and must ensure access to said reports and supporting documents.

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[115] Republic Act No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018), 28 May 2018

2.6 Monitoring and Evaluation

Monitoring as a component of internal control is aimed at assessing the quality of the internal control system's performance over time.

Monitoring considers the collective effectiveness of the five components of internal control. It is aimed at ensuring that controls are operating as intended and that they are modified appropriately for changes in conditions.[116]

Monitoring is done in various degrees and circumstances to ensure that internal controls continue to be applied at all levels and across the agency and sector, and are able to achieve the control objectives. There are three (3) ways through which monitoring is accomplished, to wit:

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.

2.6.1 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 agency and in all its operating and support services units. It is performed continually and on a real-time basis, reacts dynamically to changing conditions and is ingrained in the agency's operations.

Ongoing monitoring of internal controls is both a function of all units and of the DS/HoA or GB/AuditCom. The bureaus and offices and the support services units (i.e., planning, financial and administrative units) monitor the performance of regional and field units within their functional concerns. The DS/HoA or GB/AuditCom shall ensure proper check and balance in the monitoring by operating and support services units.

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

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[116] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 38

2.6.2 Separate Evaluation

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 predefined methods and procedures. Separate evaluations can be useful by focusing directly on the controls' effectiveness at a specific time. It may take the form of self-assessment, as well as a review of control design and direct testing of internal control.

Internal audit is a separate evaluation and review function or activity within the overall internal control framework of each public service sector organization.

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 should focus on the five components of internal control and the assessment of internal audit risks.

To distinguish, operational and management monitoring and review include management review, monitoring and evaluation, operating performance and compliance reviews which are part of the control activities. These are day-to-day responsibilities of operating and support units, distinct from the internal audit function.

2.6.3 Combination of Ongoing Monitoring and Separate Evaluation

In the assessment of the quality of the internal control systems' performance, a combination of ongoing monitoring and separate evaluation will help ensure that internal control maintains its effectiveness over time.

a. Conduct of Baseline Assessment of Internal Control System (BAICS)

Separate evaluation starts with an understanding of the internal control system and determining whether or not controls have been implemented to accomplish the control objectives, and continue to be relevant.

Baseline assessment is primarily done by the heads of organizations or units from the DS down to the regional and local government heads who exercise supervision and control at their levels, i.e., sector, agency, service, bureau and region, as well as LGUs.

BAICS provides a starting point for more effective and more efficient conduct of internal audit. The assessment also provides a reference point against which future evaluation or improvement can be benchmarked.

Thus, for purposes of preparing the audit plan and planning decisions which include the nature, extent and timing of the audit process, areas or functions to be audited and amount of time and resources to be used, the internal auditors may utilize the BAICS in combination with other audit techniques.

The baseline assessment should cover the five components of the internal control system which include the assessment of the control environment, the adequacy of risk assessment, control activities, information and communication, and monitoring. All five components must be present and functioning to conclude that internal control over operations is initially adequate.

(Refer to PGIAM Part II – Practices on the tools, techniques and approaches that will facilitate the conduct of the BAICS.)

b. Assessment of Control and Internal Audit Risk

After the BAICS, for purposes of planning and prioritizing potential audit areas, the internal auditor conducts risk assessment on the controls where there may be high risk of impact on key processes on OPS, STO and GAS in the achievement of the control objectives.

The internal auditor also conducts risk assessment of those risks or factors which may affect the conduct of the audit and may have an impact on the planned results without neglect or failure and in spite of the exercise of due diligence, such as sudden change in political leadership/administration, replacement of principal, natural calamities, judicial findings and decisions which may affect audit objectives.

Internal audit risk is assessed during the planning phase of the audit. Internal auditors assess risks for purposes of addressing those with high significance and high likelihood of occurrence and which will impact on the attainment of the audit objectives. Based on said assessment, internal auditors will be able to determine where to focus their internal auditing efforts.

2.6.4 Distinction Among Monitoring, Performance Review and Compliance Review

Monitoring, as the fifth component of the internal control system, should not be confused with performance and compliance review of operations performed by all units of the agency.

a. Performance review of the operations is done by all organizational units as part of the internal control activity to determine whether or not their accomplishments meet the established objectives and standards and to implement improvements, when necessary.

b. To ensure that the operations are conducted in compliance with ethical and quality procedures, applicable laws, regulations and managerial policies, all units also perform compliance review.

c. Internal audit does not conduct performance and compliance review. The operating and support units do. The IAS/IAU conducts management, operations and compliance audits.

3. Roles and Responsibilities on Internal Control

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 and economically.[117] The internal auditor is not responsible for establishing internal controls.

Hereunder is the delineation of roles and responsibilities of various key players in the organization on matters involving internal control:

a. DS/HoA or GB/AuditCom – has the direct responsibility to install, implement and monitor a sound system of internal control.[118]

b. ExeCom/ManCom/Top management – ensures proper check and balance in the monitoring of internal controls over delivery units, instills control consciousness in the agency, and utilizes internal controls to regulate and guide agency operations.

c. Delivery units (e.g., bureaus, services, and other offices, including regional and field offices) – conduct performance and compliance review and improvement of operations and processes.

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[117] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p.8
[118] Section 124, Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended

d. Management division/unit, or its equivalent unit – reviews and monitors whether internal controls are applied at all levels within and across the agency and sector, and recommends measures for management improvement of systems and processes.

e. IAS/IAU – appraises the internal control system to determine whether controls are well designed and properly implemented, and determines the adequacy of internal controls or whether it is achieving the objectives.

The functions related to internal control among the operating units, support services units, Execom/ManCom/top management and the IAS/IAU are provided in Table 4 below.

Table 4 - Functions Related to Internal Control Among the Delivery Units, the ExeCom/ManCom/Top Management and the IAS/IAU

Control Activities	Monitoring and Evaluation	
Heads of Operating and Support Offices/Units	**ExeCom/ManCom/ Top Management**	**IAS/IAU**
Nature and Purpose of Monitoring and Evaluation		
➤ Performance review by OPS, STO and GAS; and ➤ Compliance review by OPS, STO and GAS.	➤ Monitoring internal control whether OPS, STO and GAS review performance and compliance.	➤ Conduct compliance audit or appraise whether or not internal control components are well designed and properly implemented; ➤ Conduct management audit or evaluate whether or not internal control objectives are achieved, and ➤ Conduct operations audit or evaluate whether or not the results of operations are achieved.

Control Activities	Monitoring and Evaluation	
Heads of Operating and Support Offices/Units	**ExeCom/ManCom/ Top Management**	**IAS/IAU**
Scope, Coverage and Frequency of Review and Evaluation		
➢ Performance is reviewed if actual accomplishments do not meet objectives or standards, the processes established to achieve the objectives and standards should be reviewed to determine if improvements are needed; ➢ Operations and processes are periodically reviewed to ensure that they are in compliance with law, policies, regulations, and other requirements.	➢ Require the submission of reports and conduct performance evaluation and inspection of outputs and outcomes of OPS, STO and GAS. ➢ Built into the OPS, STO and GAS; and ➢ On-going monitoring and on a real-time basis	➢ Determine the degree of compliance of supervision or control with laws, rules, policies and contractual obligation; ➢ Evaluate the supervision or control effectiveness on OPS, STO and GAS for a specific date or period; ➢ Evaluate whether or not OPS, STO and GAS are effective, efficient, economical and ethical; and ➢ Takes place "after the fact" and after a complete cycle of operations.
Actions To Be Taken		
➢ Process improvements to meet objectives of OPS, STO and GAS; ➢ Process improvements to achieve compliance with laws, regulations, policies and other requirements.	➢ Take such actions as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration;	➢ Report to the DS/HoA or GB/AuditCom on all matters relating to management control and operations audit; and ➢ Recommend such action(s) as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration.

4. Administrative Relationships

The DS/HoA/GB/AuditCom or ExeCom/ManCom/top management disseminates managerial policies through the issuance of guidelines and standards. They are given to provide guidance to personnel in the proper execution of their individual and unit tasks that collectively contribute to the attainment of the agency goals.

To operationalize this particular objective, the Administrative Code of 1987, as amended, distinguishes the following administrative relationships pertaining to the manner by which agency activities may be controlled, supervised and coordinated.[119]

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[119] Section 38, Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

4.1 Supervision and Control

This is usually the relationship between a department and the bureaus under it. This includes the authority to act directly whenever a specific function is entrusted by law or regulation to a subordinate; direct the performance of duty; restrain the commission of acts; review, approve, reverse or modify acts and decisions of subordinate officials or units; determine priorities in the execution of plans and programs; and prescribe standards, guidelines, plans and programs.

The Secretaries who have the power of supervision and control of the departments are responsible for its operations.[120] The power of control encompasses or includes supervision under the Administrative Code of 1987[121], as amended. Supervision is to generally oversee the operations of agencies and to ensure that the operations of such agencies are managed effectively, efficiently and economically. To ensure is part of the duty of supervision.[122]

The power to conduct audit is reserved to the head of agency[123] who in turn assigns actual audit to the IAS/IAU or to duly authorized persons.

The DS who has the authority and responsibility for department operations, pursuant to law, delegates said authority to the bureau and regional directors.[124]

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[120] "SECTION 6. *Authority and Responsibility of the Secretary.* – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]
"SECTION 40. *Delegation of Authority.*—The Secretary or the head of an agency shall have authority over and responsibility for its operation. He shall delegate such authority to the bureau and regional directors as may be necessary for them to implement plans and programs adequately. Delegated authority shall be to the extent necessary for economical, efficient and effective implementation of national and local programs in accordance with policies and standards developed by each department or agency with the participation of the regional directors. The delegation shall be in writing; shall indicate to which officer or class of officers or employees the delegation is made; and shall vest sufficient authority to enable the delegate to discharge his assigned responsibility." [Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]
[121] "SECTION 38. *Definition of Administrative Relationship.*– x x x
(1) *Supervision and Control.* – x x x. Unless a different meaning is explicitly provided in the specific law governing the relationship of particular agencies, the word 'control' shall encompass supervision and control as defined in this paragraph." *(underscoring supplied)* [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended, quoted in Remo v. Bueno, G.R. No. 175736 & 175898, 12 April 2016]
[122] "It is a standing rule that public officers who are custodians of government funds shall be liable for their failure to ensure that such funds are safely guarded against loss or damage, and that they are expended, utilized, disposed of or transferred in accordance with the law and existing regulations, and on the basis of prescribed documents and necessary records." (underscoring supplied) [Delos Santos v. Commission on Audit, G.R. No. 198457, 13 August 2013]
"x x x public respondents are city officials of Baguio who have the legal duty to ensure the laws are being followed, including laws that define who may enforce regulations on public parking." *(underscoring supplied)* [Sangguniang Panlungsod ng Baguio City v. Jadewell Parking Systems Corp., G.R. No. 160025, 23 April 2014]
[123] "SECTION 1. *Declaration of Policy.* – 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." [Chapter 1 – General Provisions, Subtitle B – The Commission on Audit, Title I – Constitutional Commissions, Book V, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]
[124] Section 40, Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

The operational aspect of internal control is carried out in work systems and procedures by department secretaries or heads of agencies as they have the authority over and responsibility for its operation in the conduct of supervision and control.[125]

a. Control is exercised by the Secretaries through establishing policies and standards; promulgating rules, regulations and administrative issuances; and exercising disciplinary powers.[126]

b. Operations and management controls are drawn from the power of supervision and control to "prescribe standards, guidelines, plans and programs" and "review, approve, reverse or modify acts and decisions of subordinate officials or units."[127]

c. Management audit is established from the power of administrative supervision which is "the conduct of management audit, performance evaluation and inspection to determine compliance with policies, standards and guidelines of the department."[128] Thus, it was held in one case that the Secretary has the power to conduct a management audit.[129]

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[125] "SECTION 38. *Definition of Administrative Relationships.*—x x x

(1) *Supervision and Control.* – Supervision and control shall include authority to act directly whenever a specific function is entrusted by law or regulation to a subordinate; direct the performance of duty; restrain the commission of acts; **review, approve, reverse or modify acts** and decisions of subordinate officials or units; determine priorities in the execution of plans and programs; and **prescribe standards, guidelines, plans and programs**. x x x" (emphasis supplied) [Chapter 7 – Administrative Relationships, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[126] "SECTION 7. *Powers and Functions of the Secretary*. – The Secretary shall:

x x x

(2) Establish the policies and standards for the operation of the Department pursuant to the approved programs of government;

(3) Promulgate rules and regulations necessary to carry out department objectives, policies, functions, plans, programs and projects;

(4) Promulgate administrative issuances necessary for the efficient administration of the offices under the Secretary and for proper execution of the laws relative thereto. These issuances shall not prescribe penalties for their violation, except when expressly authorized by law;

(5) Exercise disciplinary powers over officers and employees under the Secretary in accordance with law, including their investigation and the designation of a committee or officer to conduct such investigation;

x x x." [Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[127] "SECTION 38. *Definition of Administrative Relationship*. – Unless otherwise expressly stated in the Code or in other laws defining the special relationship of particular agencies, administrative relationship shall be categorized and defined as follows:

(1) *Supervision and Control.* – Supervision and control shall include authority to act directly whenever a specific function is entrusted by law or regulation to a subordinate; direct the performance of duty; restrain the commission of acts; review, approve, reverse or modify acts and decisions of subordinate officials or units; determine priorities in the execution of plans and programs; and prescribe standards, guidelines, plans and programs. Unless a different meaning is explicitly provided in the specific law governing the relationship of particular agencies, the word 'control' shall encompass supervision and control as defined in this paragraph.

(2) x x x" [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[128] "SECTION 38. *Definition of Administrative Relationship.-* x x x

(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 generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically but without interference with day-to-day activities; or require the submission of reports and cause the conduct of management audit, performance evaluation and inspection to determine compliance with policies, standards and guidelines of the department; to take such action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration; and to review and pass upon budget proposals of such agencies but may not increase or add to them;

x x x" [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[129] "x x x placed under the control and supervision of the Secretary of National Defense, who consequently has the power to conduct an extensive management audit of petitioner corporation." (underscoring supplied) [The Veterans Federation of the Philippines v. Reyes, G.R. No. 155027, 28 February 2006, SC E-Library]

4.2 Administrative Supervision

This is the relationship of a department with regulatory agencies under it. This is limited to the authority of a department or its equivalent to generally oversee the operations of such agencies and ensure that they are managed effectively, efficiently, ethically, and economically without interference in day-to-day activities.

Supervision is operationalized by requiring the submission of reports, which are audited and evaluated, and initiate the conduct of management audit, performance evaluation and inspection to determine compliance with policies, standards and guidelines; and take action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration. Further, the department has the authority to review and pass upon the budget proposal of such agencies under its administrative supervision but it may not increase or add to it.

Those who supervise are not involved in the day-to-day operations. Hence, it is through management audit or performance evaluation and inspection that compliance with policies, standards and guidelines are determined.

The agency heads prescribe standards, guidelines, plans and programs and they conduct reviews to improve/update such standards, guidelines, plans and programs.[130] They assign to the internal auditor the determination of compliance with the standards, guidelines, plans and programs as prescribed or pursuant to laws, rules and regulations. The internal auditor does not himself improve standards, guidelines, plans and programs because it may result to conflict of interest or subjectivity. Internal audit does not manage or improve operations. Only those with power of control can improve operations because they are the ones who prescribe standards.

The internal auditor, who has no power to supervise, recommends courses of action to the Secretary of departments "to take such action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration."[131]

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[130] "SECTION 38. *Definition of Administrative Relationship.*– x x x
(1) *Supervision and Control.* – Supervision and control x x x; and <u>prescribe standards, guidelines, plans and programs</u>. x x x." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[131] "SECTION 38. *Definition of Administrative Relationship.*– xxx
<div align="center">x x x</div>
(2) *Administrative Supervision.* – (a) Administrative supervision which shall govern the administrative relationship <u>between</u> 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 generally oversee the operations of such agencies and to insure that they are managed effectively, efficiently and economically but without interference with day-to- day activities; or require the submission of reports and <u>cause the conduct of management audit</u>, performance evaluation and inspection <u>to determine compliance with policies, standards and guidelines of the department; to take such action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration</u>; x x x." (underscoring supplied) [Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

It is the agency head who certifies and not the internal auditors because the heads are the ones who have fiscal responsibility[132] and responsible for the agencies' operations[133] to ensure that funds are utilized and operations are conducted effectively, economically and efficiently.[134] Internal audit involves appraisal only.[135]

4.3 Attachment

This is the relationship of a department with a corporation and other agencies as may be provided by law. This refers to the lateral relationship between a department or its equivalent and the attached agency for purposes of policy and program coordination.[136]

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[132] "SECTION 10**.** *Statement of Objectives.*—In keeping with the constitutional mandate, the Commission adheres to the following objectives:
(1) Determine whether or not the fiscal responsibility that rests directly with the head of the government agency has been properly and effectively discharged;" (underscoring supplied) [Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Title I – Constitutional Commission, Book V, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[133] "SECTION 40. *Delegation of Authority.* – The Secretary or the head of an agency shall have authority over and responsibility for its operation. x x x." [Chapter 8 – Supervision and Control, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]
"SECTION 29. *Powers and Duties in General.* – The head of bureau or office shall be its chief executive officer. He shall exercise overall authority in matters within the jurisdiction of the bureau, office or agency, including those relating to its operations, and enforce all laws and regulations pertaining to it." (underscoring supplied) [Chapter 6 – Powers and Duties of Heads of Bureaus or Offices, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987) 25 July 1987, as amended]

[134] "SECTION 3. *Declaration of Policy.*— x x x The budget shall be supportive of and consistent with the socio-economic development plan and shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently. x x x." [Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[135] "SECTION 8. *Internal Audit Service.* —The Internal Audit Service shall conduct comprehensive audit of various Department activities. Specifically, it shall have the following functions:
x x x
(3) Review and appraise systems and procedures, organizational structure, assets management practices, accounting and other records, reports and performance standards (such as budgets and standard cost) of the Department Proper, Bureaus and Regional Offices;
x x x" (underscoring supplied) [Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[136] "(3) Attachment. – (a) x x x. The coordination may be accomplished by having the department represented in the governing board of the attached agency or corporation, either as chairman or as a member, with or without voting rights, if this is permitted **by** the charter; having the attached corporation or agency comply with a system of periodic reporting which shall reflect the progress of programs and projects and having the department or its equivalent provide general policies through its representative in the board, which shall serve as the framework for the internal policies of the attached corporation or agency; x x x." [Section 38(3)(a), Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July1987, as amended

CHAPTER 3

ORGANIZING THE INTERNAL AUDIT

1. Establishment of the IAS/IAU

Departments, agencies concerned, GOCCs/GFIs, and SUCs of the Executive Branch are authorized to establish their respective IAS/IAU.

Specifically, each department of the Executive Branch is authorized to establish its own IAS to cover audit areas in the office of the DS, bureaus, offices, agencies, including regional/field offices, regulatory agencies and other agencies either under the supervision and control or under the administrative supervision of a department, consistent with the provisions of the Administrative Code of 1987, as amended, on administrative relationships.[137]

In the case of regular agencies attached to a department for policy and program coordination, their respective HoA or GBs (e.g., board, council, or commission) shall determine the propriety of establishing a separate IAU or availing of the services of the IAS of their parent department. GOCCs/GFIs which have original charters or those created through the Corporation Code, as well as SUCs, shall likewise establish their respective IAS/IAU. [138]

1.1 Purpose, Authority and Functions of the IAS/IAU

In government, the authority to establish an IAS/IAU, including its purpose, organization, programs, activities, and functions, should be pursuant to the Administrative Code of 1987, as amended, this Manual and or other applicable legal basis (e.g., RA creating a new department, which will include the establishment of an IAS in its organizational structure).

In particular, the power to conduct internal audit is drawn from the power of control and supervision of the DS. Such laws or issuances shall also be the basis of the DBM for the issuance of the Notice of Organization, Staffing and Compensation Action and the provision of funding for the purpose.

Moreover, the nature of public office and the norms of public accountability are provided for by the Constitution and laws, and not subject to the agreement between auditor and auditee.[139]

Any operations manual or a similar document that would be developed by the IAS/IAU to serve as its guide in undertaking internal audit functions should be consistent with said issuances. Among others, the internal audit operations manual may contain general information about the office,

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[137] DBM-CSC Joint Resolution No. 1 (Rationalization Program's Organization and Staffing Standards and Guidelines), 12 May 2006 and Item 2.1, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

[138] Id.

[139] "SECTION 32. *Nature of Public Office.* – Public office is a public trust. Public officers and employees must at all times be accountable to the people, serve them with the utmost responsibility, integrity, loyalty and efficiency, act with patriotism and justice, and lead modest lives." (emphasis supplied) [Chapter 9 – General Principles Governing Public Officers, Book I – Sovereignty and General Administration, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended; and Section 1, Article XI-Accountability of Public Officers of the 1987 Philippine Constitution]

its organizational structure and functions, operating procedures, and protocols.

The IAS/IAU need not develop an "internal audit charter," which is more applicable to internal auditing in the private sector. The term "charter" as used in the Philippine Constitution and Administrative Code of 1987, as amended, connotes a document or issuance by Congress mandating the creation and operation of a GOCC, SUC or LGU.[140]

2. Reporting Lines for the IAS/IAU

The IAS/IAU is an integral part of the agency which provides assistance to and performs functions as provided by law and delegated by the DS/HoA or GB/AuditCom.[141] As such, the IAS/IAU shall report to the following:

a. In departments, the IAS shall report directly to the DS.

b. In the case of a regular agency attached to a Department for policy and program coordination, the IAU shall report to the HoA. For multi-headed attached agencies (e.g., commission, council, or board), the IAU may report directly to the GB. The GB may opt to organize an AuditCom from among its members to which the IAU shall report directly.[142]

c. In the case of GOCCs/GFIs, the IAS/IAU shall report to the AuditCom of the GB of the corporation.[143]

d. For SUCs, the IAU shall report to the GB, which may also opt to organize an AuditCom from among its members to which the IAU shall report directly.[144]

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[140] "SECTION 16. The Congress shall not, except by general law, provide for the formation, organization, or regulation of private corporations. Government-owned or controlled corporations may be created or established by special charters in the interest of the common good and subject to the test of economic viability." [Article XII, 1987 Philippine Constitution]; and "Chartered institution refers to any agency organized or operating under a special charter, and vested by law with functions relating to specific constitutional policies or objectives. This term includes the state universities and colleges and the monetary authority of the State." [Section 2(12), Introductory Provisions, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[141] Section 1, 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), 14 April 2003

[142] Sections 2.5 and 2.6, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

[143] Section 2.7, Id.

[144] As provided under the Corporation Code of the Philippines and the Higher Education Modernization Act of 1997, all the powers, transactions and properties are exercised, controlled and held by the **Governing Board** (Board of Regents for universities and Board of Trustees for Colleges) of a state university or college.

3. Roles and Responsibilities on Internal Audit

Pursuant to Section 124[145] of the Government Auditing Code of the Philippines, the direct responsibility to install, implement and monitor a sound system of internal control rests with the DS/HoA or the GB/AuditCom. However, the DS/HoA/GB/AuditCom may task the IAS/IAU to undertake the appraisal of the internal control system within the department, agency or GOCC/GFI or SUC.

Hereunder are the respective responsibilities of the DS/HoA/GB/AuditCom, IAS/IAU and the auditees relative to the operationalization of the internal audit function in the organization:

3.1 DS/HoA or GB/AuditCom

As the official primarily responsible for the installation, implementation and monitoring of the internal control system, the DS/HoA or the GB/AuditCom provides the overall strategic direction in the operationalization of the internal audit function in the organization, from planning to performance evaluation.

As such, the DS/HoA or the GB/AuditCom, in the performance of internal audit in the agency, is responsible for the following, among other tasks:

a. Ensure that the IAS/IAU fully discharges its internal audit function;
b. Provide insights on, review, verify the veracity of, and approve internal audit plans and reports;
c. Discuss the internal audit findings and recommendations with other senior or key officials/personnel concerned in the agency, as necessary
d. Ensure timely distribution of audit reports to management/auditees for implementation of the approved audit findings and recommendations;
e. Lead the implementation of the approved audit findings and recommendations;
f. Instruct senior/key officials/personnel concerned in the agency to undertake necessary actions, including the development/refinement of certain policies/guidelines to avoid occurrence (preventive action) or recurrence (corrective action) of control weaknesses and incidences;
g. Ensure the monitoring of the implementation of approved recommendations so that preventive and corrective measures are applied to address control weaknesses/incidences after a reasonable period from the report submission date; and
h. Periodically review the performance of the internal audit, as part of supervision and control.

The details on the responsibilities of the DS/HoA or the GB/AuditCom are discussed in the pertinent portions of Part II of this Manual.

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[145] "SECTION 124. Installation. – It shall be the **direct responsibility** of the agency head to install, implement, and monitor a sound system of internal control." (emphasis supplied) [Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended, cited in Delos Santos v. Commission on Audit, G.R. No. 198457, 13 August 2013]

3.2 IAS/IAU

As the assigned unit in the appraisal of the internal control system within the organization, the IAS/IAU head is accountable to the DS/HoA or the GB/AuditCom, as the case may be, for the efficient and effective operation of the internal audit function.

Pursuant to the Administrative Code of 1987, as amended, adopted by DBM in its CL No. 2008-5[146], and reiterated in the NGICS, the functions of the IAS/IAU are as follows:

a. Advise the DS/HoA or the GB/AuditCom, on all matters relating to management control and operations audits;
b. Conduct management and operations audits of department/agency/ GOCC/SUC functions, programs, projects, activities with outputs, 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, organizational structures, asset management practices, financial and management records, reports and performance standards of the department proper, bureaus and regional offices;
d. Analyze and evaluate management deficiencies, and assist the top management (e.g., ExeCom) by recommending realistic courses of action; and
e. Perform such other related duties and responsibilities as may be assigned or delegated by the DS/HoA or the GB/AuditCom or as may be required by law.

It is worth noting that the nature of advisory services that the IAS/IAU provides to its principal should not be misconstrued as a consulting activity. Said office is an integral part of the agency whose personnel are covered by the Philippine civil service law, rules and regulations.

Consultancy activities/services are not considered government service since no employer-employee relationship exists between the consultant and the government.[147]

"A 'consultant' is defined as one who provides professional advice on matters within the field of his special knowledge or training. There is no employer-employee relationship in the engagement of a consultant but

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[146] Section 2.4, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008, citing Section 8, Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code 1987), 25 July 1987, as amended

[147] CSC Resolution No. 000831, Sison, Mory Q., Re: Consultancy Service, 29 March 2000 citing CSC Resolution No. 95-6939, 2 November 1995; Pagaduan, Ma. Dolores, et al. v. Malonzo, Reynaldo, et al.

that of client-professional relationship."[148] They are not covered by the civil service law, rules and regulations.[149]

Section 5 (f), RA No. 9184, "Government Procurement Reform Act," defines consulting services, to wit:

> "(f) Consulting Services – refers to services for Infrastructure Projects and other types of projects or activities of the Government requiring adequate external technical and professional expertise that are beyond the capability and/or capacity of the government to undertake such as, but not limited to: (i) advisory and review services; (ii) pre-investment or feasibility studies; (iii) design; (iv) construction supervision; (v) management and related services; and (vi) other technical services or special studies."

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

a. Comply with the government's 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. Maintain internal audit records; and
h. Foster teamwork in performing the internal audit function.

3.3 Auditees

The auditees, which may refer to the different bureaus/services/offices/units in the agency, play a cooperative role in the course of the conduct by the IAS/IAU of internal audit. In doing so, they are responsible for the following:

a. Understand the audit objectives, scope, criteria and methodology;
b. As authorized by the DS/HoA or the GB/AuditCom, allow the IAS/IAU to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the IAS/IAU considers necessary in undertaking internal audit activities;
c. Provide comments and insights about the significant audit issues as a way of validating the IAS/IAU findings;
d. Comply with the approved audit findings and recommendations;

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[148] Posadas v. Sandiganbayan, G.R. Nos. 168951 & 169000, 17 July 2013
[149] Item 7.4, CSC, COA and DBM Joint Circular No. 1 (Rules and Regulations Governing Contract of Service and Job Order Workers in the Government), 15 June 2017, as amended

e. Implement preventive and corrective measures, and corrections to address the approved findings and recommendations; and

f. Provide feedback and suggestions regarding the performance of the IAS/IAU in its audit engagements.

4. IAS/IAU Relationships with Principals and Key Stakeholders

To be effective, the IAS/IAU must have the trust and confidence of the principals and 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.

The principals of the IAS/IAU are the DS/HoA/GB/AuditCom.

The IAS/IAU head has direct access to the DS/HoA, chair and other members of the Board, or the chair and other members of the AuditCom. This means that the IAS/IAU functionally/operationally reports to the DS/HoA or GB/AuditCom, as often as necessary. They meet regularly, at least quarterly if possible or as the need arises, to provide the DS/HoA or the Chair/members of the GB/AuditCom the opportunity to seek the comments of the IAS/IAU head on management control and audit function, quality of the audit and internal controls, and other areas of concern, as deemed appropriate. As necessary, the DS/HoA/GB/AuditCom should be given an orientation/briefing on the purpose and mandate of IAS, and the former's responsibility in the operationalization of the internal audit function in the organization so as to harness the value of, and to be able to provide appropriate direction to IAS to the agency.

On the other hand, stakeholder refers to a person or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity. Key stakeholders may either be internal or external, to wit:

a. Internal stakeholders include those within the sector (e.g., CSC, Office of the Ombudsman, and other review and oversight bodies). These are the individuals and groups that can affect and be affected by the agency's operation within a particular public service sector. In terms of relationship, the IAS/IAU basically coordinates with internal stakeholders.

b. External stakeholders, on the other hand, pertain to those outside the sector. These are 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. The IAS/IAU only collaborates with external stakeholders.

External stakeholders must always deal with the principal (DS/HoA/ GB/AuditCom) and not directly with the IAS/IAU.

To illustrate, the internal stakeholders of the DepEd in the education sector include, among others, the local school boards, Parents Teachers and Community Associations (PTCAs), the Congressional and local sanggunian committees on education. Its external stakeholders include other public service sectors such as the public works sector (i.e., DPWH and its internal stakeholders) – for roads used in going to the school, the health sector (i.e., DOH and its internal stakeholders) for the health and nutrition of the students, and the Philippine National Police for the security of students.

4.1 IAS/IAU and the DS/HoA

As mentioned in the previous section, the IAS/IAU must report directly to the DS/HoA.[150] A superior-subordinate relationship exists between the DS/HoA and the internal auditors. This means that the IAS/IAU head is accountable to the DS/HoA. This relationship should be used as an opportunity for internal audit to gain insights into new and emerging issues and concerns facing the organization, and to discuss the role that the DS/HoA requires the IAS/IAU to fulfil, in line with the latter's mandated function.

In view of the considerable work of the DS/HoA, internal audit plans and reports may be submitted to an official who will facilitate and ensure the review and approval by the DS/HoA of the same. This is usually the Chief of Staff or Head Executive Assistant of the DS/HoA to whom matters for latter's decision, approval or consideration are coursed through by the different agency units.

With respect to the abovementioned arrangement, it is understood that the relationship between the DS/HoA and the IAS/IAU should still be in place. Such arrangement should not in any way impair the reportorial line of the IAS/IAU to the DS/HoA.

4.2 IAS/IAU and the GB/AuditCom

In GOCCs, GFIs, multi-headed attached agencies and SUCs, the IAS/IAU reports to the GB/AuditCom on the effectiveness of the internal audit function. The GB/AuditCom shall periodically meet with the IAS/IAU head to discuss reports of evaluation. As a minimum, it is important that he/she has direct access to the chair of the GB/AuditCom.

Again, it is reiterated that the relationship between the GB/AuditCom and IAS/IAU is that of principal and agent, respectively.

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[150] Sections 2.5-2.7, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

The relationship between the IAS/IAU and the GB/AuditCom involves the following:

a. The IAS/IAU reports to the GB/AuditCom.[151] The latter is the IAS' primary principal with a close professional relationship;
b. The IAS/IAU is a source of information by the GB/AuditCom on management controls and organizational performance reports;
c. In many organizations, the AuditCom is responsible for reviewing and approving internal audit plans and programs, and recommending their approval to the GB; and
d. The GB/AuditCom is involved in assessing the performance of the IAS/IAU.

4.3 IAS/IAU and ExeCom/ManCom/Top Management

To effectively fulfill its responsibilities, the IAS/IAU needs to have a professional and constructive relationship with the ExeCom/ManCom/top management of the organization in general. The IAS/IAU members should interact on a regular basis with the members of the senior management team, and build a relationship that is based on cooperation, mutual respect and adherence to the highest degree of professionalism.

While interacting on a regular basis with management, the IAS/IAU may be privy to information which might impact on professional and, at times, personal reputations. It is important that the IAS/IAU respects the confidentiality of such information and its communication to others be made on a strictly need-to-know basis. In situations where managers consider that such information is being used inappropriately, the reputation and credibility of the IAS/IAU is likely to be adversely affected.

4.4 IAS/IAU and the DBM

Internal control in the public sector must conform to five (5) objectives:

a. Safeguard assets;
b. Check accuracy and reliability of accounting data;
c. Adhere to managerial policies;
d. Comply with laws, rules and regulations; and
e. Ensure economical, efficient and effective operations.[152]

The management aspects of the internal control system that is to "encourage adherence to prescribed managerial policies" are established by the Executive Branch.

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[151] "The IAS/IAU of GOCCs/GFIs shall report to the respective Audit Committee of the Governing Board of the corporation." [Section 2.7, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008]

[152] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 10

The objective to "encourage adherence to prescribed managerial policies"[153] is performed by the DBM through "control of the National Budget" and "management of government operations"[154].

a. The DBM has a mandate on the execution and control of the national budget through the preparation of a national resources and expenditures budget; and preparation, execution and control of the national budget.

b. Similarly, management controls emanate from the DBM for the achievement of more economical and efficient management of government operations.

c. The budget "supportive of and consistent with the socio-economic development plan" and "oriented towards the achievement of explicit objectives and expected results" shall ensure that funds are utilized and operations are conducted effectively, economically and efficiently.[155]

d. Performance and financial review are inherent parts of the budget process. The agencies shall adequately monitor and control budget implementation and ensure that the performance targets are attained.[156]

e. The President, through the DBM Secretary, evaluates on a continuing basis agency performance.[157]

Pursuant to OP AO No. 119, as amended, the DBM is mandated to promulgate the proper and appropriate rules, regulations and circulars for the strengthening of the internal control systems, including internal audit as a key part thereof, in government.

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[153] Section 123, Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended, quoted in Delos Santos v. Commission on Audit, G.R. No. 198457, 13 August 2013 and Paraiso-Aban v. Commission on Audit, G.R. No. 217948, 12 January 2016

[154] "SECTION 3. *Powers and Functions.* – The Department of Budget and Management shall assist the President in the preparation of a national resources and expenditures budget, preparation, execution and **control of the National Budget**, preparation and maintenance of accounting systems essential to the budgetary process, achievement of more economy and efficiency in the **management of government operations**, administration of compensation and position classification systems, assessment of organizational effectiveness and review and evaluation of legislative proposals having budgetary or organizational implications." (emphasis supplied) [Section 3, Chapter I – General Provisions, Title XVII – Budget and Management, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[155] "SECTION 3. *Declaration of Policy.* – It is hereby declared the policy of the State to formulate and implement a National Budget that is an instrument of national development, reflective of national objectives, strategies and plans. The budget shall be supportive of and consistent with the socio-economic development plan and shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently. x x x" (underscoring supplied) [Chapter 2 – Budget and Policy Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[156] "SECTION 9. *Performance and Financial Review.* – The analysis of agency operating performance, the evaluation of performance relative to costs incurred and the review of agency operating systems and procedures are inherent parts of the budget process. Agencies shall therefore design and implement (1) management information systems yielding both performance and financial information which will adequately monitor and control budget implementation, and (2) 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." (underscoring supplied) [Chapter 2 – Budget and Policy Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[157] "SECTION 51. *Evaluation of Agency Performance.* – The President, through the Secretary shall evaluate on a continuing basis the quantitative and qualitative measures of agency performance as reflected in the units of work measurement and other indicators of agency performance, including the standard and actual costs per unit of work." (underscoring supplied) [Chapter 6 – Budget Accountability, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

4.5 IAS/IAU and the COA

The Commission's constitutional mandate is the examination, audit and settlement of all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the government. [158]

The COA's role in internal audit (albeit internal control) is limited to the following, as provided in the Constitution, as well as the Administrative Code of 1987, as amended:

> "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/IAU.

The IAS/IAU is an integral part of the department or agency and assists in the management and effective discharge of the responsibilities of the Office without intruding into the authority and mandate of the COA granted under the Constitution[159] or encroaching on or be adversarial with those of the auditors of the COA.[160] However, there must be constructive cooperation between the IAS/IAU and the COA.

Internal control in the public sector must conform to five (5) objectives:

a. Safeguard assets;
b. Check accuracy and reliability of accounting data;
c. Adhere to managerial policies;
d. Comply with laws, rules and regulations; and
e. Ensure economical, efficient and effective operations.[161]

The financial aspect of internal control system, "to safeguard its assets" and "check the accuracy and reliability of its accounting data," is carried out by the COA in keeping with its constitutional mandate "to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and

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[158] "The Commission on Audit shall have the power, authority, and duty to examine, audit, and settle <u>all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property</u>, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, and on a post-audit basis xxx" (underscoring ours) [Section 2. (1), D – The Commission on Audit, Article IX – Constitutional Commissions, The Constitution of the Republic of the Philippines, 11 February 1987; and Section 11, Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – Commission on Audit, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[159] 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), 14 April 2003

[160] 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), 28 April 1992

[161] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 10

expenditures or uses of funds and property" and to "promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties."[162]

a. The IAS/IAU differs with the COA on financial control and financial audit by which the COA adheres to the following objectives:

> "(1) Determine whether or not the **fiscal responsibility** that rests directly with the **head of the government agency** has been properly and effectively discharged;
> (2) Develop and implement a comprehensive audit program that shall encompass an examination of **financial transactions, accounts and reports**, including evaluation of compliance with applicable laws and regulations;
> (3) **Institute control measures** through the promulgation of **auditing and accounting rules and regulations governing the receipts disbursements, and uses of funds and property**, consistent with the total economic development efforts of the Government;
> (4) Promulgate auditing and accounting rules and regulations so as to facilitate the keeping, and enhance the **information value of the accounts** of the Government;
> x x x"[163] *(emphases supplied)*

b. Fiscal responsibility is the proper and effective discharge of government resources.[164] Government resources refer to the actual and contingent assets entrusted to government agencies.[165]

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[162] "SECTION 2. (1) The Commission on Audit shall have the power, authority, and duty **to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property**, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, x x x

(2) The Commission shall have exclusive authority, **subject to the limitations in this Article**, to define the scope of **its** audit and examination, establish the techniques and methods required therefor, and **promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties.**" (emphases supplied) [D – The Commission on Audit, Article IX – Constitutional Commissions, The Constitution of the Republic of the Philippines, 11 February 1987; and Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Title I – Constitutional Commission, Book V, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[163] Section 10, Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Title I – Constitutional Commission, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[164] "SECTION 1. *Declaration of Policy*. 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." (underscoring supplied) [Chapter 1 – General Provisions, Id.]

[165] "SECTION 2. *Definition of Terms*. Unless the content otherwise requires, when used in this Title:
> x x x
(7) 'Resources' refers to the actual assets of any agency of the Government such as cash, instruments representing or convertible to money, receivables, lands, buildings, as well as contingent assets, such as estimated revenues applying to the current fiscal period not accrued or collected, and bonds authorized and unissued." (underscoring supplied) [Chapter 1 – General Provisions, Id.]

c. The COA is mandated to conduct financial audit on "all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property"[166]. Account is a "record of an accountable officer wherein transactions and events pertaining to fund, obligation, revenue, collection or expense affecting his accountability are entered as items of debit and credit."[167]

d. The COA's authority to define the "scope of its audit and examination" refers to "expenditures, or uses of government funds and properties," which covers financial control and financial audit.

4.6 IAS/IAU and the CSC

The CSC is the constitutional body concerned with the promulgation of policies, standards and guidelines on personnel administration.[168]

The qualification standards serve, among others, as an aid to the CSC in the audit of the agencies' personnel work programs. The word "audit" is being used in its generic term hence, even the CSC has an audit function.[169]

The responsibility for setting standards/policies/guidelines/programs pertaining to HRM of the government is placed with CSC. The CSC conducts audit of personnel actions of departments/agencies.

a. The 1987 Constitution declared that the "Civil Service Commission, as the central personnel agency of the Government, shall x x x integrate all human resources development programs for all levels and ranks x x x."[170]

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[166] Section 2, D – The Commission on Audit, Article IX – Constitutional Commissions, The Constitution of the Republic of the Philippines, 11 February 1987; and Section 11, Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Title I – Constitutional Commission, Book V, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[167] Item 4.1, Section 4 – Definition of Terms, Chapter 1 – Introduction, "The 2009 Rules and Regulations on the Settlement of Accounts" circularized under Commission on Audit Circular No. 2009-006 (Prescribing the use of the Rules and Regulations on Settlement of Accounts), 15 September 2009

[168] "SECTION 12. *Powers and Functions.*- The Commission shall have the following powers and functions:
x x x
(3) Promulgate policies, standards and guidelines for the Civil Service and adopt plans and programs to promote economical, efficient and effective <u>personnel administration</u> in the government;
x x x" [Chapter 3 – Organization and Functions of the Civil Service Commission, Subtitle A – Civil Service Commission, Title I – Constitutional Commission, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[169] "SECTION 22. *Qualification Standards.* — (1) x x x
Qualification standards shall be used as basis for civil service examinations for positions in the career service, as guides in appointment and other personnel actions, in the adjudication of protested appointments, in determining training needs, and as aid in the inspection and <u>audit of the agencies' personnel work programs</u>.
x x x." (underscoring supplied) [Chapter 5 – Personnel Policies and Standards, Id.]

[170] Section 3, B – The Civil Service Commission, Article IX – Constitutional Commissions, The 1987 Constitution of the Republic of the Philippines, 11 February 1987; and Section 1, Chapter 1 – General Provisions, Subtitle A – Civil Service Commission, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

b. It is the function of the CSC to "[p]romulgate policies, standards and guidelines for the Civil Service and adopt plans and programs to promote economical, efficient and effective personnel administration in the government"[171].

The audit function of the CSC is to "[i]nspect and audit the personnel actions and programs of the departments, agencies, bureaus, offices, LGUs and other instrumentalities of the government, including GOCCs; x x x."[172]

4.7 IAS/IAU and Oversight, Regulatory and Other External Bodies

The IAS/IAU head can liaise on behalf of, and with authority from, the DS/HoA or the GB/AuditCom, with other external reviewers as part of the organization's governance arrangements. It is critical that these activities are performed with authority from the DS/HoA or the GB/AuditCom.

There are benefits in formalizing protocols for such activities as exchange of information and reports in a coordinated manner. This arrangement can be applied where internal audit needs to work closely with its programs in other public service sector organizations as a result of inter-agency agreements, as may be authorized by the DS/HoA or GB/AuditCom.

4.8 IAS/IAU and Professional Bodies

It is generally expected that internal auditors may be members of professional bodies.

It is important that the internal auditors are abreast with professional and industry developments, and use networking opportunities to assist in their continuing professional development. They must continually update themselves on new frontiers of internal auditing and respond to developments affecting their profession, subject to applicable laws and regulations.

In doing so, and in accordance with government policies on confidentiality of organizational activities and audit functions, and policies on objectivity and impartiality, it is important that due care is strictly upheld.

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[171] Section 12 (3), Chapter 3 – Organization and Functions of the Civil Service Commission, Subtitle A – Civil Service Commission, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[172] Section 12 (15), Id.

5. Organizational Structure of the IAS/IAU

To be able to provide the services expected of the IAS/IAU, it is important that it has:

a. An appropriate organizational structure;

b. Access to sufficient human resources with the necessary skills and experience; and

c. An adequate budget.

> **Box 2 – Issuances on the Organization and Staffing of the IAS/IAU**
>
> - DBM Budget Circular No. 2004-4, 22 March 2004, *"Guidelines in the Organization and Staffing of Internal Auditing Units"*
> - DBM Circular Letter No. 2008-5, 14 April 2008, *"Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/ Agencies/ GOCCs/GFIs Concerned"*
> - DBM Circular Letter No. 2008-8, 23 October 2008, *"National Guidelines on Internal Control Systems"*

It is likewise important that the IAS/IAU is well positioned within the organization.

The IAS of a Department in the Executive Branch, which shall be a service-level entity, directly reports to the DS. The organizational placement of the IAS in the Office of the Secretary (OSEC) and in the Department proper is provided in Figure 13 and Figure 14, respectively.[173]
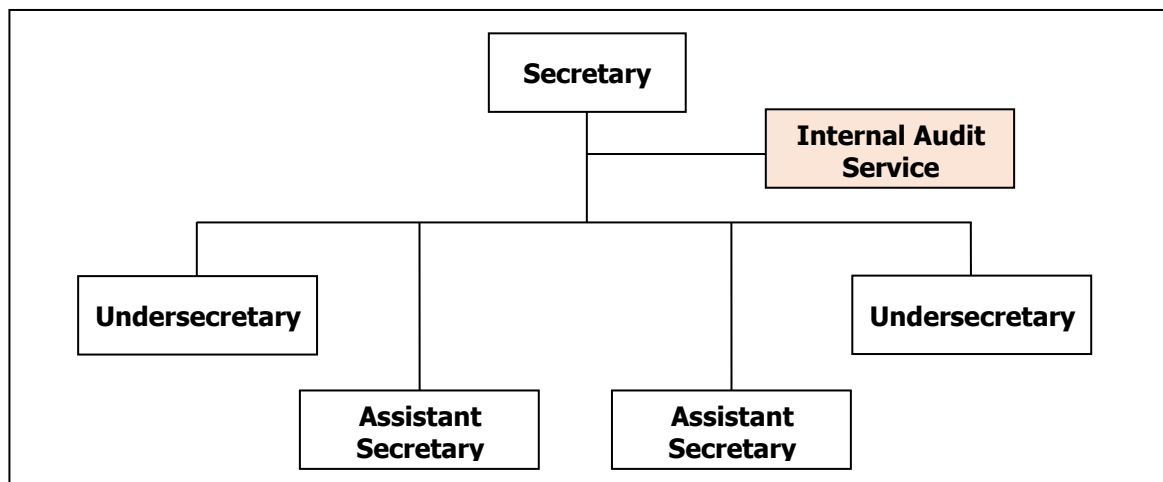
Figure 13 – Organizational Placement of the IAS in the OSEC

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[173] DBM-CSC Joint Resolution No. 1 (Rationalization Program's Organization and Staffing Standards and Guidelines), 12 May 2006 and Section 2.1, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008
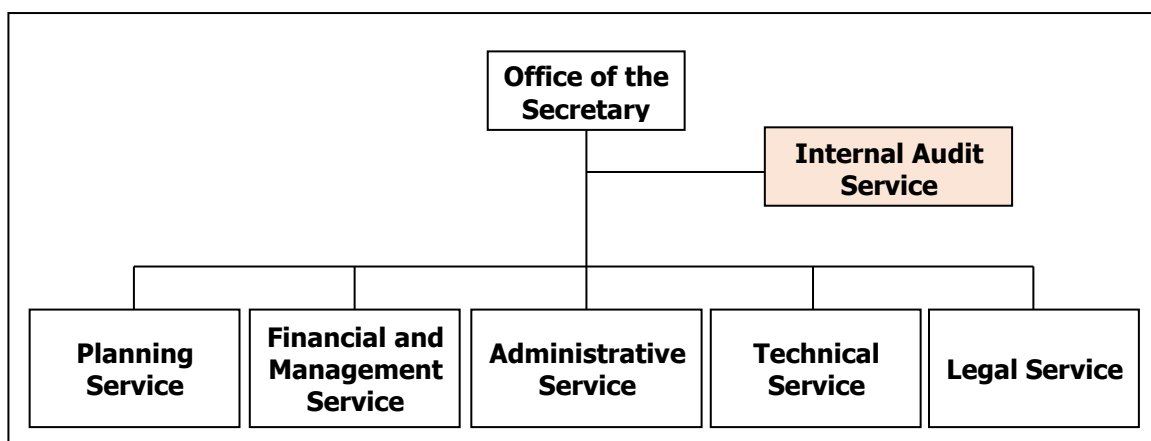
Figure 14 – Organizational Placement of the IAS in the Department Proper

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 avail of the services of the IAS of the Department.[174]

GOCCs/GFIs which have original charters or those created through the Corporation Code shall likewise establish their respective IAS/IAU, which shall be a department-level entity or its equivalent organizational unit. The IAS/IAU shall report to the respective AuditCom of the GB of the corporation, as shown in Figure 15.[175]
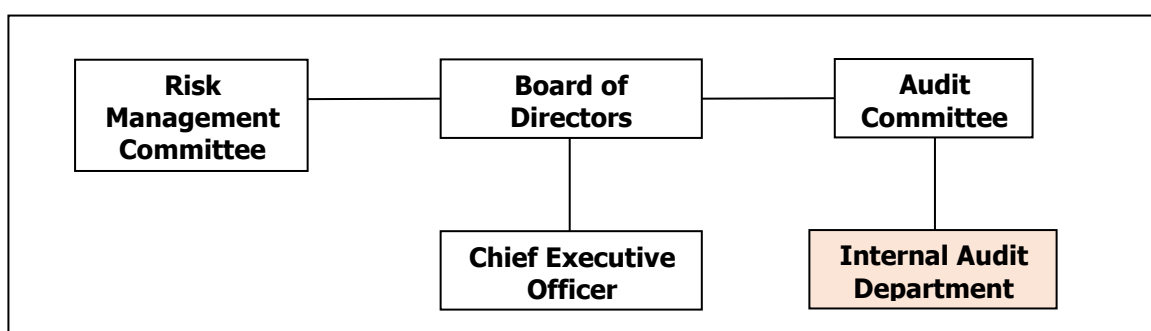
Figure 15 – Organizational Placement of the Internal Audit Department in the GOCC/GFI

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[174] Item 2.6, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

[175] Item 2.7, Id.

For SUCs, its IAU, the level of which shall depend on its levelling per DBM-Commission on Higher Education (CHED) Joint Circular (JC) No. 1, s. 2016[176], shall report to the AuditCom of the GB of the SUC, as shown in Figure 16.
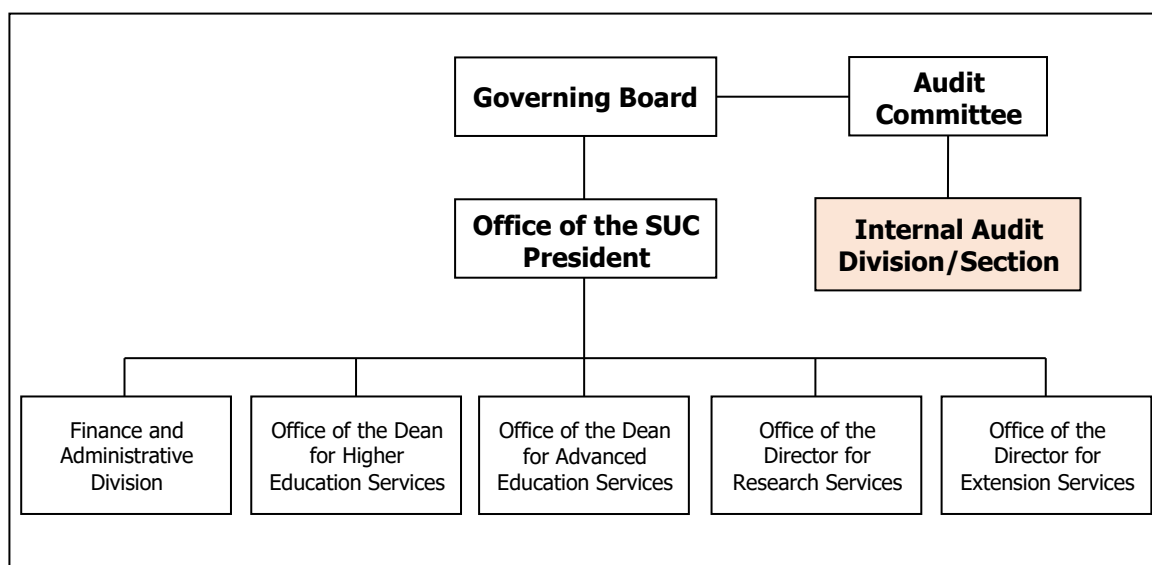
Figure 16 – Organizational Placement of the IAU in the SUC

The IAS/IAU in Departments and agencies concerned shall consist of two divisions – an Operations Audit Division and a Management Audit Division as shown in Figure 17.[177] The Divisions shall be headed by an Internal Auditor V (SG 24).
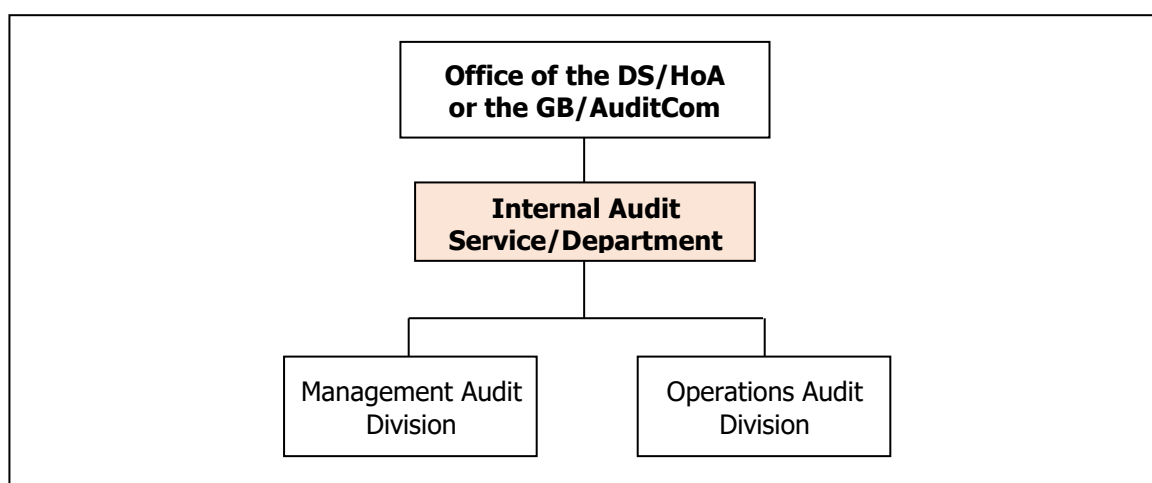
Figure 17 – Organizational Chart of an Internal Audit Service/Department

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[176] FY 2016 Levelling Instrument for SUCs and Guidelines for the Implementation Thereof, 13 April 2016
[177] Item 2.5, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008; National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, pp. 39-40

Pursuant to the Administrative Code of 1987,[178] as amended, and as adopted in DBM CL No. 2008-5, s. 2008[179], the IAS shall "*[c]onduct management and operations performance audit of Department activities and units and determine the degree of compliance with established objectives, policies, methods and procedures, government regulations, and contractual obligations of the Department.*" (underscoring supplied)

5.1 Management Audit Division

The Management Audit Division is responsible for conducting compliance and management audits in departments, agencies, GOCCs or SUCs.

OP AO No. 278,[180] s. 1992 further states that the internal audit activities shall include "*[r]eviewing and evaluating the soundness, adequacy and application of accounting, financial and other operating controls and promoting the most effective control at reasonable cost.*" (underscoring supplied)

Functional Statements

The Management Audit Division has the following functions, consistent with OP AO No. 278, s. 1992, DBM CL No. 2008-5 and DBM BC No. 2004-4:

a. Conduct management audit of activities and its units and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;

b. 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;

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;

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[178] Section 8, Chapter 3 – Department Services, Title V – Public Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[179] "x x x 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." (underscoring supplied) Section 2.4.b, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

[180] Administrative Order 278 (Directing the Strengthening of the Internal Control Systems of Government Offices, Government Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, in their Operations), 28 April 1992

d. Ascertain the reliability and integrity of financial and management information and the means used to identify, measure, classify and report such information;

e. Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds;

f. Review and evaluate the soundness, adequacy and application of accounting, financial and management controls and promote the most effective control at reasonable cost;

g. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities;

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; and

i. Perform miscellaneous services, including special investigations and assistance to outside contacts, such as the DOJ, subject to authority from the IAS/IAU principal.

5.2 Operations Audit Division

The Operations Audit Division is responsible for conducting compliance and operations audits in departments, agencies, GOCCs or SUCs.

OP AO No. 278,[181] s. 1992 further states that the internal audit activities shall include "_[r]eviewing of 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._" (underscoring supplied)

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[181] Administrative Order No. 278 (Directing the Strengthening of the Internal Control Systems of Government Offices, Government Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, in their Operations), 28 April 1992

Functional Statements[182]

The Operations Audit Division has the following functions, consistent with OP AO No. 278, s. 1992, DBM CL No. 2008-5 and DBM BC No. 2004-4:

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

b. Review and appraise systems and procedures/processes, organizational structure, operations practices, operations records, reports and performance standards of the agencies/units covered;

c. Verify and analyze operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid;

d. Ascertain the reliability and integrity of operational information and the means used to identify, measure, classify and report such information;

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;

f. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities;

g. Recommend courses of action on operational deficiencies observed;

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; and

i. Perform miscellaneous services, including special investigations and assistance to outside contacts, such as the DOJ, subject to authority from the IAS/IAU principal.

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[182] Administrative Order No. 278 (Directing the Strengthening of the Internal Control Systems of Government Offices, Government Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, in their Operations), 28 April 1992 and DBM Budget Circular No. 2004-4 [Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)], 22 March 2004

6. Head of the IAS/IAU

The IAS/IAU head is responsible for ensuring that the internal audit function and engagement are delivered efficiently and effectively toward the attainment of the IAS/IAU objectives. In doing so, the IAS/IAU head should maintain utmost commitment to public interest and the highest degree of excellence, professionalism, intelligence and skill.

6.1 Status

The rank and salary grade (SG) of the IAS/IAU head are stipulated in Sections 2.5 to 2.7 of DBM CL No. 2008-5, as well in DBM BC No. 2004-4 for SUCs.

In departments covering the OSEC-proper, bureaus, regional offices and regulatory agencies, the IAS/IAU shall be headed by a Director IV or as may be provided by the Administrative Code of 1987, as amended, or other special laws. The Director IV shall be occupied by a career official with a third level eligibility, and with SG-28 or its equivalent.[183] Said position is highly technical in nature and shall be station/office specific.

The IAS/IAU head 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.

In the case of GOCCs/GFIs, the IAS/IAU head shall be a Department Manager/SG-26 or its equivalent.

For SUCs, the head of the IAU shall depend on its SUC levelling per DBM-CHED JC No. 1, s. 2016. In particular, a Level I SUC shall be headed by an Internal Auditor III/SG-18, while a Level II-V SUC shall be headed by an Internal Auditor V/SG-24.

Considering, however, the complexity and scope of the internal audit functions and the nature of undertakings of the IAS/IAU in agencies, such as the OP and in Congress, which may entail the conduct of fraud detection, forensic audit, computer forensics, investigation and litigation in criminal and administrative cases, among others, their IAS/IAU may be headed by a third or second ranking official. Under the current set-up, the Internal Audit Office of the OP Proper is headed by a Deputy Executive Secretary, while in the House of Representatives, it is headed by a Deputy Secretary General.

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[183] Section 2.5, DBM Circular Letter No. 2008-5 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFI Concerned), 14 April 2008

6.2 Qualifications

The IAS/IAU head must meet the eligibility requirements specified in Sections 2.5 to 2.7 of DBM CL No. 2008-5[184]. As a career service officer, he/she must also meet the prescribed minimum education, training and experience requirements. However, CSC MC No. 12, s. 2006 encourages agencies to set specific or higher standards for their IAS/IAU positions. These must be submitted to the CSC for approval, and once approved, shall be adopted by the Commission as qualification standards in the attestation of the appointments of non-Presidential appointees to the IAS/IAU positions of the agency concerned.

The qualification standards for the IAS/IAU head in Table 5 may be adopted for CSC approval.

Table 5 – Qualification Standards for the IAS/IAU Head

Education	Any of the following: Master's Degree in Accounting, Public Administration, Criminology, Information Technology/ Computer Science and other related disciplines relevant to the department/agency/sector where the IAS/IAU head is assigned; Bachelor's Degree in Law would be an advantage.
Experience	4 years of relevant experience in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology), ISO Management Systems and other related disciplines
Training	40 hours of relevant training in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology), ISO Management Systems and other related disciplines
Eligibility	Any of the following: CESO III; CESO III and Lawyer or CESO III and CPA-Lawyer would be an advantage

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[184] Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/ Agencies/GOCCs/GFIs Concerned, 14 April 2008.

The IAS/IAU head must possess prior to qualification to the position general knowledge and professional knowledge.

a. General knowledge is obtained upon completion of a course of appropriate studies from an accredited higher education institution prior to becoming certified.

b. Professional knowledge refers to the range of one's information and understanding of organizational, legal, forensics, information technology, and public governance-related matters.

Since both management and operations audits start with compliance audit, it would be an advantage if the IAS/IAU head possesses sufficient foundation in law and is familiar with the rudiments of the law, in addition to the general knowledge gained from basic education.

The IAS/IAU head must also possess functional expertise. His/her knowledge of a specific function and sector (e.g., health) must be contextualized within the operations of the department/agency which performs this particular function. It helps if he/she has relevant experience in applying this knowledge in a work setting as it enhances his/her understanding of the organization and its operations.

6.3 Responsibilities

The IAS/IAU head is responsible for the following:

a. Ensuring the efficient and effective operation of the internal audit function;

b. Developing strong professional relationships with the DS/HoA or GB/AuditCom and key stakeholders;

c. Leading the development of the internal audit strategic plan and annual work plan that outlines the objectives, priorities and proposed internal audit plan; and

d. Liaising with other policy and regulatory bodies in developing internal audit plans for the review and approval by the DS/HoA or GB/AuditCom.

6.4 Skills

To operate effectively, the IAS/IAU head requires a broad range of skills and specific personal qualities which are critical to the credibility and acceptance of the internal audit function that he/she leads. These include intellectual, interpersonal, communication, and information technology skills. Other skills and qualities that could be expected of the IAS/IAU head include the following:

a. Clear understanding of the internal audit's contribution to effective governance;
b. Ability to develop plans and programs that contribute to the achievement of mandated objectives;
c. Strong management acumen and the ability to anticipate and assess management control;
d. Ability to build a strong network and credibility with the DS/HoA or GB/AuditCom and senior management; and
e. Consistent observance of ethical principles.

7. Staffing of the IAS/IAU

The rank and salary grades of the IAS/IAU staff are stipulated in Section 4.1.3 of DBM BC No. 2004-4, and Annex A thereof.[185]

The general policies and related rules on qualification standards are provided in Rule VIII of CSC Resolution No. 1800692, 2017 Omnibus Rules on Appointments and Other Human Resource Actions (Revised July 2018) dated 3 July 2018.[186]

In particular, CSC MC No. 12, s. 2006, "Qualification Standards for IAS Positions" provides the minimum qualification standards to be followed for the IAS/IAU positions, namely, Internal Auditor I-V (SG-11 to SG-24), and Internal Auditing Assistant (SG-8).

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[185] Guidelines on the Organization and Staffing of Internal Auditing Units, 22 March 2004
[186] CSC Memorandum Circular No. 14 (2017 Omnibus Rules on Appointments and Other Human Resource Actions), Revised July 2018, 30 August 2018

Table 6 – Qualification Standards for the IAS/IAU Staff

IAS/IAU Positions	Education	Experience	Training	Eligibility
Internal Auditor V (SG-24)	Master's degree relevant to the position/agency/sector	4 years in position/s involving management and supervision	24 hrs. of relevant training in management and supervision	Career Service (Professional)/ Second level eligibility
Internal Auditor IV (SG-22)	Bachelor's degree relevant to the position/agency/sector	3 years of relevant experience	16 hrs. of relevant training	Career Service (Professional)/ Second level eligibility
Internal Auditor III (SG-18)		2 years of relevant experience	8 hrs. of relevant training	Career Service (Professional)/ Second level eligibility
Internal Auditor II (SG-15)		1 year of relevant experience	4 hrs. of relevant training	
Internal Auditor I[187] (SG-11)				
Internal Auditing Assistant (SG-8)	Completion of 2 years of study in college			Career Service (Sub-professional)/ First level eligibility

A detailed matrix providing for the qualification standards and functions of each position in the IAS/IAU is provided in **Appendix B**.

7.1 Temporary Human Resource Movements to Supplement Internal Audit Resources

The need to establish and maintain an IAS/IAU that is staffed with people who have the necessary competence, skills and experience is an ongoing issue for most, if not all, agencies.

Temporary human resource movements can be a useful way of gaining training and experience for the IAS/IAU staff. The following arrangements are supported by CSC MC No. 14, s. 2018[188] and Resolution No. 06-1165 dated 5 July 2006[189].

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[187] "Qualification Standards for IAS Positions," no experience and training is required for Internal Auditor I, however, agencies are encouraged under said MC to set specific or higher standards for their IAS/IAU positions. These must be submitted to the CSC for approval, and once approved, shall be adopted by the Commission as qualification standards in the attestation of the appointments of non-Presidential appointees of the agency concerned." [CSC Memorandum Circular No. 12, s. 2006]

[188] 2017 Omnibus Rules on Appointments and Other Human Resource Actions, Revised July 2018, 30 August 2018

[189] Guidelines on Secondment

7.1.1 Detail

Detail is the temporary movement of an employee from one Department or agency to another which does not involve a reduction in rank, status or salary. (Refer to CSC MC No. 14, s. 2018 for the policies on detail.)

This involves the temporary movement (detail) of an internal audit expert of one department/agency/GOCC/GFI to the IAS/IAU of another, to train the IAS/IAU staff of the latter by coaching, or the conduct of in-house training.

7.1.2 Secondment

Secondment is the movement of an employee from one department or agency to another which is temporary in nature and which may or may not require the issuance of an appointment which may either involve a reduction or increase in compensation or benefits. However, secondment shall be limited to employees occupying managerial, professional, technical and scientific positions; and to international bodies/organizations recognized by the Philippine government. (Refer to CSC MC No. 14, s. 2018 and CSC Resolution No. 06-1165 dated 5 July 2006 for the guidelines on secondment)

This involves the temporary movement (secondment) of the IAS/IAU staff from one department/agency to another or to an international body/organization which offers an opportunity to engage in services related to internal audit functions, either for short-term or long-term engagement.

7.1.3 Other Arrangements

Other arrangements may be explored including the following:

a. Temporary detail of experts on functional areas from other public service sector organizations to the IAS/IAU

   This arrangement provides an opportunity for internal audit to gain special expertise and/or extra resources from outside the organization and for the internal audit staff to be trained by such a specialist.

b. Temporary detail of staff to the IAS/IAU from other public service sector organizations

   This entails the movement of the IAS/IAU staff to the IAS/IAU of another agency for them to gain experience in a different organization and/or work area. This may be done without the issuance of an appointment and shall be allowed only for a limited period.

c. Temporary detail of internal experts to the IAS/IAU

Internal experts or subject matter experts from within the organization can provide additional resources to the IAS/IAU for a specified period and help train the IAS/IAU staff in complex audits through adequate training and supervision. Such experts can also add credibility to the audit findings. However, these experts must disclose that they are free from any conflict of interest and can maintain impartiality.

This arrangement benefits the organization and the individuals involved by developing officers who have a good understanding of the organization's governance and accountability relationships and a good overview of the different parts of the organization.

However, in the secondment or temporary movement of the IAS/IAU staff, a confidentiality agreement will have to be drawn and signed by said staff to ensure non-disclosure of confidential information.

8. Internal Audit Budget

To provide an effective internal audit function, it is important that the budget is sufficient to implement the role expected of the IAS/IAU and, in particular, responds to the priorities and requirements of the approved strategic and annual work plan. The DS/HoA or GB/AuditCom approves the internal audit budget.

The factors that influence the internal audit budget include:

a. The number and types of audits included in the annual work plan;
b. Complexity of the annual work plan;
c. Geographic spread of audit work; and
d. Related audit services, such as being reference point for contacts like the Office of the Ombudsman and other oversight or regulatory bodies and/or intervening activities or tasks that may be assigned to the IAS/IAU by the DS/HoA or GB/AuditCom.

In presenting the internal audit strategic and annual work plan, the IAS/IAU head may submit the proposed budget for the planned activities. If the approved budget is less than the proposed, the IAS/IAU should review the audit plan and prioritize the activities that can be undertaken for the year. Other activities may be rescheduled in the succeeding years.

Some good practices by the IAS of certain departments in the Executive Branch relative to organizing the internal audit are in **Appendix C – Good Internal Audit Practices in Government**.

CHAPTER 4

PERFORMANCE MONITORING AND EVALUATION

1. **Performance Monitoring and 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 whereby the internal audit's own performance is assessed and internal audit is held accountable for the use of its resources.

   Since the DS/HoA or GB/AuditCom is responsible for reviewing the performance of internal auditors, the performance indicators must be mutually agreed upon between the DS/HoA or GB/AuditCom and the IAS/IAU head.

   Table 7 – Performance Monitoring and Evaluation

Particulars	Monitoring	Evaluation
By the DS/HoA or GB/AuditCom	Review of Internal Audit Report	Review of IAS/IAU Performance Report
By the IAS/IAU Head	Review of Progress Assessment Report	Review of Completion Assessment Report

   1.1 Internal Audit Performance Measurement

   Performance assessment has three (3) interrelated elements, to wit:

   a. **Performance measurement**, which refers to the systematic analysis of performance against targets taking account of the reasons behind the performance and the influencing factors;

   b. **Rating**, which refers to the judgment of progress - good or bad - based on indicators; can also include rating another performance dimension; and

   c. **Key performance indicators (KPIs)**, which are used to verify if progress towards results has taken place.

   The KPIs used to measure performance should focus on matters that receive the highest priority. It is important, therefore, that the KPIs for internal audit are aligned with the internal audit strategic plan and annual work plan, and help drive the performance which the DS/HoA or GB/AuditCom expects from internal audit.

   It is also important that performance is measured over time in order to identify trends in both qualitative and quantitative targets. Such targets should be challenging but realistic.

The most suitable KPIs vary from one organization to another depending on the approved internal audit strategic plan. It is expected that KPIs would be sufficient in number and as a minimum, would measure audit work and other significant services provided by internal audit. Good KPIs include measurements, such as the following:

a. Timeliness and cost of audits;

b. Quality of audits, including quality of evidence-based findings and realistic courses of action;

c. Auditees' survey on the extent of impartiality, professionalism, communication and due care in managing the internal audit;

d. Number of audit findings approved by the DS/HoA or GB/AuditCom;

e. Number of recommendations implemented by the auditee;

f. Number of audit support activities undertaken;

g. Internal audit staff satisfaction; and

h. Overall contribution made by the internal audit function.

It is relatively easier to measure the cost and timeliness of internal audit reports, but it is more difficult to measure, in an objective way, the quality of internal audit services or the contribution that internal audit makes to the organization. Consequently, measurement of the effectiveness of or the benefits from individual internal audit reports and the internal audit function itself is generally best done over time by seeking the views of the DS/HoA or GB/AuditCom as principals and key stakeholders, where appropriate.

In any event, internal audit should keep track of where it has significantly influenced change in the organization.

Subject KPIs of the IAS/IAU should be consistent with the performance indicators indicated in the accomplished PREXC Form A. Moreover, the KPIs should be incorporated in the performance management system being utilized by the agency, such as the Strategic Performance Management System of the CSC for division and individual level.

1.2 Measurement Techniques

Management information systems and processes should 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.

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

a. Auditors' 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;

e. Level of collaboration with management, the public they serve, and the agency's stakeholders; and

f. Overall value of the report to management, the public they serve, and the agency's stakeholders.

As the principal, the DS/HoA or GB/AuditCom should also be involved in providing regular feedback on the quality and cost-effectiveness of the audit reports and other services provided by internal audit.

It is expected that the views of the DS/HoA or GB/AuditCom will be sought periodically, and at least once annually.

1.3 Internal Audit Annual Performance Report

To assist the DS/HoA or GB/AuditCom in reviewing the performance of internal audit, it is good practice for the IAS/IAU head to prepare a report for them, at least annually or upon request, on progress in implementing the internal audit strategic plan and annual work plan.

The report should contain:

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

b. Progress in the implementation of the internal audit strategic and 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 could be included in the organization's annual report.

(Refer to PGIAM Part II – Practices, Chapter 3 for the discussion on performance monitoring and evaluation by the IAS/IAU head and DS/HoA or GB/AuditCom.)
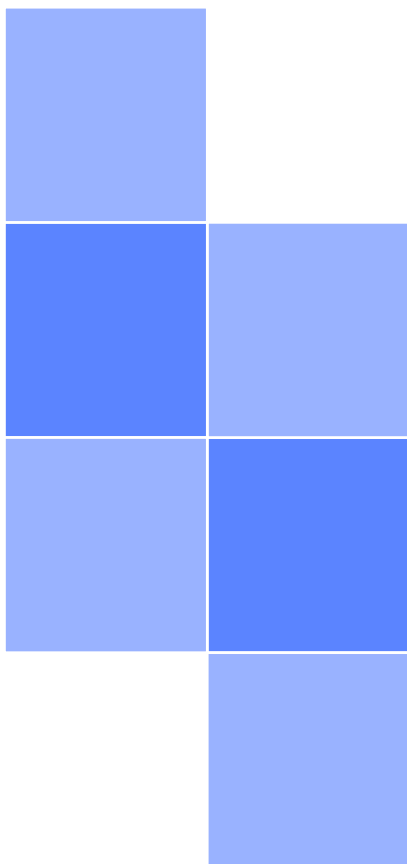
Part II: Practices

INTRODUCTION

The Philippine Government Internal Audit Manual (PGIAM) Part II - Practices contains the approaches, tools and techniques that will facilitate the conduct of internal audit activities, as explained in the PGIAM Part I - Guidelines.

The Internal Audit Service/Unit (IAS/IAU) is mandated to conduct an evaluation or appraisal of the internal control system to determine if internal controls are well designed and properly implemented. It is also mandated to conduct compliance audit, management audit and operations audit.

The PGIAM Part II - Practices is composed of three (3) chapters representing the major steps in the conduct of internal auditing: (1) strategic and annual planning; (2) audit process; and (3) performance monitoring and evaluation, as illustrated in Figure 18. To facilitate navigation in this manual, reference should be made on the internal audit activities/processes as shown in Figure 19.
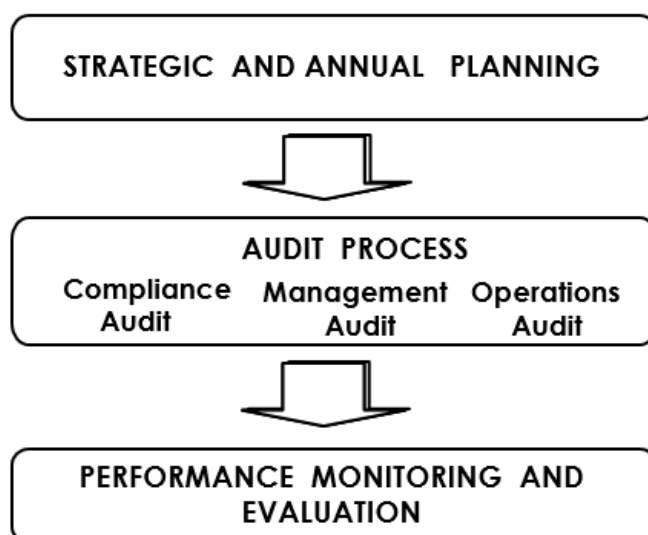
Figure 18 – Major Steps in Conducting Internal Audit

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┌─────────────────┐   ┌─────────────┐   ┌─────────────┐   ┌─────────────┐
│ Strategic and   │──▶│  Types  of  │──▶│Audit Process│──▶│Monitoring & │
│    Annual       │   │    Audit    │   │             │   │ Evaluation  │
│   Planning      │   │             │   │             │   │             │
└─────────────────┘   └─────────────┘   └─────────────┘   └─────────────┘

┌─────────────────┐   ┌─────────────┐   ┌─────────────┐
│     BAICS       │   │ Compliance  │   │Audit Planning│
└─────────────────┘   └─────────────┘   └─────────────┘

┌─────────────────┐                     ┌─────────────┐   ┌─────────────┐
│  Control Risk   │                     │Audit Execution│ │ Performance │
└─────────────────┘   ┌─────────────┐   └─────────────┘   │ Monitoring  │
                      │ Management  │                     │    and      │
┌─────────────────┐   │   Audit     │   ┌─────────────┐   │ Evaluation  │
│Internal Audit Risk│ └─────────────┘   │Audit Reporting│ │             │
└─────────────────┘                     └─────────────┘   └─────────────┘

┌─────────────────┐
│ Strategic Plan  │   ┌─────────────┐   ┌─────────────┐
└─────────────────┘   │ Operations  │   │Audit Follow-up│
                      │   Audit      │   └─────────────┘
┌─────────────────┐   └─────────────┘
│ Annual Work Plan│
└─────────────────┘
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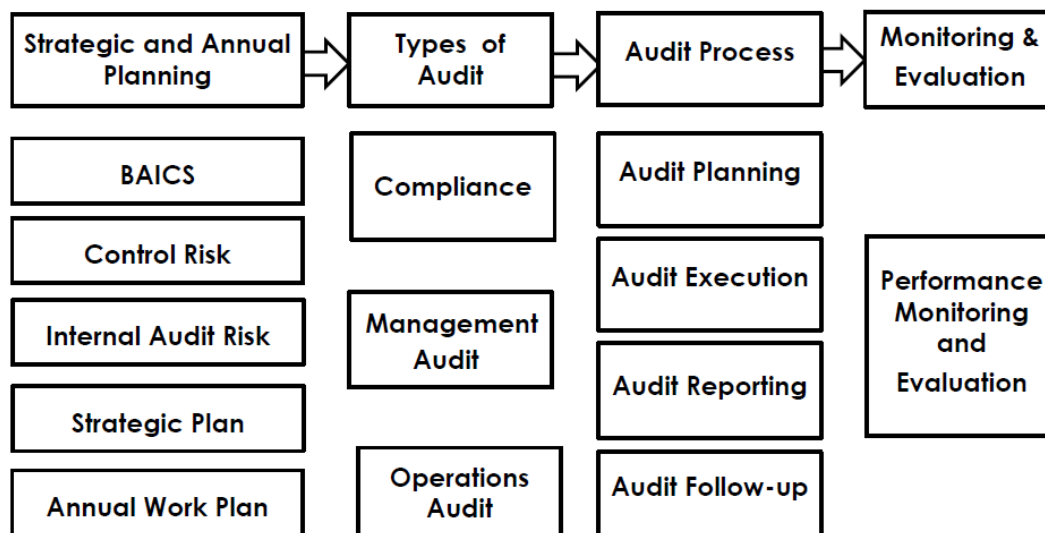
Figure 19 – Internal Audit Key Processes/Activities

Internal audit activities start with strategic and annual work planning, which is the focus of Chapter 1. The strategic planning begins with a baseline assessment of the internal control system (BAICS) that establishes how the IAS/IAU: (1) reviews the organization's internal control components in the context of the public service organization in the sector and key strategic challenges and advantages; and (2) leverages on this knowledge to plan for the work to be undertaken in assisting the organization to achieve its objectives. After the BAICS, the IAS/IAU assesses the internal audit risks, formulates the Strategic Plan for a three (3)-year period, and prepares the Annual Work Plan based on the identified audit areas resulting from the strategic planning.

The audit process, which will be discussed in Chapter 2, involves four (4) stages, namely: (1) audit engagement planning; (2) audit execution; (3) audit reporting; and (4) audit follow-up. The processes pertain specifically to the preparation of the audit engagement plan, conduct of the audit itself by identifying the standards/criteria and gathering pieces of evidence for the conditions and causes, analyses of the findings of facts and pieces of evidence, formulation of recommendations, and monitoring of the implementation of approved audit recommendations.

At any point during the BAICS and during the conduct of the audit, when significant risks/issues arise, the IAS/IAU will prepare an interim report to the Department Secretary/Head of Agency (DS/HoA) or Governing Body/Audit Committee (GB/AuditCom) to communicate findings, issues, and problems that may affect the conduct of the audit and expose the organization to considerable risks. The audit process applies to compliance, management and operations audits.

Chapter 3 elucidates how the performance evaluation of the IAS/IAU is undertaken in order to: (1) ensure that the internal audit service achieves and delivers planned results; (2) continually improve the internal audit process; and (3) enhance the professionalism of the audit staff.

Workflow charts and diagrams of internal audit key processes are provided in **Appendix D** of this Manual. Moreover, some good practices by the IAS of certain departments in the Executive Branch relative to certain phases of the internal audit process are in **Appendix C – Good Internal Audit Practices in Government**.

CHAPTER 1

STRATEGIC AND
ANNUAL WORK PLANNING

1. Strategic Planning

Strategic planning is the process of identifying the key audit strategic direction of the IAS/IAU for a three-year period. While the suggested format and content are indicated herein, the same shall be agreed upon between the DS/HoA or GB/AuditCom and the IAS/IAU Head. The strategic planning and annual work planning process is shown in Figure 20.

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┌─────────────────────────────────┐
│   STRATEGIC AND ANNUAL          │
│        PLANNING                 │
├─────────────────────────────────┤
│  1.  Baseline assessment of the │
│      internal control system    │
│  2.  Assessment of control risk │
│  3.  Assessment of internal     │
│      audit risk                 │
│  4.  Formulation of the         │
│      Strategic Plan             │
│  5.  Preparation of the Annual  │
│      Work Plan                  │
└─────────────────────────────────┘
              │
              ▼
┌─────────────────────────────────┐
│            AUDIT                │
│  Compliance  Management  Operations │
│    Audit       Audit      Audit     │
└─────────────────────────────────┘
              │
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│  PERFORMANCE MONITORING AND     │
│         EVALUATION              │
└─────────────────────────────────┘
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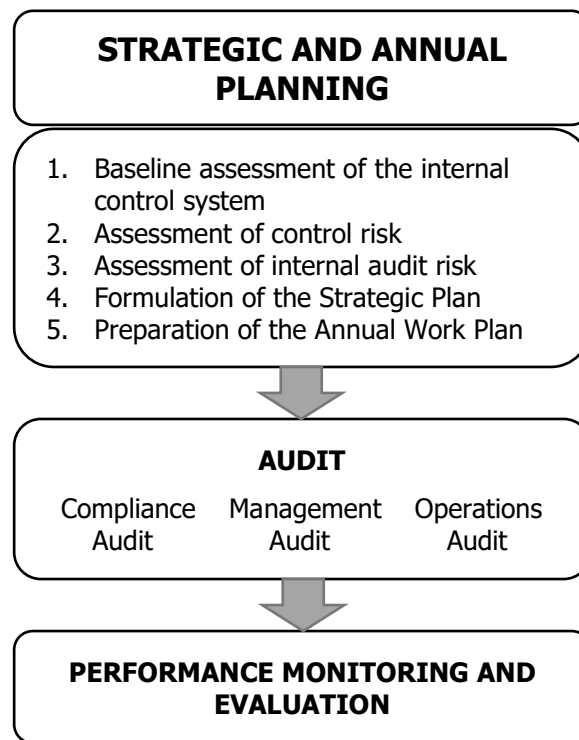
Figure 20 – Strategic and Annual Work Planning Process

There are three (3) levels of planning:

a. Strategic planning, discussed in this chapter;
b. Annual work planning, also discussed herein; and
c. Audit engagement planning, discussed in Chapter 2.

In a nutshell, the Strategic Plan spells out the three-year key audit direction of the IAS/IAU. On the other hand, the Annual Work Plan is based on identified audit areas for one (1) year resulting from the strategic planning, while the Audit Engagement Plan sets the activities per audit engagement identified in the Annual Work Plan.

1.1 Conduct of a Baseline Assessment of the Internal Control System (BAICS)

The first activity in strategic planning is the conduct of a BAICS. It is done for the purpose of formulating a three-year Strategic Plan which should be iterative and updated whenever there are changes in the internal control component of the organization. This is to ensure that the focus of the IAS/IAU continues to be relevant to the context of the organization.

The objectives of the BAICS are to:

a. Get familiar with the organization's operations;
b. Identify and document the five (5) components of the internal control system of all programs and projects of the organization;
c. Review key processes on operations (OPS), support to operations (STO), and general administration and support (GAS);
d. Review controls on key processes of OPS, STO and GAS; and
e. Gather sufficient information on potential audit areas to be included in the strategic plan.

BAICS is carried out by performing activities such as: administering internal control questionnaires/checklists; verifying results; using flowchart/narrative notes; and conducting walkthrough and test of controls.
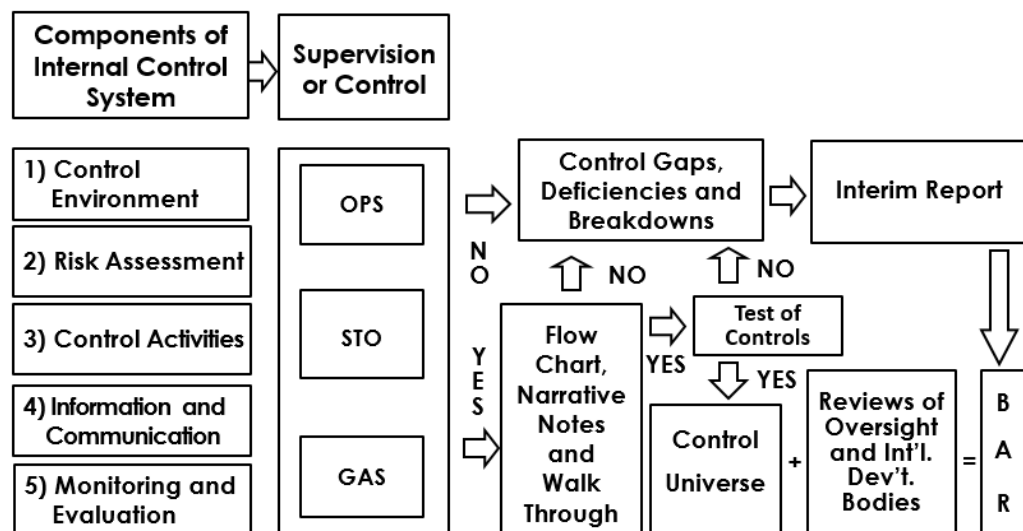
Figure 21 – BAICS Flow Diagram

1.1.1   Creation of a Planning Team for the Conduct of the BAICS

In the conduct of the BAICS, a Planning Team, which is composed of select personnel from the IAS/IAU, is organized by the IAS/IAU Head. Its creation could be formalized through the issuance of an Office Order.

A suggested template that could be used by the IAS/IAU in formalizing the creation of a Planning Team is in **Appendix A – Suggested Templates**.

The Planning Team performs an evaluation and analysis of information/documents on mandate, objectives, strategies, OPS, STO, GAS, manual of operations (including flowcharts and narrative procedures), laws, rules and regulations, performance, and reviews of oversight bodies and international/ local development partners. The evaluation and analysis of said information/documents gathered from open-source and from the submission of offices concerned allow the conduct of the following:

a. documentation of the five (5) components of internal control system;
b. review of the key processes of OPS, STO and GAS;
c. review of controls of key processes of OPS, STO and GAS; and
d. preparation of the Internal Control Questionnaire (ICQ) on key processes of critical operating and support systems of OPS, STO and GAS of all agency programs and projects.

1.1.2   Familiarization with the Organization

The IAS/IAU gathers and analyzes information on the organization's mandate, objectives, strategies, OPS, STO, GAS, relevant laws, rules and regulations, and organizational and sectoral performance. This involves a tabletop review of the pertinent materials such as previous audit reports.

The documents to be obtained and reviewed to be familiar with the organization's operations may be primary source documents (obtained from the original source of the information, documents or records) or secondary source documents (obtained from references/copies of information, documents or records other than the original source).

a. Documentation of the Five (5) Components of the Internal Control System

To obtain an understanding of the agency's internal control system in the context of a public service sector, the IAS/IAU identifies and documents the five (5) components of the internal control system, to wit: control environment, risk assessment, control activities, information and communication, and monitoring and evaluation.

The details on the components of internal control are comprehensively discussed in PGIAM – Part I (Guidelines), Chapter 2 (Internal Control System and Institutional Arrangements).

The procedure in documenting the internal control system includes a combination of workshops, observations, documentary review, internal control questionnaires, and focus group discussions, to obtain from the operating and support units the primary source documents; and validate all observations and recommendations with key officials of the organization.

It includes obtaining documents from primary sources for validation, e.g., the Department of Health, in reviewing the compliance of hospitals on the standard health care services, would require the submission of reports of compliance; the Civil Service Commission (CSC), in the review of the implementation of recruitment policies and guidelines, would require the submission of reports from agencies on the hiring of officers and employees. The relevant documents may be inspection guidelines or manuals which contain the standards, timing and methods for the conduct of inspection.

The documents/criteria that may be considered in documenting the five (5) components of the internal control system of the organization are in Table 8. The list is not all-inclusive and not every document/criterion will apply to every department/agency/process.

The IAS/IAU should come up with its own list of documents/ criteria to document the internal control components in the organization.

Table 8 – Sample Documents/Criteria in Documenting the Components of the Internal Control System

Internal Control Component/ Element	Document/Criterion
CONTROL ENVIRONMENT	

Plan of Organization	❖ Structural Principles of Governance (Organizational Structure and Staffing)
	
	➢ Department of Budget and Management (DBM) Manual on Position Classification and Compensation[190]
	➢ Department/Agency's approved Rationalization Plan or its equivalent[191]
	➢ Notice of Organization, Staffing and Compensation Action or DBM issuances/formal correspondence as bases of the following:
	  ▪ Approved organizational chart and functional chart/ statements
	  ▪ Organizational linkages/work flows
	  ▪ Approved staffing pattern
	  ▪ Position description forms/statement of duties and responsibilities
	  ▪ Personnel Services Itemization and Plantilla of Personnel[192]
	➢ Department/Agency Citizen's Charter
	➢ Department/Agency orders on, among others, the following:
	  ▪ Functional statements of bureaus/services/offices
	  ▪ Delineation of functions and authority of senior officials
	
	❖ Functional Principles of Governance (Management and Personnel)
	
	➢ Department/Agency's code of conduct and other policies/issuances relating to integrity and ethical standards[193] in accordance with the minimum standards of RA No. 6713[194]
	➢ Department/Agency's performance measurement and evaluation System in accordance with the minimum requirements of Executive Order (EO) No. 292[195]
	➢ Doctrine of Completed Staff Work[196]

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[190] DBM Circular Letter No. 2007-6 (Manual on Position Classification and Compensation) 19 February 2007

[191] Executive Order No. 366, (Directing a Strategic Review of the Operations and Organizations of the Executive Branch and Providing Options and Incentives for Government Employees Who May Be Affected by the Rationalization of the Functions and Agencies of the Executive Branch), 4 October 2004; CSC-DBM Joint Resolution No. 1 (Rationalization Program's Organization and Staffing Standards and Guidelines), 12 May 2006

[192] DBM National Budget Circular No. 549 [Monthly Updating of the Personal Services Itemization and Plantilla of Personnel (PSIPOP) Under the Web-based Application System], 21 October 2013

[193] NEDA Office Circular No. 01-2009 (Adopting the Code of Conduct for the Officials and Employees of NEDA), 19 May 2009; LTFRB Code of Conduct for Officials and Employees of the Land Transportation and Franchising Regulatory Board, 4 February 2005

[194] Code of Conduct and Ethical Standards for Public Officials and Employees, 20 February 1989

[195] Section 8, Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[196] OP Memorandum Circular No. 72 (Strengthening the Standards of Complete Staff Work as a Requirement for the Processing and Evaluation of requests for presidential Issuances, Authorizations and Other Approvals), 15 November 2019

Internal Control Component/ Element	Document/Criterion

Coordinated Methods and Measures	❖ Planning[197]
	
	   ➢ Planning manual for sectoral planning and organizational planning
	   ➢ Agency strategic objectives and performance information in the General Appropriations Act (GAA)[198]/National Expenditure Program (NEP)
	   ➢ Department/Agency's planning documents reflecting its thrusts and strategies in achieving its mission, vision and objectives
	
	❖ Budget[199]
	
	   ➢ GAA/NEP
	   ➢ Primer on Government Budgeting and Primer on Barangay Budgeting[200]
	   ➢ President's Budget Message
	   ➢ Relevant DBM guidelines on the preparation of the national budget, such as the Budget Call
	   ➢ Relevant DBM issuances on the release of funds, such as documentary requirements for the same[201]
	   ➢ Notices of Cash Allocation
	   ➢ Program Expenditure Classification-Based Performance-Informed Budgeting[202]
	
	❖ Accounting[203]
	
	   ➢ Government Accounting and Auditing Manual[204]
	   ➢ Government Accounting Manual for Use of All National Government Agencies[205]
	   ➢ Chart of Accounts
	   ➢ Description of Accounts
	   ➢ Books of Accounts
	   ➢ Registries and Records
	   ➢ Accounting Forms and Reports
	   ➢ Trial Balances, Financial Reports and Statements
	   ➢ Relevant Commission on Audit (COA) and DBM accounting guidelines

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[197] Section 13, Chapter 3 – Department Services, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[198] Such as Republic Act No. 11464 (General Appropriations Act, FY 2020), 6 January 2020
[199] Section 3, Chapter 2 – Secretaries, Undersecretaries, and Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[200] DBM Publications, Other Publications; Section 29, Article VI of the 1987 Constitution; Sections 329-334 of Republic Act No. 7160 (Local Government Code of 1991), 10 October 1991
[201] Such as DBM National Budget Circular No. 578 (Guidelines on the Release of Funds for FY 2020), 6 January 2020
[202] DBM National Budget Circular No. 569 [Adoption of Program Expenditure Classification-Based Performance-Informed Budgeting (PREXC-PIB) for the Preparation of the Proposed National Budget for Fiscal Year 2018], 8 February 2017
[203] Section 10, Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The Commission on Audit, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[204] Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended
[205] COA Circular No. 2015-007 (Prescribing the Government Accounting Manual for Use of All National Government Agencies), 22 October 2015

Internal Control Component/ Element	Document/Criterion
	❖ Administrative[206] ➢ RA No. 9184 and its revised implementing rules and regulations (IRR) ➢ Operating Manuals or Service Guides[207] ➢ Agency procurement and bidding documents (Annual Procurement Plan, Project Procurement Management Plan, Approved Budget for the Contract, Bidding Documents and Terms of Reference, Contracts)[208] ➢ Accomplished agency procurement compliance and performance indicator self-assessment form ➢ Philippine Government Electronic Procurement System[209] ➢ Relevant Government Procurement Policy Board guidelines and resolutions on procurement ➢ Relevant National Archives of the Philippines guidelines on records disposal[210] ❖ Human Resource[211] ➢ CSC's Revised Omnibus Rules on Appointments and Other Human Resource Actions ➢ Human Resource Management Manual (recruitment, selection and placement of personnel; appointments; employee benefits; discipline; leave and attendance; separation; promotion; employee suggestions and incentive awards system; employee programs; etc.)[212] ➢ Rules on Administrative Cases in the Civil Service (RACCS)[213] ➢ Rules on Qualification Standards[214] ➢ Relevant CSC guidelines on human resource management and development ➢ Agency Strategic Performance Management System (SPMS)[215] ❖ Quality Management[216] ➢ Applicable ISO 9001 Standard on the implementation of a quality management system (QMS) ➢ Department/Agency QMS-related documents (quality manual and quality procedures on the control of documented

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[206] Section 15, Chapter 3 – Department Services, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[207] Section 5, Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), 20 February 1989; Rules Implementing Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), 21 April 1989; and OP Memorandum Circular 35, 17 March 2003

[208] Republic Act No. 9184 (Government Procurement Reform Act), 10 January 2003

[209] 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 (Government Procurement Reform Act)

[210] National Archives of the Philippines General Circular Nos. 1 and 2, January 2009

[211] Section 7, Chapter 2 – Coverage of Civil Service, Subtitle A – Civil Service Commission, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[212] CSC Resolution No. 1701009 (2017 Omnibus Rules on Appointments and Other Human Resource Actions), 16 June 2017

[213] CSC Resolution No. 1701077 [2017 Rules on Administrative Cases in the Civil Service (2017 RACCS)], 3 July 2017

[214] 1997 Revised Qualification Standards amended by CSC MC 12, s. 2003; Section 22, Chapter V – Personnel Policies and Standards, Subtitle A – Civil Service Commission, Title I – Constitutional Commissions, Book V – Office of the President, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

[215] CSC Memorandum Circular No. 6 [Guidelines in the Establishment and Implementation of Agency Strategic Performance Management System (SPMS)], 19 March 2012

[216] RA No. 9013 (An Act Establishing the Philippine Quality Award in Order to Encourage Organizations in Both the Private and Public Sectors to Attain Excellence in Quality in the Production and/or Delivery of their Goods and Services), 28 February 2001; Executive Order No. 605 (Institutionalizing the Structure, mechanisms and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, s. 2003), 23 February 2007

Internal Control Component/ Element	Document/Criterion
	information, control of nonconforming products/services, internal quality audit, and corrective action)
	➢ Process approach
	➢ Client perception monitoring[217]
RISK ASSESSMENT	
Risk assessment	❖ Risk management manual which contains the risk management framework and risk management process
	❖ Risk assessment techniques used:
	➢ Risk identification (risk register/risk log, risk profile), risk analysis (risk matrix), and risk evaluation (risk evaluation results) which may be contained in the agency's operating manuals, risk management manual, or separate manuals/ documents by reference[218]
	➢ Documentation of the risk assessment which includes:
	▪ Objectives and scope
	▪ Description of relevant parts of the system and their functions
	▪ Summary of the external and internal context of the organization and how it relates to the situation, system or circumstances being assessed
	▪ Risk criteria applied and their justifications
	▪ Limitations, assumptions and justifications of hypotheses
	▪ Risk identification results
	▪ Data, assumptions and their sources, and validation
	▪ Risk analysis results and their evaluation
	▪ Sensitivity and uncertainty analysis
	▪ Critical assumptions and other factors which need to be monitored
	▪ Discussion of results
	▪ Conclusions and recommendation
	▪ References[219]
	❖ Risk management plan which specifies the approaches, management components and resources to be applied to the management of the risk[220]
	This includes, among others, the risk management policy, risk assessment objectives, risk criteria (based on organizational objectives, and internal and external context; derived from standards, laws, policies and other requirements);[221] risk assessment program, procedures and practices; assignment of responsibilities; sequence and timing of activities; skills, experience and competence; resources needed for each step of the risk management process; and training programs.

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[217] ISO 9001:2015 (Quality management system); and Executive Order No. 605 (Institutionalizing the Structure, mechanisms and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, s. 2003), 23 February 2007

[218] PNS ISO 31000:2018 (Risk management – Guidelines), published in 2018

[219] 5.5, Documentation, Id., p. 16.

[220] 1.3, Risk Management Plan, ISO Guide 73:2009 (E/F), p. 2.

[221] Clause 6.3.4, PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

Internal Control Component/ Element	Document/Criterion
CONTROL ACTIVITIES	
Control activities	❖ Implementation of the risk management plan through policies and procedures pertaining to the risk response (tolerated, transferred, terminated or treated[222])[223] such as insurance contracts (risk sharing[224]), and risk financing[225] (risk treatment) ❖ Risk monitoring and review reports ❖ Results of the operating performance review and operating compliance review by management
INFORMATION AND COMMUNICATIONS	
Information	❖ Department/Agency Citizen's Charter[226] ❖ Information systems as part of knowledge management[227] - Government Information Systems Plan (GISP) also known as Philippine Government Online;[228] Data Privacy Manual[229] ❖ Review and Compliance Procedures in the Filing and Submission of the Statement of Assets, Liabilities and Networth (SALN) and Disclosure of Business Interests and Financial Connections (DBIFC)[230]
Communications	❖ Report Card Survey and feedback mechanism of RA No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018)[231] ❖ Consultations and dialogues between officials and staff ❖ Consultations with various offices to evaluate public and private entities providing public goods and services ❖ Mechanism of public consultations and hearings to the public to serve[232] ❖ Consultation with internal and external stakeholders

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[222] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02
[223] National Guidelines on Internal Control Systems issued under DBM Circular Letter No. 2008-8, 23 October 2008, p. 32
[224] Clause 3.8.1.3, ISO Guide 73:2009 (E/F) (Risk management – Vocabulary)
[225] Clause 3.8.1.5, Id.
[226] Section 6, Republic Act No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018), 28 May 2018
[227] Rule V, Rules Implementing Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), 21 April 1989
[228] Executive Order No. 265 [Approving and Adopting the Government Information Systems plan (GISP) as Framework and Guide for All Computerization Efforts in Government], 12 July 2000
[229] RA No. 10173 (Data Privacy Act of 2012), 15 August 2012
[230] Section 8, Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), 20 February 1989 and its Implementing Rules; Section 7, Republic Act No. 3019 (Anti-Graft and Corrupt Practices Act), 17 August 1960; CSC Resolution No. 06-0231, 1 February 2006; CSC Memorandum Circular No. 10, s. 2006
[231] Section 20, Republic Act No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018), 28 May 2018
[232] Section 5, Rule III, Rules Implementing Republic Act No. 6713, 21 April 1989.

Internal Control Component/ Element	Document/Criterion
MONITORING AND EVALUATION	
Ongoing Monitoring	❖ Monitoring of compliance by various offices to the performance measurement reports[233] by the Planning Service, Financial and Management Service, Administrative Service, and other support service units
	❖ Attendance and leave monitoring system[234]
Separate Evaluation	❖ Internal Audit
	➢ Philippine Government Internal Audit Manual (PGIAM)
	➢ National Guidelines on Internal Control Systems (NGICS)
Combination	❖ Consultation and coordination between and among operating units, support services units and the IAS/IAU

b. Administration of an Internal Control Questionnaire (ICQ)

Based on the information and documents gathered and processed, the IAS/IAU Planning Team would come up with an ICQ to document and evaluate the five (5) components of the internal control system. These components have a pervasive effect, and their absence can increase the opportunity for fraud or errors in the organization. It could be both used by the management (as part of the review of the existing methods and systems for improvement) and internal auditors (for the purpose of strategic planning).

Before farming out the ICQ, target respondents should first be identified within the strategic requirements of the information gathering and for the conduct of orientation to set a common understanding and language. The questions should be crafted to obtain information on the attributes and effectiveness of internal controls, with follow-up questions to validate the previous answers.

The Questionnaire is divided into the five (5) interrelated components of internal control that make up the organization's system, as follows:

Section 1 - Control Environment
Section 2 - Risk Assessment
Section 3 - Control Activities
Section 4 - Information and Communication
Section 5 - Monitoring and Evaluation

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[233] Item 5.7, DBM National Budget Memorandum No. 103 (Policy Guidelines and Procedures in the Preparation of the FY 2010 Budget Proposals), 14 April 2009
[234] CSC Memorandum Circular No. 41 s. 1998; CSC Memorandum Circular No. 14, s. 1999

Accomplished ICQ with attached information/documents are evaluated and analyzed to determine if ICQ answers are supported with appropriate information/documents gathered from ICQ attachments, submission from offices concerned and open-source information/documents. Accomplished ICQ may generate the following answers/responses:

i. "YES" answers with appropriate information/documents;
ii. "YES" answers without or lacking appropriate information/ documents; or
iii. "NO" answers.

The presence of controls identified in the "YES" answers with appropriate information/documents is further evaluated and analyzed using flowcharts and narrative notes.

On the other hand, "YES" answers without appropriate information/documents, as well as "NO" answers, undergo evaluation to determine the presence or absence of compensating controls. The presence of compensating controls allows the Planning Team to proceed to flowcharts/ narrative procedures evaluation. On the other hand, the absence of compensating controls will be subjected to an interim analysis to determine the need for immediate action.

Compensating controls refer to alternative mechanisms that are put in place to satisfy the requirement of the control.

"YES" answers and "NO" answers with compensating controls will be subject to a test of controls for validation.

"NO" answers without compensating controls should be identified as control deficiencies and their root cause/s should be determined before courses of action are recommended in the interim report. Their content should eventually be included in the Baseline Assessment Report. Subsequently, interim report recommendations should be monitored, and in the ensuing audit period, it should be validated if the actions taken have addressed the control deficiencies. The recommendations should not merely include addressing the control deficiencies, but should hold accountable the next level in the hierarchy for failure of supervision.

Gathering of pieces of evidence by the IAS/IAU can be done by *triangulation*, a multi-approach which may include solicitation, elicitation and analysis of data. No one (1) type of evidence gathering would suffice. To raise the level of confidence, at least three (3) sources of evidence or methods of verification should be obtained.

c. Review of Key Processes and Controls in the OPS, STO and GAS

The objective of the review is to document controls in key processes of OPS, STO and GAS within the organization that are critical to the achievement of the control objectives. This is to determine adequacy of internal control and identify gaps, deficiencies or breakdown for potential inputs to the Baseline Assessment Report. The processes include operating processes for programs and projects, administrative, finance, budget, planning, and technical support systems.

The criteria for the selection of critical processes can include the following:

i.   A process with an output that is an input to a program output and outcome;
ii. A process that makes up significant control procedures; and
iii. A process where the financial value of inputs are high.

The review also includes the key operational processes used to manage and monitor the organization's 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, as well as the identified key performance measures.

The subject of the review may include existing flowcharts, operating manuals, and periodic accomplishment reports. The IAS/IAU should determine compliance to milestone reporting and adequacy and appropriateness of performance measures. If, for instance, the IAS/IAU found out that regular reports are not periodically rendered, it should also determine the possibility that slippages or gaps are not immediately addressed to catch up on the target or the possibility that end of the year reports are bloated.

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 identify and understand the network and linkages of support services to the operating units; or determine whether or not adequate controls are in place in providing the needs of the operating units for logistics, funds, and personnel (e.g., review of the controls in the procurement system or in the hiring of personnel). The review is expected

to identify strengths and weaknesses, sources of problems, and potential problem areas.

Performance measures refer to the criteria in terms of quantity, quality, cost, and perception (responsive rating) of plans and programs. These are the indicators of performance expressed in units of work, which quantify or measure the outputs and outcomes. Every unit of output (public goods/products and services) must have a standard cost which should be compared with the actual cost to obtain the difference. Said cost will be made as reference in determining irregular, unnecessary, excessive, extravagant or unconscionable expenditures.

1.1.3 Use of Flowcharts/Narrative Notes and Conduct of Walkthrough

The critical key processes of OPS, STO and GAS as identified may be analyzed using flowcharts and walkthrough, among the array of methods and techniques, to identify and understand their key activities. A narrative note needs to be added to be more descriptive of the process. The DS/HoA or GB/AuditCom control structure, such as policies, guidelines, feedback and feedforward mechanism, reportorial requirements, monitoring and evaluation, should also be understood because it significantly influences the effectiveness of management controls.

If flowcharts are available, the IAS/IAU should make use of them. System and process flowcharts, and system and process narratives should be evaluated by the Planning Team, subject to validation and walkthrough. The Planning Team conducts evaluation and analysis of these flowcharts and narrative notes to determine their appropriateness and sufficiency based on relevant rules and regulations, as well as managerial policies. In the event that submitted flowcharts and narrative procedures are not appropriate and sufficient, the members of the Planning Team are expected to prepare flowcharts and narrative notes based on rules, regulations and managerial policies.

a. Evaluation of Controls Using Flowcharts and Narrative Notes in the Manual of Operations

After the evaluation of answers in the accomplished ICQ, identified controls on key processes of critical operating and support systems of OPS, STO and GAS supported with appropriate information/documents may be documented by analyzing the manual of operations, including its flowcharts and narrative procedures.

The controls subject to flowchart and narrative procedures evaluation are the following:

i. Identified controls in the "YES" answers with appropriate information/documents.
ii. Identified controls in the "YES" answers without or lacking appropriate information/documents but with compensating controls; and
iii. "NO" answers but with compensating controls.

In the event that controls are present in the flowchart and narrative notes reflected in the input-process-output as part of the agency manual of operations, the presence of the same control will be evaluated in walkthrough.

On the other hand, if identified controls are not present in the flowchart and narrative procedures, the same control is subject to an interim analysis to determine if the absence of control requires immediate action.

Guidance on flowcharting, including the standard flowchart format and symbols, can be found in PNS ISO 5807:2004 – "Information processing – Documentation symbols and conventions for data, program and system flowcharts, program network charts and system resources charts." Commonly used flowcharting symbols are provided in **Appendix E** of this Manual.

b. Evaluation of Controls Using Narrative Notes

The evaluation of controls could be undertaken by the IAS/IAU by using narrative notes.

Narrative notes provide a step-by-step description of the auditee's major systems or operations. These contain a narrative explanation of certain items that cannot be adequately described by the flow. A narrative statement may be made regarding the existing internal controls of the agency. The primary purpose of preparing narrative notes is to identify key control activities. Information for preparing narrative notes may be obtained through interviews, observations, review of procedures, manuals and other system documentation. The notes should include all significant parts of the process, especially the control points, the names and positions of the people performing the actions and making decisions, and the timing of such actions.

c. Conduct of Walkthrough

The IAS/IAU Planning Team must conduct a walkthrough test after documenting the auditee's processes. This involves establishing paper trail of one or two transactions or activities step-by-step through the process from beginning to end. From a control standpoint, a walkthrough is simply the act of tracing the identified significant controls in a transaction through organizational records and procedures – a practical approach to learning how a process works and determining whether or not the policies have been communicated and implemented. In a walkthrough, the auditor traces a transaction from its origin through the agency's information systems, until it is reflected in the reports.

The primary objective when performing a walkthrough is to develop an understanding of the transactions flow – that is, how transactions are initiated, processed, authorized, recorded, and reported. It is a technique for validating the understanding of the system/process and verifying the accuracy of the flowcharts, narratives and other documentations.

The conduct of walkthrough of system/process with the following conditions should be established or determined:

i. Identified controls;
ii. If identified controls are designed based on design criteria provided in the rules and regulations and/or managerial policies;
iii. If identified controls can be implemented as designed through simulation; and
iv. Potential of identified controls to achieve control objectives.

The controls that are present in the flowchart and narrative notes are further evaluated in the walkthrough.

In the event that all of the abovementioned conditions are present, the identified controls will be subjected to a test of control. On the other hand, absence of the abovementioned conditions entails preparation of an interim analysis to determine if such absence requires immediate action.

1.1.4 Test of Controls

An understanding of the internal control system is obtained during the strategic planning. To gather initial evidence on the presence of key controls in place, a test of controls is performed in one or two transactions to determine the following: (a) if identified controls are actually present and being implemented as designed; and (b) if identified controls generally appear to achieve control objectives.

The design of a particular identified control should be based on existing rules and regulations and/or managerial policies. Members of the Planning Team gather evidence on the presence of an identified control, its conformance to the control design as provided by rules and regulations and/or managerial policies, and its actual implementation.

A test of controls may be performed through physical observation/ interview or desk review using information/documents submitted by concerned offices as evidence of the actual transactions involving the internal control procedures being performed, evaluation of evidence that the control procedures were performed (and performed at the appropriate time), and inquiry about how and when the procedures were performed to determine if the control is performed based on the control design. When performed through physical observation, test of controls may involve touring facilities/site visits, reviewing processes, flow of materials and documents.

If the control turns out to be a gap or if the control is not present or is deficient, the IAS/IAU prepares an interim analysis to determine if control gaps/absence/deficiency/breakdown require immediate action. Results of the test of controls go to the control universe and will eventually be included in the Baseline Assessment Report.

The IAS/IAU Planning Team evaluates identified controls based on its design and implementation and their operating effectiveness. An internal control cannot be effectively implemented if it was not effectively designed.

The IAS/IAU Planning Team determines whether identified controls are effectively designed, implemented and operating effectively by undertaking the following:

i. Determining how identified controls function to ensure conformity to laws, rules and regulations, and managerial policies;

ii. Determining whether or not these controls have been implemented (placed in operation); and

iii. Evaluating and testing the effectiveness of identified controls by determining how the control (manual or automated) was applied, if controls were applied at relevant time during the period under evaluation, the consistency with which they were applied, and by whom they were applied.

The IAS/IAU Planning Team is not required to include in the conduct of test of controls those that have not been properly designed and implemented (placed in operation). On the other hand, if it was determined that a particular control is effective in design and being implemented (placed in operation), then the Planning Team includes said control in the auditable areas to perform sufficient tests of their effectiveness.

The tools/working papers that may be used in the test of controls are the:

a. Statement of Control Attributes Work Paper – This document summarizes the selected control attributes/features in the ICQ that will be subject to test.

b. Walkthrough Work Paper – This document summarizes the control attributes/features in the flowchart that will be subject to test.

c. Test of Control Work Paper (TCWP) – This working paper is used to document the conduct of the actual test of controls where documents representing the selected transactions are examined to verify whether or not the control attributes perceived to be in place are actually present, or to determine conformity.

d. Summary of Gaps – Based on the TCWP, this document is used to summarize the deviations noted from the conduct of the test of controls. The deviations indicate breakdowns or gaps in controls.

1.1.5 Conduct of Inquiries and Interviews

An inquiry/interview is basically a question and answer session to elicit specific information. A great deal of audit work is based on inquiries/interviews, and different kinds of interviews are carried out at different stages of the audit. Determine if inquiries/ interviews are needed to verify responses to the ICQ and during the evaluation of controls through the use of flowcharts, narrative procedures, walkthrough and/or test of controls.

1.1.6 Conduct of Interim Analysis and Preparation of Interim Report

The gaps or control deficiencies/breakdowns are subjected to a rapid assessment. The preliminary recommendations as a result of such assessment should form part of the interim analysis to determine if gaps or control deficiencies/breakdowns require immediate action. In the event that such gaps or control deficiencies/breakdowns are significant and material that require immediate action, an interim report is prepared. A summary of the interim report will be included in the Baseline Assessment Report.

In the conduct of interim analysis and preparation of interim report(s), the IAS/IAU Planning Team evaluates the identified internal controls.

For guidance on how to determine if (1) a deficiency is significant, (2) a weakness is material, or (3) when a combination of significant deficiencies become material weaknesses, the following descriptions are to be used:

a. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect fraud or error on a timely basis.

b. A deficiency in design exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, such that even if the control operates as designed, the control objective is not always met.

c. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control procedure does not possess the necessary authority or qualifications to perform the same.

d. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.

A significant deficiency is a control deficiency (or a combination of control deficiencies) that adversely affects the agency's ability to initiate, process, authorize, record, or report data accurately and timely such that there is likelihood that an error will not be prevented or detected.

The Planning Team evaluates the significance of identified deficiencies, which denotes the relative importance of a deficiency to the entity's achieving a defined objective. To evaluate the significance of a particular deficiency, the Planning Team assesses its effect on achieving the control objective/s. Likewise, the significance of a deficiency is evaluated by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency, to wit:

a. Magnitude of impact refers to the likely effect that the deficiency could have on the entity achieving its objectives, and is affected by factors such as the size, pace, and duration of the deficiency's impact.

b. Likelihood of occurrence refers to the possibility of a deficiency impacting on an entity's ability to achieve its objectives.

c. The nature of the deficiency involves factors such as the degree of subjectivity involved with the deficiency, and whether or not the deficiency arises from fraud or misconduct.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in likelihood that a gap/ absence/breakdown will not be prevented or detected.

The interim report contains the following:

a. Gaps or control deficiencies/breakdowns noted during the documentation of the components of the internal control system and the key processes in the OPS, STO and GAS;

b. Gaps or control deficiencies/breakdowns found out after evaluating a flowchart, preparing narrative notes and conducting a walkthrough; and

c. Gaps or control deficiencies/breakdowns after conducting a test of controls and inquiries/interviews.

1.1.7 Determination of the Control Universe

Before defining the control universe, the IAS/IAU should verify and validate its understanding of the control components and key processes of the unit concerned.

In defining the control universe, the IAS/IAU Planning Team evaluates all interim analyses, interim reports and/or working papers on the presence and/or absence of controls.

The control universe is a list of all controls on key processes of OPS, STO and GAS, including control gaps/deficiencies/breakdowns, which shall be an input to the Baseline Assessment Report. The existing controls and control deficiencies/breakdowns are included in the Strategic Plan and will be prioritized in the formulation of the Annual Work Plan. Aside from the control universe, other sources to be considered in strategic planning are the results of the review of oversight bodies and international development partners.

1.1.8 Review of Oversight Bodies and Local/International Development Partners

This includes evaluation reports of various monitoring and oversight bodies, such as the following:

a. DBM
b. COA
c. National Economic and Development Authority
d. OP
e. CSC
f. Office of the Ombudsman

This also includes the review made by international development partners working with the Philippine government, such as the Australian Agency for International Development (AusAID) (e.g., Philippines – Australia Country Assistance Strategy); World Bank's Improving Public Expenditure Management Project); United States Agency for International Development (USAID); and Asian Development Bank (ADB).

The aim of going over said reports is to identify gaps or control deficiencies/breakdowns that need to be considered in the Baseline Assessment Report and in prioritizing internal audit activities.

1.1.9 Preparation of the Baseline Assessment Report

The Baseline Assessment Report summarizes the following:

a. Interim analyses and interim reports, which contain rapid assessment of the gaps or control deficiencies/breakdowns, and preliminary recommendations;
b. Control universe document; and
c. Control gaps/deficiency/breakdowns identified in the reports of oversight bodies and local/international development partners.

This report can be used in the next assessment to determine improvements from the previous to the current condition.

The parts of the report include the following:

a. Executive summary;
b. Objectives, scope and methodology;
c. Detailed findings and recommendations on each internal control component;
d. Overall findings (which include a summary of the interim report, control universe, and results of the review of oversight bodies and local/international development partners); and
e. Attachments.

The portion on the detailed findings discusses the results of the assessment of the five components of internal control. The findings are supported with at least three (3) methods of assessment, the results of which should corroborate each other.

A suggested template of said report is in **Appendix A – Suggested Templates**.

1.2 Consideration of the Control Risk of Key Processes

After the BAICS, the IAS/IAU also considers the control risk of key processes of the OPS, STO and GAS to achieve the control objectives.

Generally, the units responsible for addressing risks must make the assessment of their own risks. Control risk assessment is primarily performed by the DS/HoA or GB/AuditCom as part of its regular functions, as illustrated in Figure 22 in the next page. As control risk owners, they should have identified and initiated measures to modify the control risks that are material and significant, based on probability and impact, before the auditors begin an audit.

The IAS/IAU should take into consideration the control risk assessment undertaken by the DS/HoA or GB/AuditCom. However, in case there is no such assessment conducted in the agency, which should be included in the interim report, the IAS/IAU may undertake risk assessment on the identified controls where there may be high risk of impact on key processes of the OPS, STO and GAS. Said control risk assessment by the IAS/IAU should only be used for the purposes of planning and prioritizing potential audit areas, hence, should not be construed as the control risk assessment that should be regularly conducted by the agency.

Thereafter, there is a need to determine those controls that are vulnerable to be omitted, being improperly implemented or bypassed.
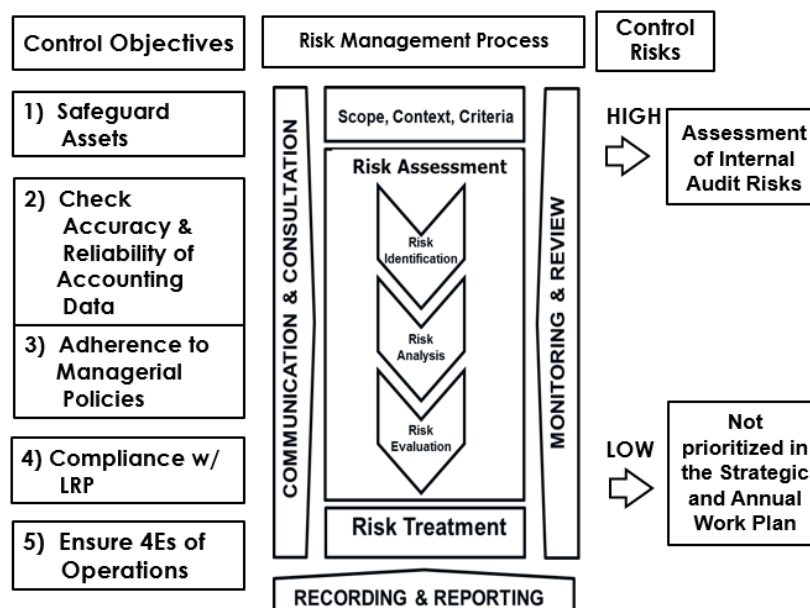
Figure 22 – Consideration of the Assessment of Control Risks Diagram

1.3 Consideration of the Assessment of Risks

The IAS/IAU considers the assessment by the delivery units of their OPS, STO and GAS risks. To reiterate, it is the responsibility of the units providing these types of services to conduct the assessment of such risks.

A more detailed discussion on the assessment of risks is found in a separate section of this manual (refer to PGIAM Part I – Guidelines, Chapter 2).

1.4 Assessment of the Internal Audit Risks[235]

In line with the auditorial functions of the IAS/IAU, internal auditors shall conduct an assessment of their audit risks (not risks of management and delivery units) vis-à-vis their functional objectives, as illustrated in Figure 23 in the following page.

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[235] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02 and IEC 31010:2019 (Risk management – Risk assessment techniques) Edition 2.0 2019-06
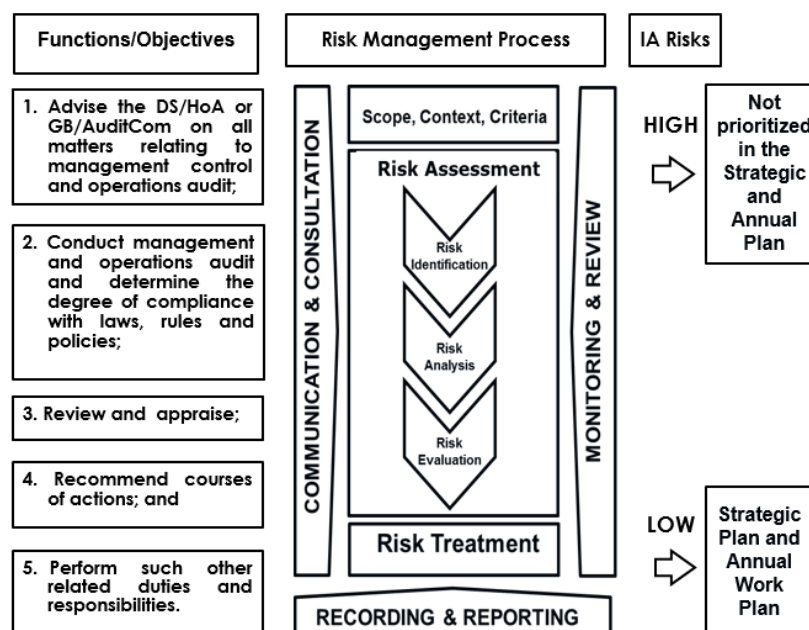
Figure 23 – Assessment of Internal Audit Risks Flow Diagram

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, and judicial findings and decisions which may affect the audit objectives.

1.5 Formulation of the Strategic Plan

Components of the Strategic Plan

- Objectives
- Methodology
- Organizational Strategic Environment
- Risks and Opportunities Associated with the Strategic Plan
- IAS/IAU Strategies
- Work Strategies and Audit Coverage
- Allocation of Audit Resources
- Performance Measures
- Review of the Strategic Plan

The Strategic Plan consists of the three-year direction of the IAS/IAU considering the results of the BAICS of the organization/sector, and the assessment of control and internal audit risks. The IAS/IAU prepares the proposed three-year direction of the internal audit activities for approval by the DS/HoA or the GB/AuditCom.

1.5.1 Evaluation of the Results of the Assessment of Control and Internal Audit Risks

The IAS/IAU evaluates the result of the assessment of control and internal audit risks.

The potential audit areas are prioritized based on the following:

a. Those controls with the highest impact shall be covered in the first year;
b. Those controls with moderate impact shall be covered in the second year; and
c. Those controls with low impact shall be covered in the third year.

1.5.2 Components of a Strategic Plan

The Strategic Plan shall consist of the following components:

a. Objectives

This section provides a statement of the broad audit objectives and directions for internal audit over a three-year period, including the limitations. It focuses on both audit and management goals and is consistent with organization/sector policies and guidelines.

The IAS/IAU functions (audit objectives) found in Part I (Guidelines) – Chapter 3 of this manual may be cited in this section.

b. Methodology

This section outlines the approach in developing the plan, consisting of the conduct of the BAICS, assessment of control and internal audit risks, and consultation with the principal, constituents or the public the organization serves, and key stakeholders.

c. Organizational Strategic Environment

This section identifies issues and trends relevant to the organization which may have an impact on the achievement of the organization's objectives. Such issues could come from a number of sources, including:

   i. Governance, organizational structure, roles and accountabilities;

ii. Policies, objectives and strategies that are in place to achieve the organization's objectives;

iii. Capabilities understood in terms of resources and knowledge;

iv. Information systems, information flows and decision making processes;

v. Relationships with, and perceptions and values of, stakeholders;

vi. Organization's culture;

vii. Standards, guidelines and models adopted by the organization;

viii. Form and extent of contractual relationships;

ix. Social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local; and

x. Key drivers and trends having impact on the objectives of the organization.[236]

This is derived from a review of key strategic and other planning documents, and discussions with the DS/HoA or GB/AuditCom, senior executives, other public sector organizations, the public being served, and key stakeholders.

The aim of this section is to demonstrate that internal audit has a good understanding of the organization and the sector operations, what is planned for the future, and how the work undertaken by internal audit will assist the organization achieve its objectives.

c. Risks and Opportunities Associated with the Strategic Plan

This section identifies the risks and opportunities, both internal and external to the IAS/IAU, considering the conducted organizational strategic environment scanning.

The IAS/IAU should have sufficient knowledge to identify the risks and opportunities associated with the Strategic Plan, such as those that could allow fraud. The IAS/IAU evaluates the need for investigation, and notifies the appropriate authorities as may be applicable. The IAS/IAU has a responsibility to exercise "due professional care."

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[236] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

d. IAS/IAU Strategies

This section describes the three-year strategy of the IAS/IAU to achieve its broad audit objectives described in *item a (Objectives)* of the Strategic Plan considering the emerging trend(s) in the sector.

The strategies, detailed into plans and approaches, should: (1) address short and long term direction focused on the audit needs of the sector; and (2) describe the capabilities and resources, both dictated by the assessment of internal controls.

Examples of such strategies include:

i. Changes in work practices and enhancement of audit methodologies to ensure that internal audit meets the needs of its publics and delivers value for money;
ii. Review of the internal audit professional development program to address new trends in audit;
iii. Development or introduction of new audit technology;
iv. Benchmarking exercises or external reviews, as may be deemed appropriate;
v. Introduction of secondment programs aimed at augmenting the capacity of the IAS/IAU; and
vi. Skilled and experienced staffing resources to deliver the internal audit annual work plan.

e. Work Strategies and Audit Coverage

This section describes the major focus of the audit function and any audit-related activity over the three-year period, and any change that is required to ensure that the audit plan and other activities remain relevant to the strategic direction of the organization/sector.

The section clarifies the audit coverage, as follows:

i. The focus of the audit prioritized from the BAICS, and assessment of control and internal audit risks;

ii. The audits proposed to be conducted over a three-year period categorized into compliance, management and operations audits, containing the audit area, site, and priority; and

iii. Rationale on the greater need for compliance, management or operations audit.

For transparency in the prioritization of the audit coverage, potential audit areas are calculated by assigning scores to the controls as to consequence and probability (or the total impact). Those controls with the highest impact shall be covered in the audit and included in the three-year audit plan. The IAS/IAU may further formulate criteria on which offices/units may be included in audit, such as offices/units/system with the biggest budget, least achievement, or with the most adverse findings reported by the external auditor and oversight bodies.

An example of a proposed audit coverage for management audit is provided in Table 9 below.

Table 9 – Example of a Management Audit Coverage

Department of Education (DepEd)					
YEAR 1		**YEAR 2**		**YEAR 3**	
Audit Area	**Site**	**Audit Area**	**Site**	**Audit Area**	**Site**
Controls in the procurement system	Selected regional field units (procuring entities)	Controls in the payroll system	Selected regional field units (frontline units)	Controls in the performance evaluation system	Selected bureaus and agencies

An example of a proposed audit coverage for operations audit is provided in Table 10 below.

Table 10 – Example of an Operations Audit Coverage

DepEd					
YEAR 1		**YEAR 2**		**YEAR 3**	
Audit Area	**Site**	**Audit Area**	**Site**	**Audit Area**	**Site**
Output evaluation of public secondary education services	Selected regional offices	Input-process - output evaluation of the alternative learning system services	Selected regional offices	Outcome evaluation of the national learning of students enrolled in secondary education	Selected regional offices

f. Allocation of Audit Resources

This section details the relative allocation of financial and human resources among the audit, audit support, and any audit related activity over the life of the plan, including the previous year, for comparative purposes.

Other options include showing the allocation of resources among the different types of audit, organizational units and/or geographical locations. Details may be provided in tabular or graphic form.

g. Performance Measures

This section lists the key performance indicators (KPIs) that are used to measure the performance of the IAS/IAU and any change in measures or targets over time.

h. Review of the Strategic Plan

This section describes the timeframe and arrangements for the review and update of the plan. The plan covers a three-year rolling period and needs to be reviewed iteratively.

It is developed by the IAS/IAU and approved by the DS/HoA or GB/AuditCom, as appropriate.

2. Development of the Annual Work Plan

An Annual Work Plan, which will also be prepared by the Planning Team as directed by the IAS/IAU head, contains the prioritized audit areas from the Strategic Plan and approved by the DS/HoA or GB/AuditCom which will focus on a one-year period, the type and approach of the audit, and the timelines of the same.

The Annual Work Plan should include areas for management audit and operations audit, wherein the conduct of a compliance audit is a prerequisite.

The audit area can also come from the DS/HoA or GB/AuditCom. In doing so, the basic frame of reference is the objective established by the organization and the weight of the expected results from the audit area. If failure to deliver expected results is attributed to a control deficiency in the system, there is a need to conduct a management audit. The IAS/IAU should refer to the approved Annual Work Plan for management audit developed during the strategic planning phase.

As part of the strategic planning and developing the Annual Work Plan, the IAS/IAU may review the control components for any change, new systems and processes, and the results obtained on, for example, the top five key audit issues and the organization's priorities.

Figure 24 in the following page illustrates the key activities in an annual audit planning.

First Year	→	Second and Third Year

First Year
Prioritize audit areas from the approved Strategic Plan
Prepare the Annual Work Plan

Second and Third Year
Prioritize audit areas from the approved Strategic Plan

Validate the following from the approved Strategic Plan
1. Critical assumptions/parameters
   a. Baseline Assessment Report (second or third year)
   b. Control risk assessment (second or third year)
   c. Internal audit risks (second or third year)
2. Previous audit and follow-up reports (second or third year)

Prepare the Annual Work Plan

Figure 24 - Annual Audit Planning

2.1 Prioritization of Potential Audit Areas

From the list of controls identified in the Strategic Plan, the IAS/IAU 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 second and third year);
b. Update the control and internal audit risk assessment (on the second and third year); and
c. Prioritize the potential audit areas.

Of the three-year strategic plan, the IAS/IAU schedules the prioritized audit areas into three (3) annual work plans, subject to the approval by the DS/HoA or GB/AuditCom. The IAS/IAU then prepares the Audit Engagement Plan which focuses on the specific audit areas prioritized for the year. An example of an audit focus is shown in Table 11. In case the allocated budget is insufficient, the IAS/IAU should strategically source augmentation of resources.

Table 11 – Example of Audit Focus/Foci for One Period

			Department **Audit Foci – Year 1**				
Audit Area	**Audit Type**	**Audit Description**	**Expected Benefit**	**Area Responsible**	**Priority**	**Estimated Duration**	**Estimated Start**
Controls in the Procurement System	Management Audit	Appraisal of the existing controls in the procurement system	Raise recommendation on the controls to ensure that the procurement system will be observed and satisfy citizens' needs and expectations	Bureau A	1	30 working days	January 15
				Bureau B	2	30 working days	January 15
				Bureau C	3	30 working days	April 15
				Bureau D	4	30 working days	April 15
				Attached Agency A	5	30 working days	July 15
				Attached Agency B	6	30 working days	July 15
Output evaluation of the public secondary education services	Operations Audit	Validation of the effectiveness of the public secondary education services	Raise recommendation to ensure the effectiveness of the public secondary education services	Region A	1	30 working days	August 15
				Region B	2	30 working days	August 15
				Region C	3	30 working days	September 15
				Region D	4	30 working days	October 15
				Region E	5	30 working days	October 15
				Region F	6	30 working days	November 15

2.2 Validation of the Previous Audit Follow-up Report(s)

In the preparation of the Annual Work Plan, auditors should 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 of the non-implementation/inadequate implementation of preventive/ corrective actions.

3. Approval of the Strategic and Annual Work Plans

The IAS/IAU head should present and discuss the Strategic Plan and Annual Work Plan with the DS/HoA or GB/AuditCom. The objective is to obtain a good understanding of the insights of the DS/HoA or GB/AuditCom on the organizational and sectoral objectives. It also allows the IAS/IAU to focus on important issues throughout the planning process and audit. Finally, the IAS/IAU head should obtain the approval of the Strategic Plan and the Annual Work Plan by the DS/HoA or GB/AuditCom.

4. Summary

The significance of the strategic and annual work planning is to identify and prioritize potential audit areas where controls are claimed by auditees to be in place based on the results of the BAICS. Before this can be achieved, the IAS/IAU needs a thorough understanding of the internal control components of the public service organization as a going concern in the context of the sector. The assessment also includes a review of the operating and support units/systems with all their coordinated methods and measures.

On the other hand, all the gaps or control deficiencies/breakdowns are contained in the interim report and summarized in the Baseline Assessment Report, and recommendations are offered at the level of the DS/HoA or GB/AuditCom. The gaps or control deficiencies/breakdowns where courses of actions have been recommended are critical and should form part of the Annual Work Plan to determine if recommendations have been implemented.

The three-year Strategic Plan is prepared based on the information gathered during the BAICS, assessment of control and internal audit risks geared towards observing IAS/IAU audit functions (objectives), and directions for internal audit over the three-year period. It focuses on both audit and management goals and is consistent with organization/sector policies and guidelines. This Plan needs to be updated iteratively for changes occurring in the control component of the organization.

The Strategic Plan is developed from the prioritized audit areas contained in the control universe and the results of the review of oversight bodies and international development partners, and incorporated in three (3) Annual Work Plans. The IAS/IAU then prepares the Audit Engagement Plan for the first year, which is explained in the succeeding chapters. The possible audit areas for the second and third year audit plans are updated and/or revised when necessarily affected by the changes occurring in the control component, and should include gaps or control deficiencies/breakdowns where courses of action have been recommended.

The contents of the Strategic and Annual Work Plans should be agreed between the DS/HoA or GB/AuditCom and the IAS/IAU Head. The approval of the plans by the DS/HoA or GB/AuditCom gives the go signal for the IAS/IAU to plan the audit engagement.

CHAPTER 2

AUDIT PROCESS

1. Overview of the Audit Process

The audit process is divided into four (4) phases, namely, audit engagement planning, audit execution, audit reporting, and audit follow-up, as indicated in Figure 25. 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.
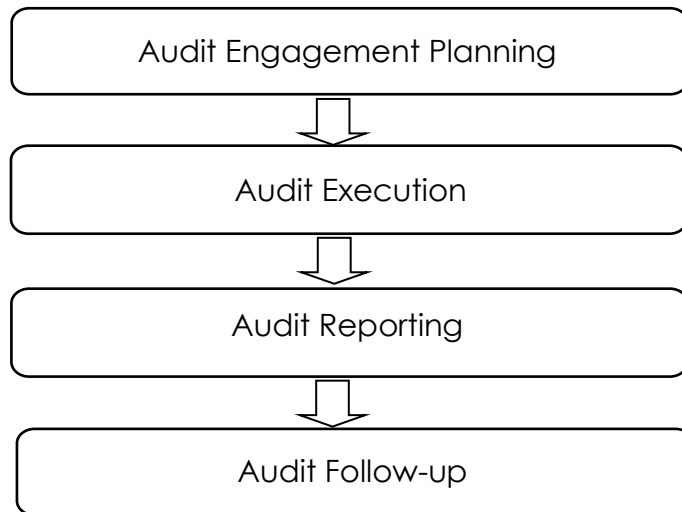
Figure 25 – Audit Process Flow Diagram

1.1 Audit Engagement 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.

Audit engagement planning is the third stage of planning, after strategic planning and annual work planning. 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 engagement should 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.
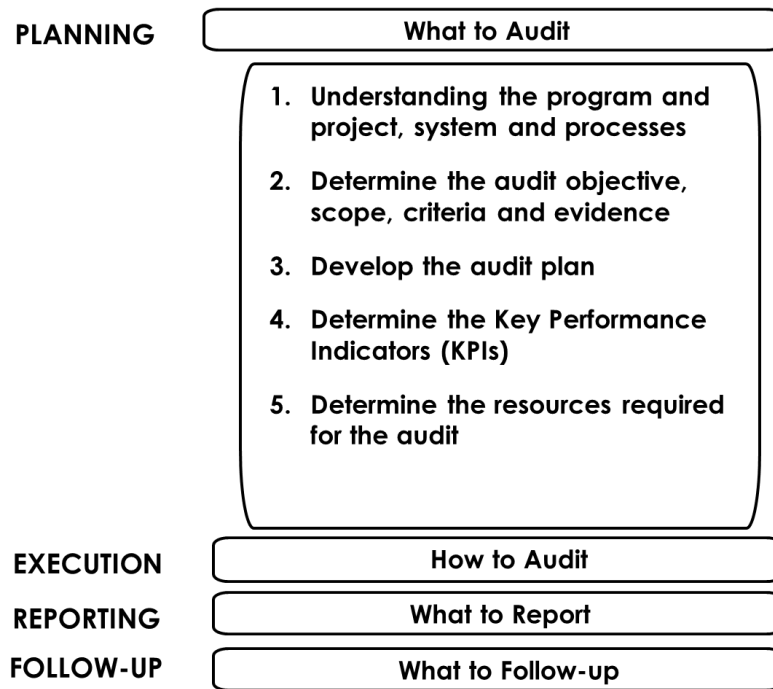
Figure 26 – Audit Engagement Planning Diagram

1.1.1 Creation of an Audit Team for the Conduct of the Audit

In the conduct of a compliance audit, management audit, and/or operations audit, an Audit Team, which is composed of select personnel from the IAS/IAU, is organized by the IAS/IAU head. Its creation could be formalized through the issuance of an Office Order.

After the issuance of an office order, a consultation within the audit team must be undertaken to distribute or delineate the responsibilities of each team member.

1.1.2 Documentation of the Understanding of the Agency Program/Project/System/Process

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 applicable to the specific program/project/system/process 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 an 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, which are regarded as 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.

The audit plan should be based on a sound understanding of the internal control system, operating and support systems and processes.

For operations audit, engagement planning starts from an understanding of the organizational mandate. The IAS/IAU should understand the objective of the organization and focus on what output or outcome will 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 should be based on a sound understanding of the objectives, accountability, internal control system, and operating and support processes.

In operations audit, there are drawbacks that may often be encountered. The IAS/IAU should then come up with recommendations. The common drawbacks may be as follows:

a. Program objectives are not clear enough, then 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), then a restudy 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 a program like degree of family support), then the IAS/IAU may focus its audit on measurable subject matters;
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), then the IAS/IAU should identify appropriate audit procedures; and

e. Time constraints restrict the auditor, then the IAS/IAU should prioritize audit activities.

In understanding a certain process/system, key steps must be documented to ensure that the internal auditor understands how the process actually operates. The use of flowcharts and narrative notes are the most common ways of documenting system/process flows that help the internal auditor to document all of the key controls indicating which ones will be relied upon and which ones are absent but should be in place.[237]

1.1.3 Determination of the Audit Objectives, Scope, Criteria and Evidence for an Individual Audit

Individual audits within a particular audit plan should be based on defined audit objectives, scope and criteria. These should be consistent with the overall audit plan objectives.

a. Audit Objectives

Based on the information gathered and analyzed during the understanding of the agency program/project, 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 what 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 organization/ program/project.

One of the objectives of a management audit is to ascertain if the operations has its measurement and evaluation system which will be used to review and improve performance, and assess compliance with laws, rules, methods and procedures.

If the IAS/IAU verifies that such a self-assessment is in place, it evaluates the components of the performance evaluation system for adequacy, appropriateness of the measures and reliability of the reporting, as well as the evaluation result.

If the IAS/IAU verifies that such self-assessment is not in place, then it assesses the internal control system built in the operating and support system under audit to determine if there are compensating controls. The IAS/IAU makes a report on the matter.

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[237] Audit Manual, Internal Audit Division, Office of Internal Oversight Services, United Nations, March 2017, p. 21.

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

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

i. To determine if the agency program or project is achieving its target

    The IAS/IAU 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.

ii. 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

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

    For example, in the case of the program of the DepEd, the audit objective may be: to determine if the expected passing rate of graduating pupils of 75% is achieved from the given inputs (such as school buildings and classrooms, textbooks, curriculum, and number of teachers) using the prescribed teaching methodologies to attain the desired level of literacy, function and life skills.

b. Audit Scope

    The audit scope, which is the framework or limits of the audit, is determined after the audit objectives have been identified. It should be consistent with the audit plan and audit objectives.

    The audit scope includes the timeframe, locations and the major processes/operating systems/support systems or key controls that will be covered by the audit to achieve audit objectives. The scope should be able to define what are the systems/processes or controls included in the audit, and what is/are not included if there are relevant areas that have been excluded in the audit scope.

i. 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?

To continue the example for the DepEd program, the scope for the given audit objective may be to: validate the rate of graduating students (information on graduation) covering a schools division in each city in Metro Manila (coverage) for the school year 2018-2019 (timeframe) to determine if the expected level of graduating students was attained. This scope can be reduced or expanded depending on the sampling requirement and the resources allocated for the audit.

ii. For management audit, the scope includes the review and appraisal of the systems (operating and support) and procedures/processes, organizational structure, asset 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 (5) different components, i.e., control environment, risk assessment, control activities, information and communication, and monitoring and evaluation, accomplish each of the five (5) control objectives. Every component should 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:

❖ The existence of a Bids and Awards Committee (BAC), BAC secretariat, procurement unit/s and technical working group/s;
❖ The separation of duties of the above entities in procurement;
❖ Participation of observers in all stages of the procurement process;
❖ Compliance with the rules and regulations on the preparation of the bids, the invitation to bid, advertising, receipt and opening of bids, bid evaluation, and award, implementation and termination of the contract.

Moreover, the IAS/IAU does not only check on the presence of these control components. More importantly, it assesses whether or not these activities achieve the control objectives of the organization.

Thus, the IAS/IAU could look for the answers to these questions:

- ❖ Are the control components sufficient to safeguard the assets?
- ❖ Do they provide accurate and reliable accounting data?
- ❖ Do they adhere to managerial policies?
- ❖ Are they in compliance with laws, rules and regulations?
- ❖ Do they ensure effectiveness, efficiency, economy and ethicality of operations?

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

c. 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. Audit criteria should be reliable, objective, useful and complete standards of performance against which the achievement of control objectives can be assessed.[238]

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:

i. Gather/identify the standards (laws, regulatory policies) for audit evaluation;
ii. Set reasonable and attainable standards of performance, statutory or managerial policies for evaluation; and
iii. Identify pieces of audit evidence required by law and standards and the approaches to be utilized in obtaining them.

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[238] Audit Manual, Internal Audit Division, Office of Internal Oversight Services, United Nations, March 2017

1.1.4   Selection and Determination of the Audit Methodology

Audit methodology depends on the defined audit objectives, scope, criteria, and audit evidence, as well as duration and location of the audit. It is a general statement describing the activities that will be undertaken in conducting the audit.

It generally involves on-site audit methods and remote audit methods which take into account the extent of involvement between the auditor and the auditee.

Table 12 – Examples of Audit Activities under the Two Audit Methods

Extent of Involvement between the Auditor and the Auditee	Location of the Auditor	
	On-Site Audit Method	**Remote Audit Method**
Interaction Involvement with the Auditee	➢ Conducting interviews ➢ Completing checklists and questionnaires with auditee participation ➢ Conducting document review with auditee participation ➢ Sampling	Via interactive communication means: ➢ Conducting interviews; ➢ Observing work performed/ test of controls with remote guide; ➢ Completing checklists and questionnaires ➢ Conducting document review with auditee participation

a. Audit Sampling

Audit sampling is a scientific method of selecting the transactions to be subjected to audit. It promotes efficiency and economy in the audit process. It is used when it is not practical or cost effective to examine all available information during an audit, e.g., voluminous records/transactions or too dispersed geographically to justify the examination of all items in the population[239]. Sampling of a large population is the process of selecting or testing less than 100% of the items within the total available data set (population) to obtain and evaluate evidence about some characteristics of that population, in order to form audit findings[240]. The assumption is that the sample selected is representative of the population.

Audit sampling involves the following activities:

i.   Establishing the objectives of the sampling;
ii. Selecting the extent and composition of the population to be sampled;

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[239] 1st paragraph, A.6.1 – General, A.6 – Sampling, Annex A, PNS ISO 19011:2018, "Guidelines for auditing management systems"
[240] 1st paragraph, Id.

iii. Selecting a sampling method;
iv. Determining the sample size to be taken;
v. Conducting the sampling activity; and
vi. Compiling, evaluating, reporting and documenting results.[241]

When sampling, consideration should be given to the quality of the available data, as sampling insufficient and inaccurate data will not provide a useful result. When sampling is used, the method of selecting the appropriate sample size depends on the audit objectives. When a representative sample is needed, statistical sampling approaches generally provide the auditor robust evidence than that obtained from non-statistical sampling technique. On the other hand, if a representative sample is not needed based on the audit objectives, a targeted selection may be effective.

The objective of audit sampling is to provide a reasonable basis to the auditor to draw conclusions about the population from which the sample is selected. However, a sampling error may arise in the event that the samples selected are not a good representative of the population. Even if the sample is randomly selected, some samples will be a better representative of the population than the others. The larger the sample size, the more likely it is that a better sample is drawn from the population. Hence, sampling error is minimized by increasing the sample size.

Audit sampling can use either a statistical or a non-statistical sampling technique when designing and selecting the audit sample, performing tests of controls and evaluating the results from the sample.

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[241] 4th paragraph, A.6.1 – General, A.6 – Sampling, Annex A, PNS ISO 19011:2018, "Guidelines for auditing management systems"

i. Statistical Sampling

Statistical sampling involves the objective determination of the sample size, random selection of the samples from the population and evaluation of the sample results mathematically to draw conclusion about the population. Statistical sampling approach must be used if the auditor wishes to extrapolate sample results to draw conclusion about the entire population.

In a statistical sampling, auditors deal with a certain level of sampling error or the sampling risk which reflects the acceptable confidence level. It is noted that different sets of samples or sample size randomly selected from the same population generate different confidence level. "For example, a sampling risk of 5% corresponds to an acceptable confidence level of 95%. A sampling risk of 5% means the auditor is willing to accept the risk that 5 out of 100 (or 1 in 20) of the samples examined will not reflect the actual values that would be seen if the entire population was examined."[242]

Refer to **Appendix F: Types of Sampling** for a detailed discussion on statistical sampling.

Some methods/strategies in undertaking statistical sampling are in Table 13.

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[242] General, A.6.1 – General, A.6 – Sampling, Annex A, PNS ISO 19011:2018, "Guidelines for auditing management systems"

Table 13 – Statistical/Probability Sampling Methods

Strategy	Description	Some Strengths	Some Limitations
Simple random sampling	It is the simplest method of drawing a statistical sample. It is the basis of all other sampling designs. There is moderate variation among the values/characteristics of the items in the population and can be sampled from a single list of sampling units. Every case/item in the population has an equal chance of being selected.	Allows you to select cases/items while ensuring there is no selection bias. Useful if you have no characteristics or basis on which to choose another approach and have no time to screen cases to identify others better suited to your job.	Does not ensure that specific types of cases are selected and, thus, does not allow you to say anything about cases with particular characteristics. Requires you to have a list of the population from which to select cases.
Stratified Sampling	Population is divided into two or more subgroups (strata or subpopulation) and use simple random sampling to select for each part (stratum). An estimate is determined separately for each stratum, and these are combined to form an estimate for the entire population. A stratum is a sub-population from the total population. When defining strata and setting boundaries, internal auditor should keep certain rules: ▪ Each sampling unit can be included in one and only one stratum; ▪ The strata must not overlap; and ▪ The sampling unit in each stratum should be as much alike as possible in relation to the characteristic being measured.	A stratified sample can be used to: ▪ Obtain equal precision with smaller sample or tighter precision with the same sample size; ▪ Reduce the cost of a sample for a given precision; ▪ Obtain separate estimates for the groups in the individual strata, if such estimates would be useful for comparison purposes; and ▪ Give special emphasis to certain groups within the population, say, with those with great error potential.	Internal auditors should be able to identify every case/ item of the population and classify each into one, and only one, strata. Hence, stratified sampling is challenging when internal auditors cannot confidently classify every item of the population into a strata. Also, finding an exhaustive and definitive list of an entire population can be challenging. Overlapping of item/s within stratum can be an issue if there are items that fall into multiple strata. Consequently, those that are in multiple strata are more likely to be chosen and as a result, would be a misrepresentation or inaccurate reflection of the population.

Strategy	Description	Some Strengths	Some Limitations
Systematic Sampling	Cases/items in the population are chosen according to a pre-determined strategy (e.g., every X case), which include stratification.	Ensures selection from the range of possible cases throughout the population. Can be used when you have no list of cases from the population.	May result in a biased sample if systematic patterns correspond to your selection strategy.
Cluster Sampling	Cluster sampling is the selection of groups of sampling units (or clusters) rather than selection of individual sampling units directly. If clusters are large, the internal auditor may select a random sample of units within the selected cluster. This is referred to as two-stage cluster sampling.	Easy and convenient	There is a possibility that case/items are different from one another, decreasing its effectiveness.

Sources: ISO 24153:2009, "Random sampling and randomization procedures" US Government Accountability Office (U.S. GAO), GAO internal guidance/resource – 7/17/17, "Selecting a Sample of Nongeneralizable Cases for Review in GAO Engagements"

ii. Non-Statistical Sampling/Judgment-Based Sampling

This approach relies solely on the auditor's professional judgment, and the auditor uses his/her own experience and knowledge to determine the sample size and the method for selecting the samples from the population. Non-statistical sampling (e.g., judgmental samples) may not be objective and the results of such sampling normally pertain only to the sampled items, and cannot be extrapolated over the population. A drawback to judgment-based sampling is that there can be no statistical estimate of the effect of uncertainty in the findings of the audit and the conclusions reached[243].

Refer to **Appendix F: Types of Sampling** for a detailed discussion on statistical sampling.

Some methods/strategies in undertaking non-statistical or non-probability sampling are indicated in Table 14.

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[243] General, A.6.1 – General, A.6 – Sampling, Annex A, PNS ISO 19011:2018, "Guidelines for auditing management systems"

Table 14 – Non-Statistical/Non-Probability Sampling Methods

Strategy	Description	Some Strengths	Some Limitations
Purposeful Sampling	A relatively small number of cases are selected to be illustrative of program operations under a variety of conditions	Can help in interpreting other data; can provide anecdotes and illustrations about program operations under a variety of conditions; does not require a complete population list	Data collected are anecdotal and firmer conclusions could only be drawn through the use of more rigorous data collection/sampling methods. Moreover, it cannot provide many insights into the effects of any one set of conditions.
Convenience sampling	Cases are selected that are most easily and quickly accessed	Often requires fewer resources since little preparation is required; does not require a complete population list	The sample represents only one segment of the population.
Stratified purposeful sampling	This is a specific type of purposeful sampling. Cases are selected from within major sub-groups, or strata, of the population, to capture major variations, although commonalities may emerge when data are analyzed.	Allows you to make qualified comparisons between different sub-groups of a population and to discuss issues each subgroup faces; need not have a complete population list	The increase in the number of criteria/strata will require more number of cases for sampling.
Intense case sampling, or heterogeneity or maximum variation sampling	As in stratified purposeful sampling, cases are chosen that have the greatest variation on key factors in order to describe central themes that emerge across cases with great variation. Developing a matrix of cases and their characteristics can be useful for identifying how they differ and selecting which to include in the sample.	Heterogeneity in small samples can be difficult for other sampling approaches; maximum variation; sampling overcomes this limitation since themes emerging across cases capture the core experiences of a phenomenon Allows the internal auditor to describe the context of the issues and interactions of multiple factors; may be less resource intensive and it is like a one-stop shop for information; does not require a complete population list	Does not allow you to know whether factors individually have the same effect as they do when combined

Source: US Government Accountability Office (U.S. GAO), GAO internal guidance/resource – 7/17/17, "Selecting a Sample of Nongeneralizable Cases for Review in GAO Engagements"

b. Substantive Tests on the Samples

Performing substantive tests on the samples selected is a comprehensive analysis by using ratios, analytical procedures, inquiries, confirmation, and other tools and techniques. It is the execution of the audit procedures enumerated in the audit engagement plan on samples selected. The procedures seek to provide evidence as to the various control attributes/features established during the planning stage of the audit, e.g., existence, occurrence, completeness, validity, adequacy, efficiency, effectiveness, economy, etc. Where necessary and possible, this process fully quantifies the audit elements such as criteria, cause, and conditions, which include the effects or consequences, of transactions covered in audit.

The IAS/IAU may use these concepts or procedures in determining the degree of compliance and in performing management or operations audit of a sample population.

1.1.5 Determination of the Resources Required for the Audit and the Target Milestones/Dates

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

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

1.1.6 Development of the Audit Engagement Plan

An audit engagement plan must be developed and documented for each audit engagement. The audit plan summarizes the background information collected from the auditee, such as the organization's mandate, objectives, strategies, operating and support systems, manual of operations, flowcharts, narrative notes, relevant laws, rules and regulations, together with organizational performance and previous audit. The audit plan outlines the objectives, scope, criteria and methodology to be adopted. It also indicates the timing and resource allocation.

The audit plan will document the results of all the planning tools which would necessarily contain elements as contained in Table 15.

Table 15 – Contents of an Audit Engagement Plan

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 Objectives	What the audit aims to accomplish. Audit objective must be consistent with the objectives of the organization/program/projects.
Audit Scope	Framework or limits of the audit. Audit Scope is the extent and boundaries of an audit. It must be consistent with the audit objectives. Audit scope includes timeframe, locations and major processes/operating systems/support systems or key controls that will be covered by the audit to achieve audit objectives.
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or managerial policies, laws and regulations, etc.; Criteria are standards against which adequacy of performance and conditions can be assessed.
Audit Methodology	Statement of activities describing the activities that will be undertaken in conducting the audit.
Resources/ Inputs	Statutory policies, mandates, managerial policies, government regulations, established objectives, systems and procedures/ processes human resources, materials, equipment, timelines, etc.

A suggested template of said report is in **Appendix A – Suggested Templates**.

1.1.7 Determination of the KPIs of the Audit Engagement

KPIs are performance measures that are utilized to assess the outputs/outcomes contributing to the overall organizational efficiency and effectiveness. In evaluating performance, KPIs are employed to gauge the IAS's/IAU's 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 NGICS, PGIAM and other relevant standards under DBM rules and regulations;

d. Findings and recommendations promote the adequacy of internal control under NGICS and relevant rules and regulations; and

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

It is important that the KPIs for internal audit are aligned with the Strategic Plan and the Annual Work Plan, and help drive the performance that the organization expects from the IAS/IAU. These are incorporated in the audit plan to guide the auditors during the execution of the audit engagement.

1.1.8 Approval of the Audit Engagement Plan and KPIs

The audit engagement plan and KPIs are submitted by the internal audit team leader to the IAS/IAU head for review and approval prior to the commencement of the audit execution. The IAS/IAU head 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 should be informed about the approved audit engagement plan and the KPIs.

1.2 Audit Execution

Audit execution involves performing the audit techniques and procedures enumerated in the audit engagement plan to gather data and pieces of evidence to achieve the stated audit objective/s. During audit execution, if the auditor finds a need to revise the audit engagement plan, the revision should be submitted to the IAS/IAU head for approval. The IAS/IAU head uses the audit engagement plan to supervise and monitor the progress of the audit and to check whether or not the team is generating sufficient and appropriate pieces of (substantial) evidence.

At any point during the audit, as well as during the conduct of the BAICS, when significant risks/issues arise, the IAS/IAU will prepare an interim report to the DS/HoA or GB/AuditCom to communicate findings, issues, and problems that may affect the conduct of the audit and expose the organization to considerable risks. A summary of the interim report will be included in the audit report.

PLANNING	What to Audit
EXECUTION	How to Audit

	1. Entry Conference
	2. Conduct compliance audit
	   a. Gather and analyze evidence
	   b. Compare conditions with criteria
	   c. Determine probable cause(s)
	   d. Prepare working papers
	3. Conduct system/process audit
	   a. Gather and analyze evidence
	   b. Compare conditions with criteria
	   c. Determine root cause(s)
	   d. Prepare working papers
	4. Exit conference

REPORTING	What and How to Report
FOLLOW-UP	What to Follow-up

Figure 27 – Audit Execution Flow Diagram

1.2.1 Entry Conference

Execution of the audit is initiated with an entry conference to: a) confirm the agreement of all participants to the audit plan; b) introduce the audit team and their roles; and c) ensure that all planned audit activities included in the audit plan can be performed.[244]

The entry conference sets the tone of the audit. The initial meeting with the auditee aims to discuss the plans for the conduct of the audit, as well as to obtain their views and expectations on the overall framework of the audit. Matters arising from the entry conference must be recorded (Entry Conference Notes) and should be considered as inputs during the conduct of the succeeding engagement planning.

An agenda and entry conference briefing paper should be sent to the auditee ahead of the scheduled date of conference. The main content of the briefing paper includes background of the selection of the audit area, preliminary audit objectives and scope, audit methodology and criteria, planned timing, previous audit recommendations, milestones and deliverables of different audit phases.

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[244] PNS ISO 19011:2018, (ISO Published 2018), "Guidelines for auditing management systems"

1.2.2 Conduct of Compliance Audit

Compliance audit is the evaluation of the degree of compliance of control with laws, regulations, managerial policies systems and processes of government, including compliance with accountability measures, ethical standards and contractual obligations.

It also covers the determination of whether or not all other internal control components are well designed and properly implemented.

It is a necessary first step to, and part of, management and operations audits.

The approach in management audit is to first conduct compliance audit. Only when there is compliance that control effectiveness is determined. If there is non-compliance, the probable cause thereof is determined.

The first approach to operations audit is also to conduct a compliance audit to determine whether or not government operations are in accordance with the organization's mandate and explicit objectives. The IAS/IAU identifies the standards as specified in the organization's mandate and objectives or laws/rules/regulations and compares whether or not 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 procurement entity has an annual procurement plan, and the BAC has a mechanism in the selection of observers in conformity with RA No. 9184, otherwise known as the "Government Procurement Reform Act," its IRR and relevant resolutions of the Government Procurement Policy Board.

The steps in the conduct of compliance audit are as follows:

a. Gather and analyze evidence to establish the condition

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

b. Compare conditions with criteria to draw conclusion

This refers to conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.[245]

c. Determine the probable cause(s)

In the context of public accountability, this refers to the act/s or omission/s of the person responsible, which more likely than not,[246] could have caused the non-compliance with laws, regulations and managerial policies and operating procedures in the agency, including compliance with accountability measures, ethical standards and contractual obligations, which may warrant the conduct of administrative proceeding by the disciplining authority. It must be noted that to come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's[247] of the non-compliance.

d. Prepare the working papers

The IAS/IAU 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 auditors' findings.

e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs – Criteria, Condition, Conclusion and Cause

Refer to the discussion on the <u>development of audit findings</u> under audit reporting for the definition of 4Cs.

1.2.3 Conduct of System/Process Audit

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

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[245] Sixth Edition (1990), Black's Law Dictionary, p. 290
[246] Villarosa v. Ombudsman, G.R. No. 221418, 23 January 2019
[247] Albert v. Gangan, G.R.No. 126557, 6 March 2001

The steps in the conduct of system/process audit are as follows:

a. Gather and analyze evidence to establish the condition

    This refers to findings of facts which is defined as a fact, supported by substantial evidence.

b. Compare conditions with criteria to draw conclusion

    This refers to conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.[248]

c. Determine the root cause(s)

    Root cause analysis is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it.[249] The determination of root cause through varying techniques is an essential audit methodology that will assist auditors in analyzing pieces of audit evidence to come up with appropriate recommendations.

    PNS IEC 62740:2016 (ICE published 2015), "root cause analysis (RCA)" provides for current good practices in the conduct of root cause analysis. The standard identifies root cause analysis techniques and its attributes which can assist in the selection of appropriate technique. Please see 1.2.4, c (iv), Chapter II, Part II for a detailed discussion on root cause analysis.

d. Prepare the working papers

    The IAS/IAU 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 auditors' findings.

e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs – Criteria, Condition, Conclusion and Cause.

    Refer to the discussion on the development of audit findings under audit reporting for the definition of 4Cs.

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[248] Sixth Edition (1990), Black's Law Dictionary, p. 290
[249] Root Cause Analysis, Second Edition, Bjorn Anderson and Tom Fagerhaug p. 12

1.2.4 Gathering and Analysis of Evidence

Under the execution phase of the audit, the audit engagement plan is executed to gather more evidence and draw the audit findings. Audit evidence covers all the information used by the auditor in arriving at the audit findings and audit report.

The sources of information selected may vary according to the scope and complexity of the audit and may include the following:

❖ interviews with employees and other individuals;
❖ observations of activities and the surrounding work environment and conditions;
❖ documented information such as policies, objectives, plans, procedures, standards, instructions, licenses and permits, specifications, drawings, contracts and orders;
❖ records, such as inspection of records, minutes of meetings, audit reports, records of monitoring program and the results of measurements;
❖ data summaries, analyses and performance indicators;
❖ information on the auditee's sampling plans and on any procedures for the control of sampling and measurement process;
❖ reports from other sources, e.g., other relevant information from external parties;
❖ databases and websites;
❖ simulation and modelling.[250]

Sources of information include sampling results of accounting records (books of entry, checks, invoices, contracts, ledgers, journal entries, etc.); minutes of meetings; analyst reports; controls manual; information obtained from such audit procedures as inquiry, observation, and inspection; and other information developed by, or available to, the auditor that permits him to reach conclusions through valid reasoning.

In executing the annual work program developed during the planning stage, gathering of evidence will be completed to form the audit findings. The process therefore involves the following:

❖ Identify the control tested;
❖ Consider the evidence available to support or contradict;
❖ Select the method of obtaining the necessary evidence; and
❖ Collect and evaluate that evidence to form the audit findings.

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[250] Item A.14, Annex A (Additional guidance for auditors planning and conducting audits), PNS ISO 19011:2018 (ISO published 2018) Guidelines for auditing management systems

a. Sufficiency and Appropriateness of Audit Evidence

In the test of controls, the internal auditor obtains sufficient and appropriate evidence to support the initial findings.

What is sufficient and appropriate is the result of the auditor's sound evaluation and is dependent on:

➢ Nature of the control deficiency;
➢ Materiality;
➢ Source of information and evidence;
➢ Prior audit experience; and
➢ Results of other audit procedures.

The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the impact of control deficiencies (the higher the impact, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). If no evidence is obtainable for certain deficiencies, the particular area/topic is not auditable.

Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and reliability in providing support for the audit findings. It should assist in meeting the audit objectives and is credible.

Sufficient and appropriate means that the audit evidence must be substantial enough to influence or convince the DS/HoA or GB/AuditCom to implement the recommended courses of action. Substantial evidence is that amount of relevant evidence which a reasonable mind might accept as adequate to justify a conclusion.[251]

Evidence could be any of the following four (4) types:

i. Relevant evidence is having value in reason as tending to prove any matter provable in an action.
ii. Direct evidence is that which proves the fact in dispute without the aid of any inference or presumption.
iii. Circumstantial evidence is the proof of a fact or facts from which, taken either singly or collectively, the existence of the particular fact in dispute may be inferred as a necessary or probable consequence.
iv. Corroborative evidence is additional evidence of a different character to the same point.

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[251] Supreme Court A.M. No. 19-08-15-SC, "2019 Proposed Amendments to the Revised Rules on Evidence", 8 October 2019

The reliability of evidence is influenced by its source and nature, and is dependent on the individual circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance imposed by the entity, are effective. The reliability of audit evidence is increased when it is obtained from independent sources outside the entity and it has been validated.

Materiality relates to the degree of audit evidence required to obtain a certain level of confidence that the information is reliable and not misstated. Audit evidence is credible if there is consistency of information obtained from two or more sources. This may be the case when, for example, responses to inquiries of management and external sources are consistent, or when responses to inquiries of those in-charge of governance corroborate the responses to inquiries of beneficiaries and other stakeholders.

Admissible evidence is any testimonial, documentary, or tangible evidence that may be introduced in order to establish or bolster a point. In order for a piece of evidence to be admissible, it must be relevant, without being prejudicial, and it must have some signs of reliability. An evidence, whose probative value is outweighed by the risk of confusing the issues to be decided, may be excluded as it may be inadmissible.

b. Types of Audit Evidence

Overreliance on any one form of evidence may impact on the validity of the findings. One should gather a wide variety of evidence for purposes of triangulation of multiple forms of diverse and corroborating types of evidence. This is to check the validity and reliability of the findings. Thus, more cross-checks on the accuracy of the decision should be undertaken. Pieces of evidence in support of the findings should be corroborative as a result of triangulation of evidence gathered in at least three approaches.

Triangulation involves employing multiple forms of corroborating diverse types and sources of evidence and perspectives. By using multiple forms of evidence and perspectives, a veritable portrait of the facts and conditions can be developed.

i. Physical evidence

   Physical evidence is obtained by direct observation.
   Examples are physical verification of cash, site visits to
   projects and verification of inventory. This type of evidence
   can be obtained from the following sources: observation of
   processes and procedures; site visits to gain personal
   knowledge of the practicality and the physical state of work
   as they are at a point in time; and physical verification of
   assets, etc. Said evidence may require proof of another
   evidence thus, documentary or photographic evidence can
   become handy in this situation.

ii. Testimonial Evidence

   Testimonial evidence is obtained from others through oral
   or written statements in response to inquiries or through
   interview. Testimonial evidence comes from interviews with
   interested parties. It can be documented in the form of
   interview notes, recorded conversations, or corroborated
   evidence or testimonies from other people that have
   knowledge of the issue at hand.

iii. Documentary Evidence

   Documentary evidence consists of writings, recordings,
   photographs or any material containing letters, words,
   sounds, numbers, figures, symbols, or their equivalent, or
   other modes of written expression offered as proof of their
   contents. Photographs include still pictures, drawings,
   stored images, x-ray films, motion pictures or videos. [252]
   This is the most commonly used source of evidence. In the
   final analysis, most pieces of evidence gathered are
   processed into documentary evidence. This type of
   evidence can also come in various forms and names.

   Documentary evidence may be obtained through
   solicitation or elicitation. Independent external (third party
   confirmation) evidence may be more reliable than internally
   provided evidence. Evidence obtained by the auditor
   directly (third party confirmation direct to/from auditor) is
   more reliable than internally provided evidence.
   Documentary evidence is more reliable than oral
   representations; internal evidence is more reliable when
   related internal controls are satisfactory, e.g., elicit – draw,
   extract, obtain; and solicit – ask for or request.

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[252] Supreme Court A.M. No. 19-08-15-SC, "2019 Proposed Amendments to the Revised Rules on Evidence", 8 October 2019

iv. Analytical Evidence

Analytical evidence is built up by analyzing the information obtained from other sources. The most common is cost-benefit analysis. This type of evidence may not be easily available in a ready-made format. Most of this type of evidence is developed by the auditor.

v. Electronic Evidence

There are many different types of electronic evidence and these may include: hardware and network diagrams; operating systems software; network and communications software; journal and activity logs; application programs; and flow diagrams. Collecting electronic evidence requires careful planning and execution, preferably by experts. Electronic evidence may be challenged on the basis of unreliability. Such challenges may be countered if it can be shown that controls are in place. Thus, the auditor should exercise due care to document such controls if electronic evidence is going to be used.

"For the Court to consider an electronic document as evidence, it must pass the test of admissibility. According to Section 2, Rule 3 of the Rules on Electronic Evidence, '[a]n electronic document is admissible in evidence if it complies with the rules on admissibility prescribed by the Rules of Court and related laws and is authenticated in the manner prescribed by these Rules.'"[253]

c. Audit Approaches and Techniques in Gathering Audit Evidence

In selecting the audit techniques to be used, the IAS/IAU should first determine what needs to be done and what pieces of evidence to obtain. There are a number of audit approaches and techniques that can be adopted in gathering audit evidence. These include conducting interviews, conducting document reviews, sampling, testing of controls, policy study, review of management information, review of processes, and output-input evaluation.

Generally, an audit will involve a combination of such approaches. The audit approach selected should be the most time and cost-effective given the objectives and scope of the audit. It should aim to collect sufficient and appropriate evidence that will enable the auditor to come to well-founded

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[253] RCBC Bankard Services Corporation v. Oracion, Jr., G.R. No. 223274, 19 June 2019

audit findings about the program or activity under review and make appropriate recommendations.

Decisions will have to be made at each stage of the audit about the need for specific testing, data collection and analysis by the internal audit and the extent that reliance can be placed on the work of other internal or external reviewers.

i.   Inquiries and Interviews

An inquiry/interview is basically a question and answer session to elicit specific information. A great deal of audit work is based on inquiries/interviews, and different kinds of interviews are carried out at different stages of the audit.

The entire spectrum of inquiries is used, from fact-finding conversations and discussions, through unstructured interviews (that is, with 'open-ended' questions), to structured interviews that follow a list of closed questions:

➢ Preparatory interviews;
➢ Interviews to collect or validate material information; and
➢ Interviews to generate and assess facts and pieces of evidence.

It is a way of gathering facts and information and gaining support for a variety of arguments. However, one cannot rely solely on interviews.

The results of the interviews must be compiled and documented in a way that facilitates analysis and reliability of information. For example, materials such as problems, causes, consequences, and proposals can be in a separate group. These can be sources of conditions, causes and potential recommendations for the development of audit findings and recommendations.

ii. Sampling

Sampling is a scientific method of selecting the transactions to be subjected to audit. Please refer to the topic on audit sampling in 1.1.4 (a), Chapter 2, Part II above.

iii. Techniques in the Analysis of Evidence

All audit findings must therefore be based on appropriate analyses and evaluation of the information and/or evidence.

Some of the techniques to be used in the analysis of evidence include: Structured or semi-structured interviews, Delphi Technique, Root Cause Analysis, Fault Tree Analysis (FTA), Cause-Consequence Analysis, Cause and Effect Analysis, Bow Tie Analysis, and Cost/Benefit Analysis. IEC/ISO 31010, Risk management – Risk assessment techniques, may be used as reference on these techniques, although caution should be observed as the discussion is centered on risk assessment.

iv. Root Cause Analysis (RCA)

RCA is a systematic process that is used to address a deficiency to determine the "root cause" of a particular event of interest or focus event. It is used 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 a 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.

It aims to reveal root cause/s of a deficiency/focus event so that either the likelihood of them occurring, or their impact if they do occur, can be changed. By addressing the root cause or causes of a particular deficiency/focus event, internal auditors make decisions regarding appropriate actions that will generate better outcomes in the future. In this regard, implementation of appropriate actions based on the conduct of RCA are more effective at preventing the same or similar events with negative outcomes occurring or increasing the probability of repeating events with positive outcomes, when comparing with just addressing the immediately obvious symptoms[254].

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[254] Item 4, 2nd paragraph, PNS IEC 62740:2016 (IEC published 2015) "Root cause analysis (RCA)"

RCA may identify the following:

a. Single root cause;
b. Multiple root causes in which the elimination of any cause will prevent the focus event from occurring;
c. Root causes which are contributory factors where elimination will change the likelihood of the focus event from occurring but may not directly prevent it; and
d. Root causes of successes.

The basic steps in conducting the RCA relating to non-compliance of management controls are:

a. Initiation. Establish the need, purpose and scope of the RCA.
b. Establishing Facts. Collect data and establish the facts of what happened, where, when and by whom.
c. Analysis. The use of RCA tools and techniques to ascertain how and why the focus event/deficiency occurred.
d. Validation. Distinguish and resolve the different possibilities as to how and why the focus event/deficiency was caused.
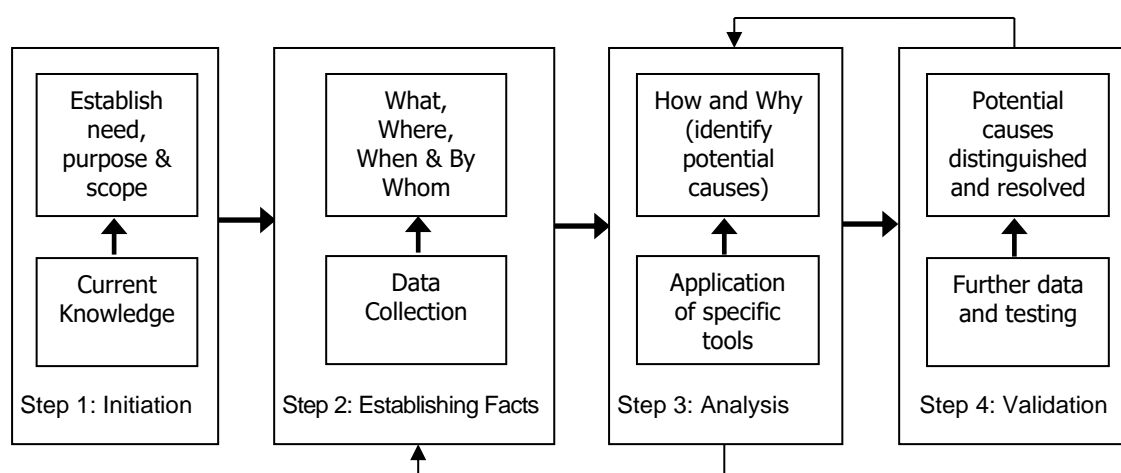
Figure 28 – RCA Process[255]

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255 Figure 1 – RCA Process, Item 5.1, 2nd paragraph, PNS IEC 62740:2016 (IEC published 2015) "Root cause analysis (RCA)"
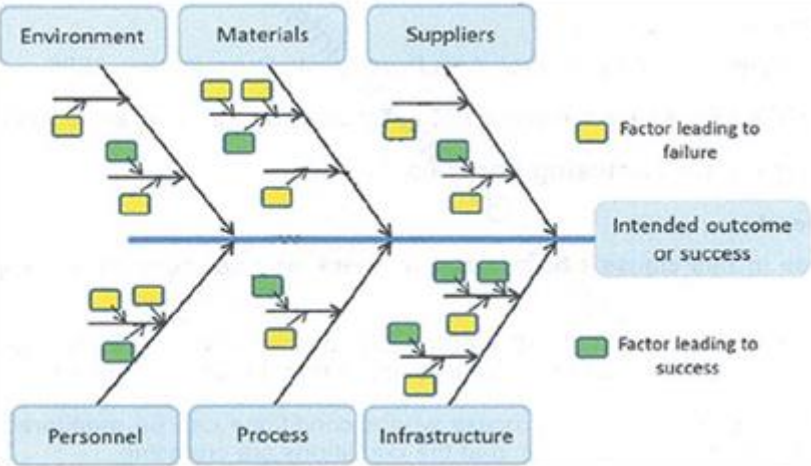
A list of commonly used RCA techniques[256] is in Table 16.

Table 16 – Commonly Used RCA Techniques

Technique	Description
Events and causal factors (ECF) charting	ECF analysis identifies the time sequence of a series of tasks and/or actions and the surrounding conditions leading to a focus event/deficiency. These are displayed in cause-effect diagrams.
Multilinear events sequencing (MES) and sequentially timed events plotting (STEP)	MES and STEP are methods of data-gathering and tracking for the analysis of complex focus events/deficiencies. The results are displayed as a time-actor matrix of events.
The "why" method	The "why" method guides the analysis through the causal chain by asking the question "why" a number of times.
Cause tree method (CTM)	CTM is a systematic technique for analyzing and graphically depicting the events and conditions that contributed to a focus event/deficiency. CTM is similar to the "why" method in concept, but builds a more complex tree and explicitly considers technical, organizational, human and environmental causes.
Why-because analysis (WBA)	WBA establishes the network of causal factors responsible for a focus event/deficiency using a two-factor comparison, the counter-factual test. The network of factors is displayed in a "why-because" graph.
Fault tree and success tree method	Fault and success tree is a graphic display of information to aid the user in conducting a deductive analysis to determine critical paths to success or failure, which are displayed graphically in a logic tree diagram.
Fishbone or Ishikawa diagram	The Fishbone or Ishikawa diagram is a technique that helps identify, analyze and present the possible causes of a focus event/deficiency. The technique illustrates the relationship between the focus event/deficiency and all the factors that may influence it. The possible contributory factors are organized into broad categories to cover human, technical and organizational causes. The steps in performing the analysis are as follows: ▪ establish the effect to be analyzed and placed it in a box as the head of the fishbone diagram. The effect can either be positive (an objective) or negative (a problem) ▪ agree on the main categories of causes; ▪ ask "why" and "how might that occur?" iteratively to explore the causes and influencing factors in each category, adding each to the bones of the fishbone diagram; ▪ review all branches to verify consistency and completeness and ensure that the causes apply to the main effect; and ▪ identify the most important factors based on the opinion of the team and available evidence[257].

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[256] Table A.1, Annex A, PNS IEC 62740:2016 (IEC published 2015) "Root cause analysis (RCA)"
[257] B.3.3.1, Annex B, IEC 31010, Edition 2.0, 2019-06, "Risk management – Risk assessment techniques"

Technique	Description
	  Figure 29: Example of Ishikawa (Fishbone) Diagram[258]
Management oversight and risk tree (MORT)	The MORT chart is a pre-populated fault tree with events, usually faults of oversights, expressed in generic terms. The MORT tree contains two main branches and many sub-branches giving a high level of detail. One main branch identifies about 130 specific control factors, while the other main branch identifies over 100 management system factors. The chart also contains a further 30 information system factors common to both main branches of the tree.
AcciMaps	AcciMaps is primarily a technique for displaying the results of a causal analysis. It requires an organizational model to separate factors into layers and to elicit factors in the layers; applies a version of the counterfactual test (see WBA) to determine the causal relations amongst the factors.
Tripod Beta	Tripod Beta is a tree diagram representation of the causal network, focusing on human and looking for failures in the organization that can cause human errors.
Causal analysis for systems theoretic accident model and process (STAMP) (CAST)	CAST is a technique that examines the entire socio-technical process involved in a focus event/deficiency. CAST documents the dynamic process leading to the focus event/deficiency, including the socio-technical control structure as well as the constraints that were violated at each level of the control structure.

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[258] Annex B, IEC 31010, Edition 2.0, 2019-06, "Risk management – Risk assessment techniques"

1.2.5 Exit conference

The purpose of the exit conference is 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 auditee's comments (management comments) and insights about the significant audit issues as a way of validating the audit findings. Management's comments should 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.

1.3 Audit Reporting

Audit reporting represents the culmination of the audit execution and the associated analysis and considerations made during the audit. The audit report sets out the findings in appropriate format; provides the pieces of evidence gathered to arrive at the audit findings; and the recommendations.

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. Develop audit recommendations

FOLLOW-UP	What to Follow-up
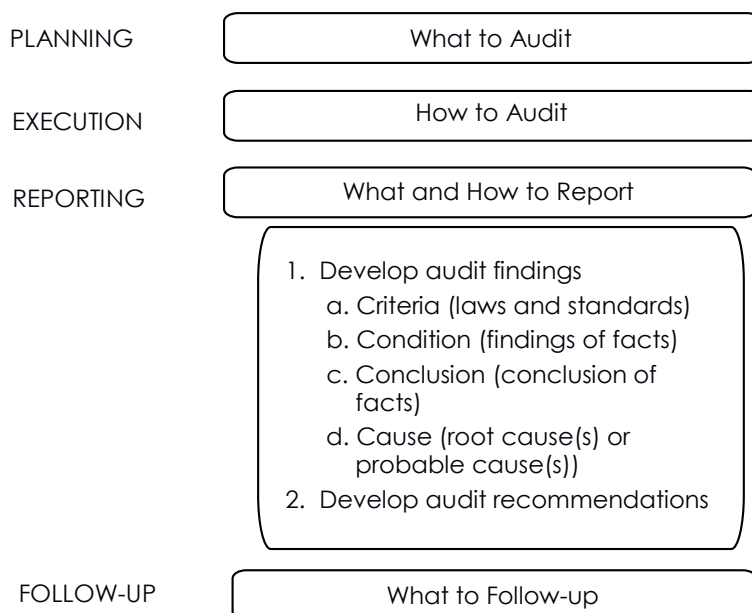
Figure 30 – Audit Reporting Flow Diagram

1.3.1 Development of Audit Findings

The audit findings can be developed by analyzing the pieces of evidence gathered for each of the audit elements. Evidence may be categorized as physical, documentary, testimonial, analytical or electronic. Evidence should be sufficient and appropriate (substantial), competent, and relevant. Audit findings provide answers to the audit objectives.

Audit findings compare the conditions (factual and evidentiary conditions such as the current state/practices or what is obtaining, and their effects) with the audit criteria, and determine the causes of non-compliance. Once an audit finding has been identified, two complementary forms of assessment take place, (1) the assessment of the significance of the findings, and (2) the determination of the probable cause/s and the root cause/s. In fine, all audit findings should be formulated based on the **4Cs** (criteria, condition, conclusion, cause) defined as follows:

a. Criteria – the standards against which a condition is compared, i.e., laws, rules and regulations, policies, orders, guidelines procedures, plans, targets and contractual obligations.

b. Condition – a fact, supported by substantial evidence. The condition refers to what is currently being done or the current situation. This is also referred to as the finding of facts.

   Condition is what the auditor actually finds out as a result of the review. It is a situation that exists. The auditor may find out that the actual condition of an event is not in accordance with the criteria. For example, under the program of the DepEd, the actual cost of school building is more than the estimated cost; the ratio of book distribution per pupil of 1:1 was not followed despite the sufficiency of budget for books; the actual passing rate of pupils went down to 66% from the expected or acceptable passing rate of 75%.

   The condition should be compared with the criteria to assess if the condition falls short of the criteria or it is beyond acceptable levels.

c. Conclusion – the evaluation of the criteria and the conditions to determine: (1) the degree of compliance or non-compliance of control with laws, regulations and policies; (2) the control effectiveness or ineffectiveness; and (3) the efficiency, effectiveness, ethicality, and economy of agency operations.

d. Cause – the immediate and proximate reason/s for the condition for which substantial evidence will be used as basis of the audit recommendation. It may also refer to the probable cause which needs only to rest on evidence showing that more likely than not[259] 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 – in case of compliance audit; and root cause – in case of management/operations audit.

The audit findings should align with the audit objectives and should 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.

1.3.2 Development of Audit Recommendations

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

Workable recommendations are clear, based on 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 avoid occurrence (preventive action) or avoid recurrence (corrective action) of control weaknesses and incidences.

The issues to consider in developing recommendations are as follows:

a. Recommendations are submitted to the DS/HoA or the GB/AuditCom as the official primarily responsible for the installation, implementation and monitoring of a sound internal control system. The recommendations should identify the probable/root cause of the gaps or deficiencies/breakdowns. The IAS/IAU should not address the probable/root cause; instead, it should recommend courses of action wherein the responsible units will take preventive (avoid occurrence) and corrective (avoid recurrence) measures.

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[259] Villarosa v. Ombudsman, G.R. No. 221418, 23 January 2019

b. Recommended courses of action indicate what needs to be done, but not how to do it. The "how" of it is the responsibility of the unit and/or management concerned.

c. The circumstances that aid or hinder the organization in achieving the criteria should be identified.

d. The feasibility and cost of adopting a recommendation, with the benefit of a recommendation outweighing the costs.

e. Alternative courses for remedial actions.

f. Effects of the recommendation (positive and negative).

1.3.3 Preparation of 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. It should provide a complete, accurate, concise and clear record of the audit.

When preparing a draft audit report, the auditor should:

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.

1.3.4 Updating of the DS/HoA or GB/AuditCom

The DS/HoA or GB/AuditCom should be updated on the results of the audit engagement.

1.3.5 Preparation of 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.

A suggested template of said report is in **Appendix A – Suggested Templates**.

The final audit report should be presented to the DS/HoA or GB/AuditCom who decides on the distribution of the audit report based on the recommendation of the IAS/IAU Head.

In case the DS/HoA or GB/AuditCom decides not to act on the findings of the IAS/IAU (e.g., non-distribution of report or non-implementation of recommendations) based on his/her sound discretion, the latter should abide by the decision of its principal.

Subsequently, if the IAS/IAU opts to notify authorities outside the agency of its findings which may involve fraud, dishonesty, or misuse of agency resources, the doctrine of exhaustion of administrative remedies must be adopted.

In particular, resort must first be made with the appropriate administrative authorities in the resolution of a controversy falling under their jurisdiction before the same may be elevated to the courts for review. If a remedy within the administrative machinery is still available, with a procedure pursuant to law for an administrative officer to decide a controversy, a party should first exhaust such remedy before going to court.[260]

For national government agencies in the Executive Branch, the IAS/IAU should report to the OP.[261] Consistent with the Administrative Code of 1987, as amended, it is the function of the Executive Secretary to exercise supervision and to conduct management audit in behalf of the President.[262]

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[260] Republic of the Philippines v. O.G. Holdings Corporation, G.R. No. 189290, 29 November 2017
[261] "SECTION 17. The President shall have **control of all the executive departments, bureaus, and offices**. He shall **ensure that the laws be faithfully executed**." Article VII – Executive Department, 1987 Philippine Constitution
[262] "*SECTION 27. Functions of the Executive Secretary.* –x   x   x
                                                    x x x
(5) Exercise supervision, in behalf of the President, over the various **agencies under the Office of the President**;

1.4 Audit Follow-up

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 the inadequacies identified during the audit. Auditors should be informed of the status of implementation of approved audit findings and recommendations. The completion and the effectiveness of these actions should be verified and may be part of a subsequent audit. It aims to increase the probability that recommendations will be implemented.

Figure 31 illustrates the 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
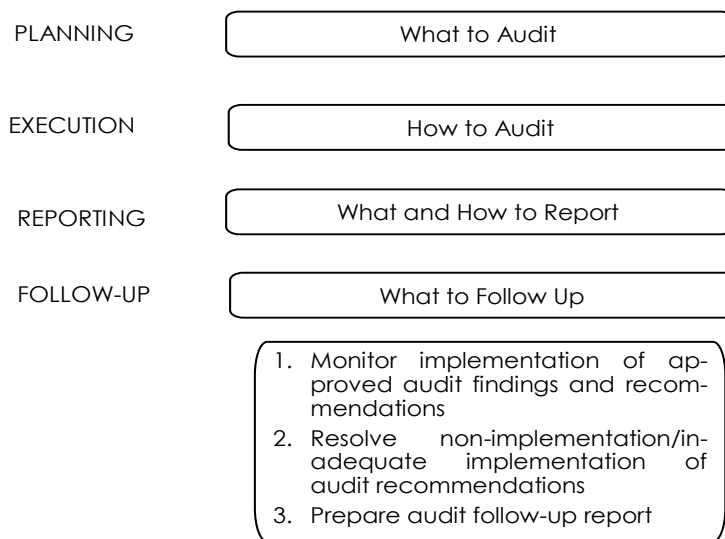
Figure 31 – Audit Follow-Up Flow Diagram

1.4.1 Monitoring of the Implementation of Approved Audit Findings and Recommendations

It is 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. Likewise, the timeline for the implementation of each audit recommendation should be subject to the approval of the HoA/DS or GB/AuditCom.

1.4.2 Resolution of the Non-Implementation or Inadequate Implementation of Audit Recommendations

In the event of non-implementation of recommendation/ inadequate action by auditees/process owners, the IAS/IAU recommends appropriate legal and/or management remedies for non-implementation of recommendations and inadequate preventive/corrective actions.

1.4.3 Preparation of the Audit Follow-up Report

Results of the audit follow-up should be recorded and reported in order to apprise the DS/HoA or GB/AuditCom of the status of actions on the approved recommendations. The reasons for the lack of action or non-completion of action on any recommendation, and further action considered on significant recommendations that have not been acted upon, should be documented. Where possible, the report should:

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

b. Summarize the extent of implementation of the approved recommendations;

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

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

The IAS/IAU head should 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 should include an assessment of the actions taken on the report and the status thereof.

Follow-up of audit recommendations serves four (4) main purposes:

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

b. Assist the government – following up may be valuable in proposing some necessary actions to the DS/HoA or GB/AuditCom and other officials;

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

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

2. Compliance Audit of the SALN, DBIFC, and Identification and Disclosure of Relatives (IDR) in Government Service of Public Officials and Employees

In line with its functions, the IAS/IAU may conduct compliance audit of the submission of the SALN, DBIFC, and IDR in government service of public officials and employees to determine whether or not such documents have been properly accomplished pursuant to RA No. 6713 and its IRR, as amended, RA No. 3019, and other related laws and jurisprudence.

2.1 Audit Engagement Planning

The IAS/IAU, when assigned by the DS/HoA or GB/AuditCom to conduct an independent evaluation and/or fact-finding of the SALN, DBIFC and IDR of public officials and employees, shall gather from the Human Resource Management Office (HRMO), or its equivalent, all submitted documents to determine whether or not said documents are in proper form,[263] complete and accomplished in detail[264].

SALNs, DBIFCs and IDRs that are not in proper form, incomplete, and/or not accomplished in detail shall be subject to further fact-finding by the IAS/IAU.

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[263] "Furthermore, the only concern of the Review and Compliance Procedure, as per paragraph (a), is to determine whether the SALNs are complete and in proper form. This means that the SALN contains all the required data, i.e., the public official answered all the questions and filled in all the blanks in his SALN form." [Presidential Anti-Graft Commission and the Office of the President v. Salvador A. Pleyto, G.R. No. 176058, 23 March 2011]

[264] "Both Section 7 of the Anti-Graft and Corrupt Practices Act and Section 8 of the Code of Conduct and Ethical Standards for Public Officials and Employees require the accomplishment and submission of a true, detailed and sworn statement of assets and liabilities. Petitioner was negligent for failing to comply with his duty to provide a detailed list of his assets and business interests in his SALN." [Presidential Anti-Graft Commission and the Office of the President v. Salvador A. Pleyto, G.R. No. 176058, 23 March 2011, citing Pleyto v. Philippine National Police Criminal Investigation and Detection Group, G.R. No. 169982, 23 November 2007). "The law requires that the SSAL must be accomplished as truthfully, as detailed and as accurately as possible." (Hon. Waldo S. Flores, Hon. Arthur P Autea and the PAGC v. Atty. Antonio F. Montemayor, G.R. No. 170146, 25 August 2010). "The SALN laws contemplate both the (1) physical act of filing her and her family's statement of assets, liabilities and net worth and (2) filing of true, genuine and accurate SALN." (underscoring supplied) [Republic v. Sereno, G.R. No. 237428, 11 May 2018]

To facilitate the conduct of fact-finding of the SALNs, DBIFCs and IDRs of public officials and employees, the IAS/IAU may require additional documentation relative to the following:

a. Assets and liabilities;
b. Amounts and sources of income;
c. Amounts of personal and family expenses;[265]
d. Amounts of income taxes paid;[266]
e. Business interests and financial connections; and/or
f. Relatives in the government.[267]

During the fact-finding, the IAS/IAU may also request for documents readily available from other government offices.

Upon receipt of the SALNs, DBIFCs and IDRs and additional documents, the IAS/IAU shall perform the following:

a. Identification of SALNs, DBIFCs and IDRs with incomplete data;
b. Identification of mathematical errors;
c. Identification of: (1) palpable omission, understatement and/or overstatement of assets, liabilities and net worth; and (2) erroneous disclosure or palpable non-disclosure of business interests, financial connections, and relatives in the government service within the fourth degree of consanguinity;
d. Identification of property manifestly out of proportion to the employee's salary, disposable funds[268] and income taxes paid; and
e. Identification of personal and family expenses[269] manifestly out of proportion to the employee's salary, disposable funds and income taxes paid.

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[265] "SECTION 7. Statement of Assets and Liabilities. – Every public officer, within thirty days after assuming office and, thereafter, x x x shall prepare and file x x x a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of his income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year x x x" [Republic Act No. 3019 (Anti-Graft and Corrupt Practices Act), 17 August 1960, 17 August 1960]

[266] Id.

[267] "(B) Identification and disclosure of relatives. – It shall be the duty of every public official or employee to identify and disclose to the best of his knowledge and information, his relatives in the Government in the form, manner and frequency prescribed by the Civil Service Commission." (Rosalio S. Galeos v. People of the Philippines, G.R.Nos. 174730-37, 9 February 2011, citing Section 8 (B) of Republic Act No. 6713).

[268] Republic of the Philippines v. Sandiganbayan, Third Division, and Jolly R. Bugarin, GR No. 102508, 30 January 2002

[269] "SECTION 7. Statement of Assets and Liabilities. – Every public officer, within thirty days after assuming office and, thereafter, x x x shall prepare and file x x x a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of his income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year x x x" [Republic Act No. 3019 (Anti-Graft and Corrupt Practices Act), 17 August 1960].

2.2 Audit Execution

The IAS/IAU determines whether or not the submitted SALN, DBIFC and IDR of the public officials and employees are compliant with the provisions of RA Nos. 3019, 6713, and 1379 and with the internal auditing methods in the identification of assets and/or expenses manifestly out of proportion to the public official's or employee's salary, disposable funds and income taxes paid such as:

a. Assets to Income Analysis[270] - This method is used to compare the property and business interests and financial connections acquired against the salary and disposable funds. Where the total value of the property acquired during the public official's incumbency or period under review is greater than his/her salary and disposable funds during the said period, the difference may give rise to findings for further investigation.

Computation:		
Real and personal property		P xxx
Business interests and financial connections		xxx
Total Assets acquired by the public officer during the year		P xxx
Less: Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflows	xxx	
Disposable funds		xxx
Discrepancy		P xxx

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[270] "Section 8. *Prima facie evidence of and dismissal due to unexplained wealth.* – If in accordance with the provisions of Republic Act Numbered One thousand three hundred seventy-nine, a public official has been found to have acquired during his incumbency, whether in his name or in the name of other persons, an amount of property and/or money manifestly out of proportion to his salary and to his other lawful income, that fact shall be a ground for dismissal or removal. Properties in the name of the spouse and dependents of such public official may be taken into consideration, when their acquisition through legitimate means can not be satisfactorily shown" [Id.]

"Section 3…(c) The approximate amount of property he has acquired during his incumbency in his past and present offices and employments,
(d) A description of said property, or such thereof as has been identified by the Solicitor General,
(e) The total amount of his government salary and other proper earnings and incomes from legitimately acquired property, and
(f) Such other information as may enable the court to determine whether or not the respondent has unlawfully acquired property during his incumbency." [Republic Act No. 1379 (An Act Declaring Forfeiture in Favor of the State any Property Found to Have Been Unlawfully Acquired by any Public Officer or Employee and Providing for the Procedure Therefor), 18 June 1955].

b. Expenses to Income Analysis[271] - Under this method, the personal and family expenses, reduction in liabilities, and cash and bank deposits of the public official during the year is compared with his/her salary and disposable funds during the same year. Where the total expenses incurred, reduction in liabilities and cash and bank deposits during the year is greater than his/her salary and disposable funds during the said period, the difference may give rise to findings for further investigation.

Computation:		
Personal and family expenses		P xxx
Reduction in liabilities		xxx
Total		P xxx
Less: Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflows	xxx	
Disposable funds		xxx
Discrepancy		P xxx

c. Net Worth to Income Discrepancy Analysis[272] - This is a method of reconstructing the net worth based on the theory that if the net worth has increased in a given year in an amount larger than his reported salary and disposable funds, the difference may give rise to findings for further investigation of the official or employee.

Computation:		
Assets (Real, personal and other properties)		P xxx
Less: Liabilities		xxx
Net Worth for the Current Year		P xxx
Less: Net Worth over Previous Year		xxx
Increase(Decrease) in Net Worth		P xxx
Less: Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflows	xxx	
Disposable funds		xxx
Discrepancy		P xxx

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[271] "Section 8 x x x Bank deposits in the name of or manifestly excessive expenditures incurred by the public official, his spouse or any of their dependents including but not limited to activities in any club or association or any ostentatious display of wealth including frequent travels abroad of a non-official character by any public official when such activities entail expenses evidently out of proportion to legitimate income shall likewise be taken into consideration in the enforcement of this section notwithstanding any provision of law to the contrary x x x" [Republic Act No. 3019 (Anti-Graft and Corrupt Practices Act), 17 August 1960).

[272] In the case of Salvador Pleyto v. Philippine National Police Criminal Investigation and Detection Group, G.R. No. 169982, 23 November 2007, the court held that the "net-worth-to-income-discrepancy analysis," may be effective as an initial evaluation tool, meant to raise warning bells as to possible unlawful accumulation of wealth by a public officer or employee, but it is far from being conclusive proof of the same.

d. Cash/Funds Flow Analysis Method[273] - Proceeds from the theory that where the amount of money spent during a given year exceeds the reported salary and disposable funds, and the sources of such funds are otherwise unexplained, the difference may give rise to findings for further investigation of the official or employee.

Computation:		
Sources of Funds		
Declared compensation income per SALN		P xxx
Business income (add back non-cash expenses, e.g., depreciation, bad debts)		xxx
Income of spouse		xxx
Non-taxable receipts such as prizes, royalties		xxx
Receipts subject to final tax such as dividends, donations, inheritance and interest on deposit		xxx
Loans or credits		xxx
Cash at the beginning of the period		xxx
Total Funds		P xxx
Less: Application of Funds		
Personal and family expenses declared	P xxx	
Payments of debts, payables, accruals, and other liabilities	xxx	
Payments of taxes	xxx	
Acquisition of assets – real, personal and other assets	xxx	xxx
Discrepancy		P xxx

e. Business Interests and Financial Connection to Assets Analysis - Proceeds from the theory that when the public officer or employee has declared business assets, he/she should have likewise declared the corresponding business interest or financial connection he/she has on said asset; or when he/she has declared a business interest or financial connection, he/she must likewise indicate the corresponding business or financial asset in his/her SALN.[274]

f. Analysis of the IDR - For purposes of determining compliance on the filing of the IDR, the IAS/IAU should also look into the veracity and/or inconsistency of the entries in the IDR declared by the public official or employee. To substantiate the same, the IAS/IAU may require from the public official or employee concerned other documents wherein information on relationship, as required by law to be disclosed, may be contained.

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[273] This is a modification of the Expenditure Method provided by RMO 15-95, as amended, where cash outlays, other than expenses, are included in the Computation to arrive at the total sources of funds and cash receipts, other than those from income, are included to arrive at the total application of funds.

[274] Nieto A. Racho v. Hon. Primo C. Miro, in his capacity as Deputy Ombudsman for the Visayas, Hon. Virginia Palanca-Santiago, in her capacity as Ombudsman Director, and Hon. Antonio T. Echavez, in his capacity as Presiding Judge of the Regional Trial Court-Cebu City, Branch 8, G.R. Nos. 168578-79, 30 September 2008

2.3 Audit Reporting

Audit findings should be reported following the 4Cs:

a. Criteria. The IAS/IAU will determine whether or not the submitted SALN, DBIFC and IDR of the public officials and employees are compliant with the provisions of RA Nos. 3019, 6713 and 1379 and with the internal auditing methods in the identification of assets and/or expenses manifestly out of proportion to the public official's or employee's salary, disposable funds and income taxes paid.

b. Conditions. These conditions may arise in the course of the evaluation of the SALN, DBIFC or IDR of the public officials or employees.

   i. The SALN, DBIFC and IDR submitted by the public officials and employees are in proper form, complete and detailed.
   ii. The SALN, DBIFC and IDR submitted by the public officials and employees are not in proper form, incomplete and/or not detailed but after being given the opportunity to correct said documents, the public official or employee concerned complied and corrected the same to be in proper form, complete and detailed.
   iii. The SALN, DBIFC and IDR submitted by the public officials and employees are not in proper form, incomplete and/or not detailed and after being given the opportunity to correct said documents, the public official or employee concerned failed to comply and correct the same to be in proper form, complete and detailed.

c. Conclusion. The evaluation and/or fact-finding by the IAS/IAU of the criteria and conditions in the compliance of the SALN, DBIFC or IDR of the public officials or employees could either result in compliance or non-compliance by said officials and employees in the filing of said documents pursuant to RA No. 6713 and its IRR, as amended, RA No. 3019 and other related laws.

d. Cause. The IAS/IAU shall determine the probable cause/s of the difference between the criteria and conditions which resulted in non-compliance by the public official or employee to accomplish and file his/her SALN, DBIFC and IDR in proper form, complete and in detail, i.e., more likely than not[275] the public official or employee concerned has unexplained wealth which may warrant the conduct of administrative proceeding by the disciplining authority. "Unexplained" matter normally results from "non-disclosure" or concealment of vital facts.[276] To come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's[277] of the non-disclosure or concealment of vital facts.

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[275] Villarosa v. Ombudsman, G.R. No. 221418, 23 January 2019
[276] Carabeo v. Court of Appeals, et. al., G.R. Nos. 178000 and 178003, 4 December 2009 citing Ombudsman v. Valeroso, G.R. No. 167828, 2 April 2007
[277] Albert v. Gangan, G.R. No. 12655, 6 March 2001

2.4 Audit Follow-Up

The IAS/IAU shall render assistance to the disciplining body in the conduct of the investigation in the event that there is a finding of probable cause against the public officials and employees who have failed to comply after being given the opportunity to correct, or have failed to justify the property acquired and/or their personal and family expenses are manifestly out of proportion to their salary, disposable funds and income taxes paid.

3. Use of Work of Other Experts

When there is a need to make use of other experts' work to corroborate or substantiate the facts/evidence gathered by the internal auditors, they remain responsible for its use. Experts are those who have acquired special knowledge, skill, experience or training in a particular field other than auditing. The auditor may use the work of an expert as evidence but the auditor retains full responsibility for the contents of the audit report.

Expert task in auditing is expertise gained in the course of audit activities. Expert tasks are performed in a way that does not endanger the impartiality of audit activities. Expert tasks include participating in working groups or projects, presenting initiatives to correct observed deficiencies in administration, issuing statements and arranging trainings.

The steps the auditor should take are:

a. Obtain information on the qualifications, competence or specialization of the experts and the context of their assignment, e.g., in certifying an opinion on hospital operations, a doctor should not just be a general practitioner but a recognized hospital administrator who is able to demonstrate a profound level of expertise; opinions on information technology (IT) process should not just be from a computer science graduate but from a recognized and reputable IT practitioner demonstrating a profound level of expertise;

b. Consider the nature, complexity and materiality of the matter, assumptions used, and corroborative evidence available;

c. Consider the objectivity of the expert; and

d. Advise the expert on what the work is being used for and the purpose.

4. Integration and Preparation of the Highlights of Audit Findings

In the preparation of audit findings, the conditions, conclusions and the causes must be supported by sufficient audit evidence. The quantum of evidence required to support an audit finding is substantial evidence. Such substantial evidence would lead to the determination/finding of a probable cause or a prima facie case and would draw a reasonable conclusion that more likely than not, a non-compliance or failure of control/supervision was established, and that an offense may have been committed.

a. A finding of probable cause for non-compliance needs only to rest on evidence showing that more likely than not[278] the act/s or omission/s of the person responsible had caused the non-compliance with laws, regulations and managerial policies and operating procedures in the agency, including compliance with accountability measures, ethical standards and contractual obligations, which may warrant the conduct of administrative proceeding by the disciplining authority. It must be noted that to come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's[279] of the non-compliance.

b. "Prima facie requires a degree or quantum of proof greater than probable cause. '[i]t denotes evidence, which, if unexplained or uncontradicted, is sufficient to sustain a prosecution or establish the facts as to counterbalance the presumption of innocence and warrant conviction x x x."[280]

This could also give rise to a disputable presumption of non-compliance with a regulation or rule. Disputable presumptions are satisfactory if uncontradicted, but may be contradicted and overcome by other evidence.[281]

The audit findings supported by substantial evidence are deemed admitted by the auditee if not controverted by any evidence to overcome the same. In this case, the burden of proof now lies with the auditee. Burden of proof is the duty of a party to present evidence on the facts in issue necessary to establish his or her claim or defense by the amount of evidence required by law. Burden of proof never shifts. [282]

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[278] Tupaz v. The Office of the Deputy Ombudsman for the Visayas, G.R. Nos. 212491-92, March 06, 2019; Galario v. Office of the Ombudsman, et. al., G.R. No. 166797, 10 July 2007; Webb v. De Leon, G.R. No. 121234, 23 August1995; and Boiser v. People of the Philippines, G.R. No. 180299, 31 January 2008
[279] Albert v. Gangan, G.R.No. 126557, 6 March 2001
[280] Cometa v. Court of Appeals, G.R. No. 126005, 21 January 1999; De Lima v. Guerero, et. al., G.R. No. 229781, 10 October 2017
[281] Supreme Court A.M. No. 19-08-15-SC, "2019 Proposed Amendments to the Revised Rules on Evidence", 8 October 2019
[282] Supreme Court A.M. No. 19-08-15-SC, "2019 Proposed Amendments to the Revised Rules on Evidence", 8 October 2019

CHAPTER 3

INTERNAL AUDIT
PERFORMANCE MONITORING
AND EVALUATION

1. **Performance Monitoring and 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 whereby the internal audit's own performance is judged and internal audit is held accountable for its functions and use of resources. By adopting appropriate indicators, implementing a rigorous performance measurement regime and acting on the results, internal audit can demonstrate that it "practices what it preaches," thus encourage acceptance of its role within the organization.

The DS/HoA or GB/AuditCom is responsible for periodically reviewing the performance of the internal audit. They would normally approve the performance indicators used.

2. **Steps in Performance Evaluation**

   2.1 **Determination of KPIs**

   It is important that the KPIs for internal audit are aligned with the Strategic Plan and the Annual Work Plan, and help drive the performance that the organization expects from the IAS/IAU.

   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.

   KPIs include measurements of the IAS/IAU 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 Ds/HoA or GB/AuditCom;
   e. Number of recommendations implemented by the auditee;
   f. Number of audit support activities undertaken;
   g. Internal audit staff satisfaction; and
   h. Overall contribution made by the IAS/IAU.

   2.2 **Design of the Performance Monitoring Reports**

   The IAS/IAU should design performance report forms to collect data in between and during each audit engagement and audit support activities, aligned with the KPIs. The report forms should provide for the relevant information regarding the IAS/IAU performance outputs on a per engagement basis summarized on a periodic basis.

2.3 Preparation of the Evaluation Report

It is good for the IAS/IAU to prepare an evaluation report on its performance after an audit engagement for the information and advice of the DS/HoA or GB/AuditCom.

3. Performance Monitoring by the IAS/IAU Head

The IAS/IAU head 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 KPIs, and conduct two types of performance monitoring, as follows: (1) review of Progress Assessment Report; and (2) review of Completion Assessment Report.

3.1 Review of Progress Assessment Report

The Progress Assessment Report focuses on whether or not:

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

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

d. Internal auditing standards (NGICS, PGIAM and other relevant standards) pursuant to DBM rules and regulations are applied;

e. Findings and recommendations promote the adequacy of internal control pursuant to DBM rules and regulations; and

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

The Progress Assessment Report shall be subject to the approval by the IAS/IAU head. Audit team leaders shall ensure that audit engagements are assessed at the stage before the exit conference.

3.2 Review of Completion Assessment Report

The Completion Assessment Report focuses on the:

a. Overall effectiveness and efficiency of the IAS/IAU in accordance with DBM rules and regulations and the agency'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, PGIAM and other relevant standards) pursuant to DBM rules and regulations;

d. Findings and recommendations which promote the adequacy of internal control pursuant to DBM 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 Completion Assessment Report shall be subject to the approval of the IAS/IAU Head. Audit team leaders shall ensure that audit engagements are assessed at the conclusion of the activity.

4. Performance Evaluation by the DS/HoA or GB/AuditCom

Pursuant to the Administrative Code of 1987, as amended, the authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department.

The IAS/IAU is an integral part of the Department which provides assistance to the DS/HoA or GB/AuditCom and performs functions delegated by the DS/HoA or GB/AuditCom.[283]

Work performance of the IAS/IAU is evaluated by the DS/HoA or GB/AuditCom as part of supervision and control.[284] They shall monitor and evaluate the performance of the IAS/IAU either through: (1) review and approval of the Internal Audit Report, or (2) review and approval of the IAS/IAU Performance Report.

4.1 Review of the Internal Audit Report

At the conclusion of each audit engagement, the IAS/IAU submits to the DS/HoA or GB/AuditCom an Internal Audit Memorandum and the Internal Audit Report - prepared in conformity with the PGIAM, NGICS, and relevant issuances of the DBM.

In the review of the Internal Audit Report, the DS/HoA or GB/AuditCom shall also consider adherence of the IAS/IAU on the following:

a. The hierarchy of applicable internal auditing standards and practices as discussed in Chapter 1 of PGIAM – Part I are adhered to;

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[283] Section 1, 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), 14 April 2003
[284] Section 38(1) Chapter 7 – Administrative Relationship, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

b. All audit findings are formulated and synthesized based on the 4Cs (criteria, condition, conclusion, probable/root cause);

c. Findings are supported by sufficient audit evidence and the quantum of evidence required to support an audit finding is substantial evidence.

d. The recommendations are feasible, cost-effective and cost-efficient, find sufficient basis in law, evidence-based and classified according to the following:

    i. Preventive actions – refer to determined actions of the organization to eliminate the causes of potential noncompliance in order to avoid their occurrence;[285] and

    ii. Corrective actions – refer to an organization's actions to eliminate the causes of noncompliance in order to avoid recurrence;[286]

e. At any point during the audit, when significant risks/issues arise, the IAS/IAU will prepare an Interim Report to the DS/HoA or GB/AuditCom 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 internal control system and the key processes in the operating and supports systems;

    ii. Gaps or control deficiencies/breakdowns found out 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.

4.2 Review of the IAS/IAU Performance Report

At the close of every fiscal year, the DS/HoA or GB/AuditCom shall review the performance of the IAS/IAU through the various reports/outputs (i.e., baseline assessment 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 their office.

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[285] Item 8.5.2, Government Quality Management Systems Standards (GQMSS)
[286] Id.

The DS/HoA or GB/AuditCom being the head of the agency, as directly responsible for the installation, implementation and monitoring of internal control system,[287] shall review the adequacy of the internal audit as part of the internal control system.

5. Oversight Function of the DBM Over IAS/IAU

In addition to the performance monitoring and evaluation conducted by the IAS/IAU head and the DS/HoA or GB/AuditCom, the DBM also performs oversight functions over the IAS/IAU.

The DBM is responsible for the efficient and sound utilization of funds and revenues. Pursuant to this mandate, it "shall assist the President in the preparation of a national resources and expenditures budget, preparation, execution and control of the National Budget, preparation and maintenance of accounting systems essential to the budgetary process, <u>achievement of more economy and efficiency in the management of government operations</u>, administration of compensation and position classification systems, <u>assessment of organizational effectiveness</u> and review and evaluation of legislative proposals having budgetary or organizational implications."[288] (underscoring supplied)

The Administrative Code of 1987, as amended, also empowers the DBM to evaluate agency performance and to monitor budget performance and assess the effectiveness of the agencies' operations, including the IAS/IAU, to wit:

"**Section 51. *Evaluation of Agency Performance*** – The President, through the Secretary shall evaluate on a continuing basis <u>the quantitative and qualitative measures of agency performance</u> as reflected in the units of work measurement and other indicators of agency performance, <u>including the standard and actual costs per unit of work</u>.

"**Section 52*. Budget Monitoring and Information System*** – The Secretary of Budget shall determine accounting and other items of information, financial, or otherwise, needed to monitor budget performance and <u>to assess effectiveness of agencies' operations</u> and shall prescribe the forms, schedule of submission, and other components of reporting systems, including the maintenance of subsidiary and other recording which will enable agencies to accomplish and submit said information requirements: xxx."[289] (*underscoring supplied*)

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[287] Section 124, Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended
[288] Section 3, Chapter 1 – General Provisions, Title XVII – Budget and Management, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[289] Chapter 6 – Budget Accountability, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended

The DBM reviews the performance of the IAS/IAU by focusing on the evaluation of its effectiveness and efficiency as part of the internal control system. They may request the IAS/IAU, through the DS/HoA or GB/Auditcom, for relevant documents that will aid them in the process, such as:

i. Internal Audit Memorandum;
ii. Baseline Assessment Report;
iii. Annual Internal Audit Plan;
iv. Internal Audit Report;
v. Internal Audit Follow-up Report; and
vi. Performance Monitoring Evaluation Report.

6. Rule-Making Power of the DBM

The DBM is vested with rule-making powers necessary for the proper discharge and management of its mandated functions. Apart from the rules and regulations being issued by the DBM to carry into effect the provisions of a particular law, it is also authorized to promulgate its own rules on matters coming under its special and technical expertise, to wit:

a. Under the Administrative Code of 1987, as amended, the DBM "shall be responsible for the efficient and sound utilization of government funds and revenues to effectively achieve our country's development objectives."[290] It is empowered, among, others, to assist the President in the preparation, execution and control of the National Budget and the achievement of more economy and efficiency in the management of government operations.[291]

b. It is a declared policy of the State that the budget shall be "oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently."[292] To ensure and implement the same, the DBM issues rules and regulations through circulars and other issuances on budget and management matters.

c. Pursuant to its mandate and the provisions of OP AO No. 119 dated 29 March 1989,[293] as amended, the DBM issued Budget Circular No. 2004-04 dated 22 March 2004 which provides for the "Guidelines on the Organization and Staffing of Internal Audit Units (IAUs) ," and Circular Letter No. 2008-5 dated 14 April 2008 which provides for the "Guidelines in the Organization and Staffing of an Internal Audit Service/Unit [IAS/IAU] and Management Division/Unit [MD/MU] in Departments/Agencies/ GOCCs/GFIs Concerned" and the functions of the IAS/IAU and MD/MU. On 19 May 2011, the DBM, through Circular Letter No. 2011-05, issued the PGIAM.

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[290] Section 2, Chapter 1 – General Provisions, Title XVII – Budget and Management, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[291] Section 3, Id.
[292] Section 3, Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended
[293] "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"

7. Request for DBM Opinions/Rulings/Interpretations

Audit findings and recommendations resulting from the audit conducted by the IAS/IAU shall be submitted to the DS/HoA or GB/AuditCom for approval, pursuant to its authority and responsibility to exercise supervision and control of the Department[294]/Board/Commission/Corporation. Once approved, the same shall be subject for implementation.

Approved audit findings and recommendations for implementation may be appealed to the DS/HoA or GB/AuditCom by the auditee who has been adversely affected.

In the conduct of compliance audit, the IAS/IAU may find some violations by the auditee of compliance with rules and regulations and/or DBM circulars and other issuances. In case of dispute on issues concerning budget and management matters, the same may be elevated to the DBM. Vested with the power to promulgate their own rules and regulations, the DBM is in the best position to determine and interpret if a violation of their **own rules** has been committed by an agency.

"The Court has consistently yielded and accorded great respect to the interpretation by administrative agencies of **their own rules** unless there is an error of law, abuse of power, lack of jurisdiction or grave abuse of discretion clearly conflicting with the letter and spirit of the law."[295] (emphasis supplied)

"More specifically, in cases where the dispute concerns the interpretation by an agency of its own rules, we should apply only these standards: 'Whether the delegation of power was valid; whether the regulation was within that delegation; and if so, whether it was a reasonable regulation under a due process test. An affirmative answer in each of these questions should caution us from discarding the agency's interpretation of its own rules.'"[296]

As recognized by the Supreme Court, "[d]elegated rule-making is a practical necessity in modern governance because of the increasing complexity and variety of public functions. Congress has endowed administrative agencies like respondent DBM with the power to make rules and regulations to implement a given legislation and effectuate its policies."[297] *(underscoring supplied)*

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[294] "Section 6. Authority and Responsibility of the Secretary. – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department." [Chapter 2 – Secretaries, Undersecretaries, Assistant Secretaries, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended]

[295] Commission on Appointments v. Celso M. Paler, G.R. No. 172623, 3 March 2010 citing Eastern Telecommunications Philippines, Inc. and Telecommunications Technologies, Inc. v. International Communication Corporation, G.R. No. 135992, 31 January 2006

[296] Eastern Telecommunications Philippines, Inc. and Telecommunications Technologies, Inc. v. International Communication Corporation, G.R. No. 135992, 31 January 2006

[297] Gutierrez v. Department of Budget and Management, G.R.No.153266, 18 March 2010

PGIAM AMENDMENT PROTOCOL

1. Introduction

The Philippine Government Internal Audit Manual – Guidelines and Practices **(PGIAM I and II)** are the definitive policy resource guiding the operations of internal audit in the Philippine public sector.

Both documents reflect the policy, legal and institutional arrangements governing internal audit in the Philippine public sector. The PGIAM I and II shall be reviewed regularly to ensure they are still current.

The need to amend any or both documents may be prompted by feedback from Departments and Agencies on the implementation of the PGIAM; Department-specific and sector-based internal audit implementation insights; changes in laws, policies, guidelines and regulations; and requisites for enhancing work practices.

A proposal for amendment of any provision, standard, procedure and/or policy in PGIAM I and II needs to be submitted to the Department of Budget and Management (DBM) for evaluation and appropriate action, in coordination with the Office of the President-Internal Audit Office.

2. New Policy/Major Revisions

The DBM is the main policy approval body.

When submitting a new or significantly revised policy statement to the DBM, it must be accompanied by a statement outlining:

a. The rationale for the preparation or review of the policy;
b. Impact of implementation (including obvious resource implications, effects on staffing and other issues, changes to delegations for decision-making); and
c. Policies or provisions to be rescinded.

3. Minor Amendments

Minor amendments (e.g., to reflect changes in position titles or nomenclature of organizational units) which do not otherwise affect the policy content can be incorporated in another amendment to the document in the near future.

4. Periodic Review of Policies

In order to enhance the Philippine Government internal audit management standards, including policies, procedures and ethical pronouncements, a periodic review of policies and practices will be undertaken. In addition to requiring new policy statements or major revisions to include a specified date of the next review, routine alerts to review a certain policy will be sent periodically and as appropriate to all Departments and Agencies.

Notification that a certain policy is due for periodic review will be sent three months prior to the review date. The expectation is that a timely review of the policy will be undertaken, generally within three to six months following notification.

Where review will result in a major overhaul of a policy, development of a brief review and approval plan may be advisable. The plan should outline relevant steps associated with the review, including consultation, review by relevant committees, and target dates for final approval by the designated "approving authority."

APPENDICES

Appendix A: Suggested Templates

The templates provided are meant to serve as a guide. These are generic and may be modified/customized by the Internal Audit Service/Unit (IAS/IAU) of an agency based on its needs and conditions.

TEMPLATE 1 – OFFICIAL COMMUNICATION TO THE IAS/IAU PRINCIPAL ON THE CONDUCT OF NON-INTERNAL AUDIT TASKS

[Official Agency Letterhead]

[Date]

MEMORANDUM

For	:	[Agency Principal]
From	:	[Head of Internal Audit]
Subject	:	**CONDUCT OF NON-INTERNAL AUDIT TASKS**

Pursuant to item 5.7, Chapter 1, Part I of the revised Philippine Government Internal Audit Manual (PGIAM), which was issued by the Department of Budget and Management (DBM) through Circular Letter No. 2020-__, an internal audit unit (IAU) of a government agency should refrain from participating in the operations and processes of another unit as this is in conflict with the post-audit function of the internal audit. Further, the IAU is not responsible for or required to participate in activities which are essentially part of the regular operating functions or the primary responsibility of another unit in the organization.

May we highlight that among the non-internal audit tasks being referred to is/are the [cite here the non-internal audit task(s) being instructed to be undertaken].

Relative thereto and in compliance with said DBM issuance, ***we are constrained from undertaking the foregoing task(s) being assigned to our office.***

The undersigned is ready to further discuss the matter more should the [Agency Principal] have questions or items for clarification on the same.

For consideration and/or further instruction. Thank you.

Head of Internal Audit

TEMPLATE 2 – OFFICE ORDER ON THE CREATION OF A PLANNING TEAM

[Official Agency Letterhead]

Internal Audit [Nomenclature, e.g., Service] Order No. __, s. [Year]
Date: _____

Subject   : **ESTABLISHMENT OF A PLANNING TEAM FOR THE CONDUCT OF THE BASELINE ASSESSMENT OF THE INTERNAL CONTROL SYSTEM (BAICS), [YEAR]**

As part of the strategic planning activities of the IAS for [indicate the three-year period], a Planning Team is hereby created to lead in the conduct of the BAICS of the [agency].

Relative thereto, the following IAS personnel are hereby assigned to constitute the Planning Team:

Team Leader:	
Alternate Team Leader:	
Members:	

The Planning Team shall perform planning activities, including, but not limited to the following:

a. Evaluation and analysis of information/documents that are relevant in the documentation of the five (5) components of the internal control system;
b. Preparation and administration of an Internal Control Questionnaire on key processes of critical operating and support systems of OPS, support to operations (STO), and general administration and support (GAS) of all agency programs and projects;
c. Review of key processes and controls in the OPS, STO and GAS;
d. Evaluation of controls using flowcharts and narrative notes;
e. Conduct of walkthrough;
f. Testing of controls;
g. Conduct of interim analysis; and
h. Preparation of various reports and plans, including the Interim Report, Baseline Assessment Report, Strategic Plan and Annual Work Plans.

For compliance.

Head of Internal Audit

TEMPLATE 3 – BASELINE ASSESSMENT REPORT

[Official Agency Letterhead]

BASELINE ASSESSMENT REPORT
As of [Date]

a.   Executive Summary

b.   Objectives, Scope and Methodology

c.   Findings and Recommendations

> *Provide the detailed findings and recommendations on each internal control component from the conducted BAICS*

d.   Overall Findings

> *Include the summary of the following:*
>
> - *Interim report, which enumerates significant and material gaps or control deficiencies/breakdowns that require immediate action*
> - *Control universe, which provides a list of all controls on key processes of operations, support to operations, and general administration and support, including control gaps/deficiencies/breakdowns*
> - *Control gaps/deficiency/breakdowns as a result of the review of oversight bodies and local/international development partners*

e.   Attachments

Prepared by: Reviewed by:

Name(s) of Planning Team Member(s)   Name of Planning Team Leader
Date   Date

Approved by:

Head of Internal Audit
Date

TEMPLATE 4 – AUDIT ENGAGEMENT PLAN

[Official Agency Letterhead]

AUDIT ENGAGEMENT PLAN
As of [Date]

Agency Program/Project/System/Process:
Type of Audit:

I.   Introduction

> Contains 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

II.   Audit Objectives

> Ideally, an audit objective would be consistent with the achievement of the objectives of the organization/program/project.
>
> Examples:
>
> ➢ Compliance audit – to assess compliance of controls with laws, rules, methods and procedures
> ➢ Management audit – to ascertain if the operations has its measurement and evaluation system which will be used to review and improve performance
> ➢ Operations audit – to determine if the agency program/project/system/process is achieving its target

III.   Audit Scope

> Framework or limits of the audit. Audit scope is the extent and boundaries of an audit. It must be consistent with the audit objectives. Audit scope includes timeframe, locations and major processes/operating systems/support systems or key controls that will be covered by the audit to achieve audit objectives.

IV. Audit Criteria

> Set of reasonable and attainable standards of performance, statutory or managerial policies, laws and regulations, etc.; Criteria are standards against which adequacy of performance and conditions can be assessed.

V. Audit Methodology

> Statements that describe the activities that will be undertaken in conducting the audit

VI. Resources/Inputs

> Statutory policies, mandates, managerial policies, government regulations, established objectives, systems and procedures/processes, human resources, materials, equipment, timelines etc.

Prepared by: Reviewed by:

Name(s) of Team Member(s)   Name of Team Leader
Date   Date

Approved by:

Head of Internal Audit
Date

TEMPLATE 5 – AUDIT REPORT

[Official Agency Letterhead]

AUDIT REPORT

I. Table of Contents

II. Executive Summary

III. Audit Findings

    a. Criteria

> Standards against which a condition is compared with (i.e., laws, rules and regulations, policies, orders, guidelines, procedures, plans, targets and contractual obligations.

    b. Condition

> A fact, supported by substantial evidence. The condition refers to what is currently being done or the current situation. This is also referred to as the findings of facts.

    c. Conclusion

> The evaluation of the criteria and the conditions to determine: (1) the degree of compliance or non-compliance of control with laws, regulations and policies; (2) the control effectiveness or ineffectiveness; and (3) the efficiency, effectiveness, ethicality, and economy of agency operations.

    d. Cause

> The immediate and proximate reason/s for the condition for which substantial evidence will be used as basis of the audit recommendation. It may also refer to the probable cause which 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 - in case of compliance audit; and root cause – in case of management/operations audit.

IV. Management Comments and Team's Rejoinder

V. Monitoring and Feedback on Prior Year's Recommendations

VI. Audit Recommendations

VII. Appendices

Prepared by: Reviewed by:

Name(s) of Internal Auditor(s)   Name of Audit Team Leader
Date   Date

                    Approved by:

                  Head of Internal Audit
                         Date

Appendix B: Qualification Standards and Functions of the Head and Staff of the Internal Audit Service/Unit (IAS/IAU)

The table hereunder provides for the qualification standards and functions of each position in the IAS/IAU. It reflects the minimum competency required in the areas of education, experience, training, and eligibility that will enable auditors to perform in a competent manner, the functions so desired by the IAS/IAU.

Position	Qualification Standards[298]	Functions[299]
Director IV (Head of Internal Audit)	**Education** Master's Degree in Accounting, Public Administration, Criminology, Information Technology/Computer Science, and other related disciplines relevant to the Department/ Agency where he/she may be assigned; Bachelor's Degree in Law would be an advantage **Experience** Four (4) years of relevant experience in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems, and other related disciplines) **Training** 40 hours of training in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, ISO Management Systems, and other related disciplines)	**Administrative Functions** 1. Submits work and financial plan; 2. Submits annual procurement report; 3. Submits accomplishment reports; and 4. Submits performance evaluation, targets and ratings of staff. **Operational Functions** 1. Establishes the annual goals, objectives and performance targets of the internal auditing unit; 2. Establishes guidelines and procedures for the guidance of the internal audit staff; 3. Ensures support of management in the conduct of internal audit; 4. Responsible for work performance and discipline of the staff; 5. Reviews and approves internal audit plans;

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[298] CSC Memorandum Circular No. 12, s. 2006
[299] DBM Budget Circular No. 2004-4 [Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)], 22 March 2004

Position	Qualification Standards[298]	Functions[299]
	Eligibility CESO III, CESO III and Lawyer or CESO III and CPA-Lawyer would be an advantage	6. Discusses internal audit scope and objectives with agency/unit or personnel to be covered prior to the conduct of audit; 7. Reviews and approves internal audit reports; 8. Discusses audit results with auditee/s before the report is finalized; 9. If necessary, discusses the conclusions and recommendations in the audit report with the appropriate level of management; 10. Follows up actions to determine if audit recommendations have been carried out or not and inquires for the reasons for non-implementation; 11. Investigates anomalies discovered in audit and submits reports and recommendations on investigations completed; 12. Reviews and approves recommendations for enhancement of the internal audit functions; and 13. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditor V	**Education** Master's Degree in Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned, preferably Bachelor's Degree in Law **Experience** Four (4) years in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines); Management and Supervisory experience **Training** 24 hours of training in Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines); Management and Supervision Career Service (Professional)/ **Eligibility** Secondary Level Eligibility, preferably Bar/CPA, (RA 1080 or both Lawyer and CPA)	1. Under direction, supervises a division tasked with internal audit functions; 2. Establishes the annual goals, objectives and performance targets; 3. Establishes, guidelines and procedures for the guidance of the internal audit staff; 4. Does final review of internal audit plans; 5. Recommends approval of internal audit plans; 6. Reviews internal audit report; 7. Determines training needs of internal audit staff; 8. Responsible for work performance and discipline of audit staff; and 9. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditor IV	**Education** Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned) **Experience** Three (3) years of relevant experience involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Experience** 16 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Eligibility** Career Service (Professional)/ Secondary Level Eligibility or Bar/ Board passer on disciplines related to the abovementioned	1. Under direct supervision, assists in supervising a division tasked with internal audit functions; 2. Reviews internal audit plans; 3. Discusses internal audit plans with the concerned staff; 4. Reviews written internal audit reports; 5. Trains new internal auditors; 6. Rates performance of audit staff; and 7. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditor III	**Education** Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned) **Experience** Two (2) years in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Training** Eight (8) hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Eligibility** Career Service (Professional)/ Secondary Level Eligibility/ Board passer on disciplines related to the abovementioned	1. Under general supervision, reviews agency organizational structure, staffing, administrative systems and procedures; 2. Drafts audit plans for review of immediate supervisor, 3. Follows-up actions to determine if audit recommendations have been carried out; 4. Performs comprehensive auditing work; and 5. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditor II	**Education** Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned) **Experience** One (1) year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/ or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Training** Four (4) hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Eligibility** Career Service (Professional)/ Secondary Level Eligibility	1. Under general supervision, conducts researches to obtain background information on the activities to be audited; 2. Discusses research findings with the audit team leader; 3. Performs standard auditing work; 4. Drafts report on the results of audit; and 5. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditor I	**Education** Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned) **Experience** One (1) year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/ or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Training** Four (4) hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Eligibility** Career Service (Professional)/ Secondary Level Eligibility	1. Under general supervision, conducts researches to obtain background information on the activities to be audited; 2. Discusses research findings with the audit team leader; 3. Performs standard auditing work; 4. Drafts report on the results of audit; and 5. Does related work.

Position	Qualification Standards[298]	Functions[299]
Internal Auditing Assistant	**Education** Completion of 2 years of study in college **Experience** One (1) year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Training** Four (4) hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, ISO Management Systems and other related disciplines) **Eligibility** Career Service (Sub-professional)/ First level eligibility	1. Under immediate supervision, assists internal auditors in the conduct of internal audit; and 2. Does related work.

Appendix C: Good Internal Audit Practices in Government

In August 2018 to June 2019, the Internal Control and Internal Audit Task Team[300] under the Budget Reform Program, with technical assistance under the Philippines-Australia Public Financial Management for Infrastructure Program, implemented a project entitled, *Assessment of Internal Control/Internal Audit in National Government Agencies*[301].

During the stage 1[302] (2018) of the project wherein facilitated discussions were conducted with the departments covered by the project, the following good practices of their respective Internal Audit Services (IAS) were noted, which could be replicated or custom-fitted by the government agencies concerned:

<u>Organization</u>

➢ The IAS has a defined reporting structure (i.e., directly reporting to the Department Secretary [DS]) that is communicated to all IAS personnel and the officials and employees in the department through various means.

Communicating the reporting structure ensures that officials and employees of the agency have a clear understanding of the position of the IAS/internal audit unit (IAU), especially that the same maintains objectivity and impartiality, in the organization.

➢ The IAS directly reports to and discusses the audit results with the DS on a regular basis (i.e., monthly or quarterly).

Communicating the results of the audit to the DS/Head of Agency (HoA) or Governing Board/Audit Committee (GB/AuditCom), especially through face-to-face meetings, allows the latter to understand completely the audit findings and recommendations, and take the necessary actions (e.g., approval of the audit findings and recommendations, distribution of the audit report, and implementation of the recommended courses of action) to perform its primary responsibility for the installation, implementation and maintenance of a sound internal control system that will assist management in achieving organizational objectives efficiently and effectively.

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[300] Composed of the Department of Budget and Management (DBM)-Systems and Productivity Improvement Bureau *(lead)*, Office of the President-Internal Audit Office, and the Internal Audit Service of the DBM, Department of Education, and Department of Social Welfare and Development

[301] Aimed to assess the current status of the internal control system and internal audit in select departments in the Executive Branch and analyze related issues, after which policies and action plans may be developed by the DBM to further improve the implementation of internal control and internal audit in the government

[302] Constituted a brief snapshot of the internal control framework and rapid baseline assessment of the internal audit capacity and performance of the 10 Departments with the largest FY 2018 budget

Leadership

- The IAS has the trust and confidence of the DS. It is able to meet the high expectations of its principal.

  The trust of the DS/HoA or GB/AuditCom enables the IAS/IAU to effectively perform its role and mandate in the Department. On the other hand, the DS/HoA or GB/AuditCom has the authority to direct the offices in the organization in implementing audit recommendations.

Management Support/Strategic Relationships

- The IAS has frequent interactions with the senior management and other key stakeholders of the department.

  The IAS/IAU's ability to implement its mission, vision and plans may be influenced by the support of its stakeholders. Thus, frequent interactions with senior management and other key stakeholders may lead to an effective stakeholder relationship. As indicated in the Philippine Government Internal Audit Manual (PGIAM), the IAS/IAU should build a relationship with the senior management team that is based on cooperation, mutual respect and adherence to the highest degree of professionalism.

Functions

- The IAS has crafted its own internal audit operations manual that is consistent with the PGIAM.

  A separate manual documents the specific procedures that would facilitate the consistent implementation of the internal audit process and guide the operations and activities of the IAS/IAU in cases where the PGIAM does not provide for specific procedures. Regular review and maintenance of the manual ensures that the latest standard, methodology and approach applicable to internal audit in the government are adopted relative to the performance of internal audit.

Staffing

- The IAS uses other human resources external to it to help cover key audit areas.

  Temporary movement of officials and staff to the IAS/IAU can be a useful way in augmenting internal audit resources, acquiring the right skills and competencies to perform the audits, and gaining training and experience for the IAS/IAU staff.

Competency

➢ The IAS annually reviews and updates the agency's competency model and profile for its personnel.

The establishment of the specific competency model for the agency's internal auditors defines the knowledge, skills and other competencies required from them to satisfactorily perform their roles, duties and responsibilities. Likewise, maintaining a competency profile of the IAS/IAU personnel would help in addressing and monitoring competency gaps.

Training

➢ The IAS reviews and updates its training and development plan, and monitors the progress of its personnel against said plan semi-annually.

Training and development programs must be reviewed and updated in a timely manner to address the identified competency gaps of the internal auditors. Moreover, monitoring the development of IAS/IAU personnel ensures that they remain competent in carrying out their functions by acquiring the right skills and knowledge through various development interventions.

Budget

➢ The budget of the IAS is primarily based on the strategic and annual audit plan and includes training costs.

When preparing the budget, the IAS/IAU must at least consider the cost of completing its planned audit engagements so as not to compromise the quality of the same. This is to ensure that the budget is sufficient to implement the role expected of the IAS/IAU and, in particular, responds to the priorities and requirements of the approved strategic and annual work plan.

Planning

➢ The IAS aligns its prioritized audit areas with the agency's strategies.

The IAS/IAU must remain relevant, adapt to changing expectations and maintain alignment with the agency's objectives. Thus, the PGIAM provides that the internal audit plan should be updated iteratively for the changes occurring in the internal control components of the agency. With an aligned plan, the IAS/IAU would be able to assess controls that would address the most important and relevant risks identified by the agency, and therefore remain a valuable contributor thereto.

- ➢ The IAS reviews its annual work plan within the year (i.e., semi-annually/quarterly).

  A review of the annual work plan allows the IAS/IAU to remain current and relevant in responding to the changes in the agency (e.g., environment, risks, operations, programs, and processes).

Procedures

- ➢ The IAS is developing an in-house audit software that would facilitate the documentation and review of audit procedures even at multi-locations, and capture the end-to-end audit process, i.e., planning, execution, reporting, and follow-up.

  Enabling the internal audit procedures with technology-based tools may help the IAS/IAU to remain efficient and productive in carrying out its audit activities, especially during audit engagements in the field. Having an audit software can also assist IAS/IAU in terms of managing and monitoring its findings and the implementation by the auditees of the audit recommendations.

Implementation of IA recommendations

- ➢ The IAS links the implementation of approved audit recommendations to the auditees' key performance indicators (KPIs).

  Linking the approved audit recommendations to KPIs of the auditees may increase the agency's compliance to the implementation of the approved internal audit recommendations.

Appendix D: Diagrams and Flowcharts of Internal Audit Key Processes

D.1 Internal Audit Key Processes Diagram
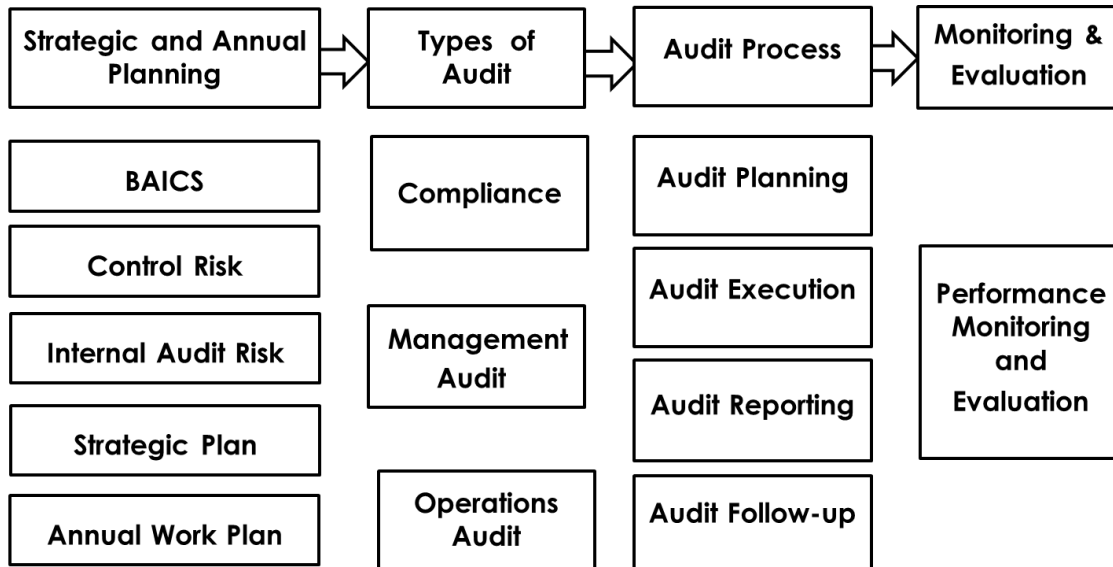
D.2 Baseline Assessment of Internal Control Flow Diagram
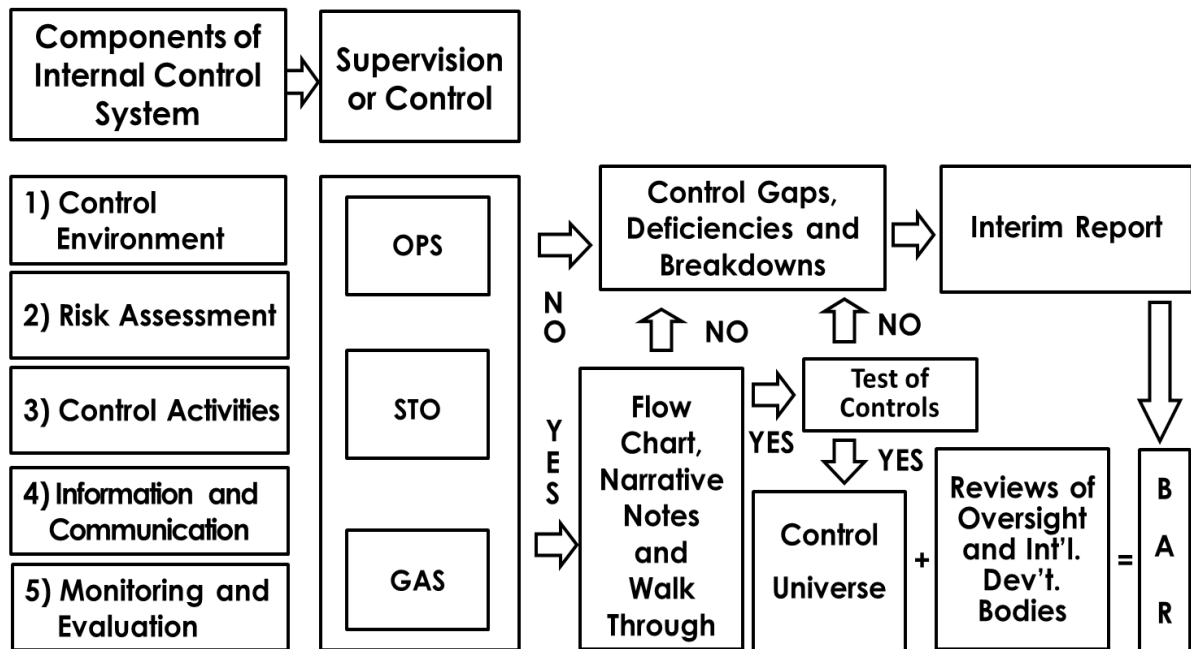
D.3   Risk Assessment Flow Diagrams

D.3.1   Internal Audit Risk Assessment
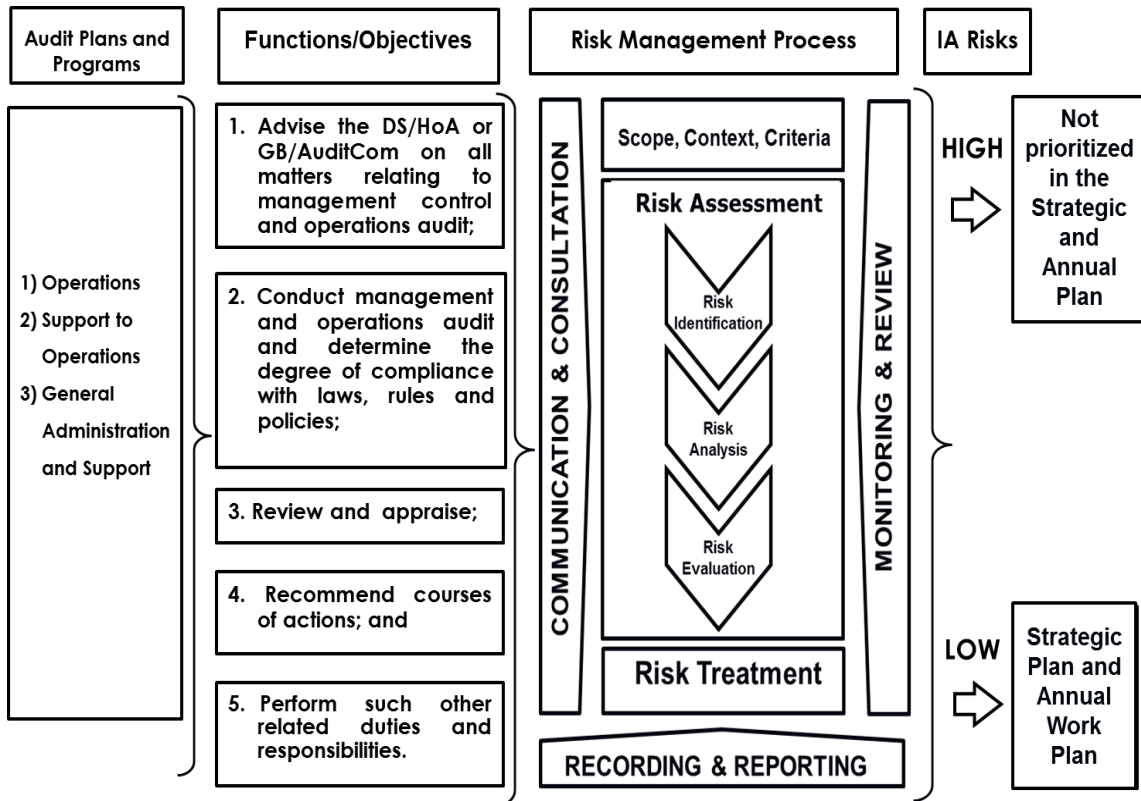
D.3.2 Control Risk Assessment
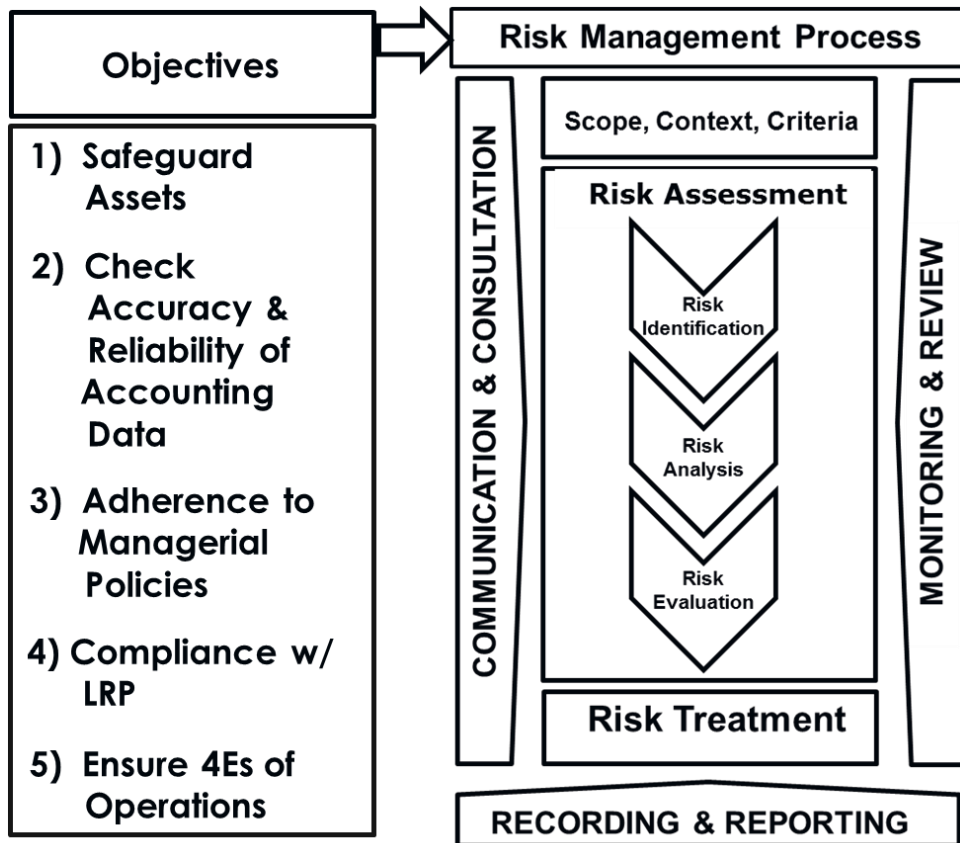
D.3.2 Operations Risk Assessment
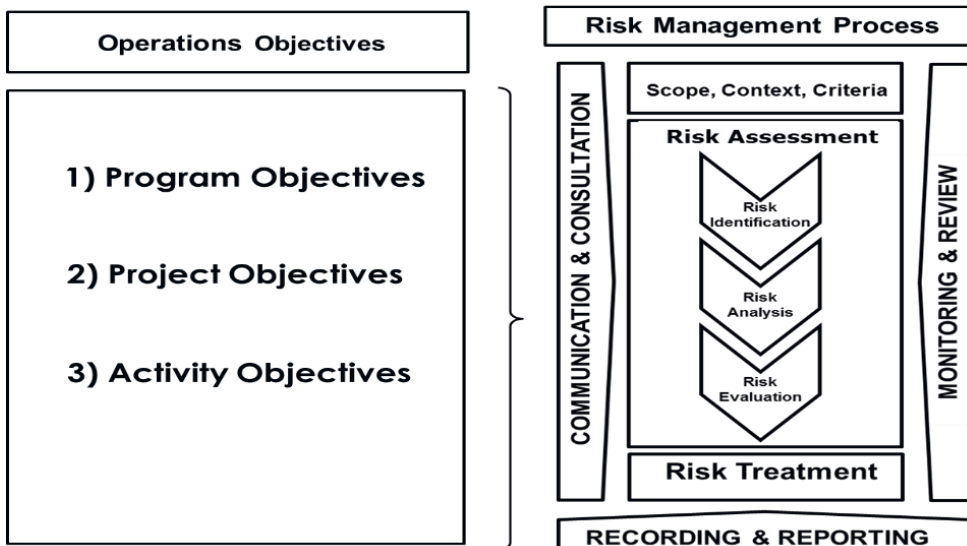
D.3.3   Support to Operations Risk Assessment
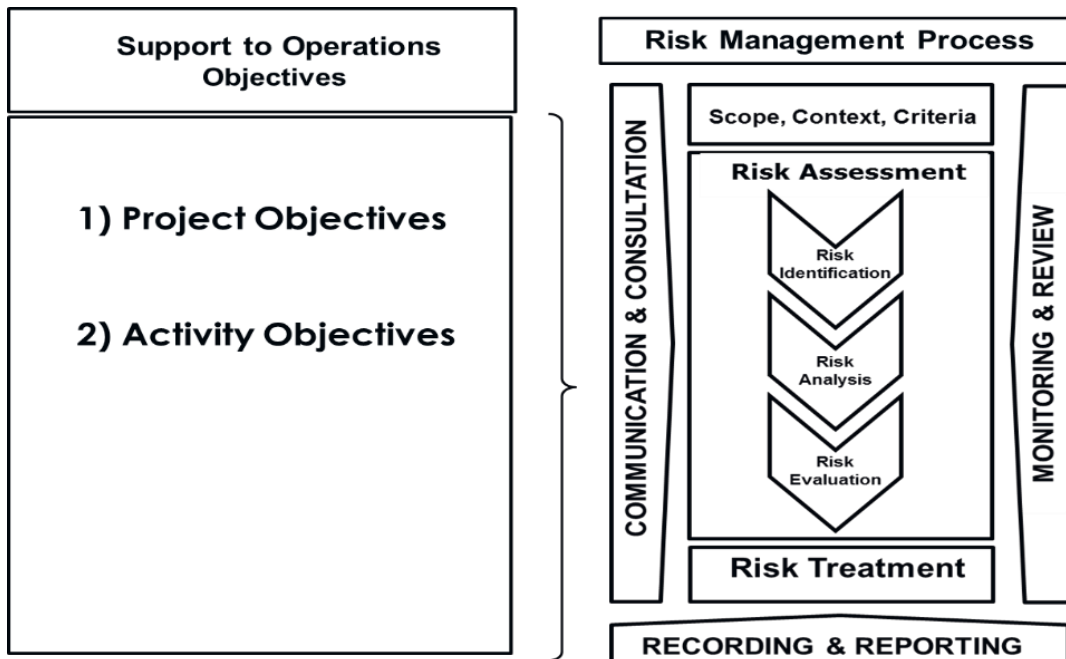
D.3.4   General Administration and Support Risk Assessment

D.4 STRATEGIC AUDIT PLANNING FLOWCHART

D.4.1. Conduct of Baseline Assessment of Internal Control System (BAICS)

D.4.1.1. Internal Control (IC) Components of Operations (OPS), Support to Operations (STO) and/or General Administration and Support (GAS)

Page 1

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART

D.4.1. Conduct of Baseline Assessment of Internal Control System (BAICS)

D.4.1.1. Internal Control (IC) Components of Operations (OPS), Support to Operations (STO) and/or General Administration and Support (GAS)

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART

D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)

D.4.1.1 Internal Control (IC) Components of Operations (OPS), Support to Operations (STO) and/or General Administration and Support (GAS)

Processing	Reviewing	Approving	Recording	Safekeeping
Process submitted and open-source information/documents to determine: 1. five Internal Control (IC) components of OPS, STO/GAS; 2. key processes of OPS, STO/GAS; and 3. controls on key processes of OPS, STO/GAS	Reviews submitted information /documents from various office/s concerned	1. Performs cursory review on the checklist of submitted information/ documents 2. Records receipt of the information / documents from: (a) office/s concerned and (b) oversight bodies and local / int'l. dev't. partners	1. Encodes in the DTS the receiving copy 2. Files receiving copy	

Start

Reference Materials

Working Papers

Reference Materials

Reference Materials

Report

Reference Materials

Storage

2 ---- To page 4

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.2 Internal Control Questionnaire (ICQ)

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.2 Internal Control Questionnaire (ICQ)

Processing	Reviewing	Approving	Recording	Safekeeping

From page 4 ------ (3)

Approving:
Approves draft ICQ and transmittal memo

- Working Papers
- ICQ and Memo

Recording:
Records release of ICQ on OPS, STO /GAS and transmittal memo

- ICQ and Memo
- Report

Safekeeping:
1. Encodes in the DTS the receiving copy
2. Files receiving copy

- ICQ and Memo
- Storage

End

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.2 Internal Control Questionnaire (ICQ)

Processing	Reviewing	Approving	Recording	Safekeeping

Recording — Start

1. Performs cursory review on the checklist of submitted documents
2. Records receipt of documents from office/s concerned

ICQ and Reference Materials
Report

Safekeeping

1. Encodes in the DTS the receiving copy
2. Files receiving copy

ICQ and Reference Materials
Storage

Approving

Reviews the accomplished ICQ with attached documents from various office/s concerned

ICQ and Reference Materials

Processing

Process the accomplished ICQ with attached documents, submitted and open-source information/documents to determine the following:
1. "YES" answers with appropriate information/documents;
2. "Yes" answers without or lacks appropriate information/documents

ICQ and Reference Materials
Working Papers

Appropriate information/documents?
- No
- Yes → 4 — To page 7

Process the accomplished ICQ with attached documents, submitted and open-source information / documents to determine compensating controls in the following:
1. "YES" answers without or lacks appropriate information/documents;
2. "No" answers

ICQ and Reference Materials
Working Papers

Compensating control?
- No → 10 — To page 14
- Yes → 4 — To page 7

Page 6

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.3 Flowchart and Narrative Procedure
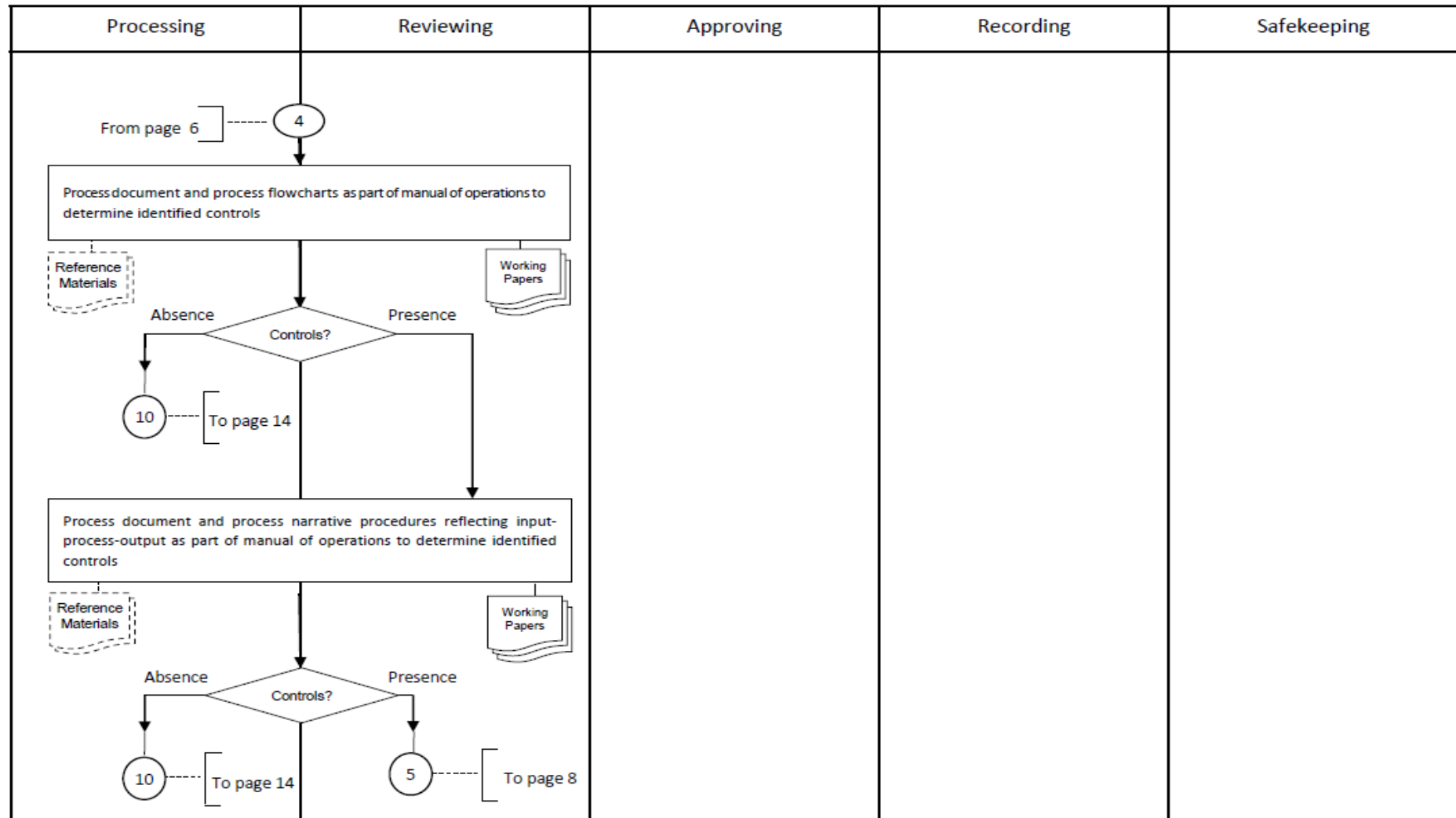
Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.4 Walkthrough and Test of Control

Processing	Reviewing	Approving	Recording	Safekeeping

From page 7 ------ (5)

Walkthrough of document and process flow to determine:(a) identified controls; (b) if designed based in law, rules and regulations and/or managerial policies; (c) if can be implemented as designed through simulation; and (d) if can achieve control objectives

Reference Materials

Working Papers

Absence   Presence

Controls?

(10) ---- To page 14

Test of Control of document and process flow in a sample transaction to determine: (a) identified controls; (b) if implemented as designed; and (c) if achieved control objectives

Reference Materials

Working Papers

Absence   Presence

Controls?

(10) ---- To page 14   (6) ---- To page 9

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.5 Interview

Processing	Reviewing	Approving	Recording	Safekeeping

From page 8 ----- (6)

Process the need to conduct interview on some or all controls:
1. ICQ;
2. Flowcharts;
3. Narrative procedures;
4. Walkthrough; and/or
5. Test of Control

ICQ and Reference Materials

Working Papers

No — Interview? — Yes

(12) ----- To page 16

(7) ----- To page 10

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.5 Interview

Processing	Reviewing	Approving	Recording	Safekeeping

From page 9 — (7)

Draft letter/memo request for the conduct of interview

Working Papers

Draft Letter/Memo

Reviews draft letter/memo

Working Papers

Draft Letter/Memo

Recommend? — No / Yes

Revise draft letter/memo

Working Papers

Draft Letter/Memo

Reviews draft letter/memo

Working Papers

Approved? — No / Yes

Revise draft letter/memo

Working Papers

Draft Letter/Memo

Approves draft letter/memo

Working Papers

Letter/Memo

Records release of letter / memo

Letter/Memo

Report

1. Encodes in the DTS the receiving copy
2. Files receiving copy

Letter/Memo

Storage

End

Page 10

D.4 STRATEGIC AUDIT PLANNING FLOWCHART

D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)

D.4.1.6 Interview on ICQ and Flowchart

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Conduct interview on the ICQ answers with attached information / documents, submitted and open-source information / documents to determine identified controls	Reviews letter/memo reply from office/s concerned for the conduct of interview	Records receipt of letter / memo reply from office/s concerned for the conduct of interview	1. Encodes in the DTS the receiving copy 2. Files receiving copy	
ICQ and Reference Materials	Working Papers	Letter/Memo Reply	Letter/Memo Reply	Report	Letter/Memo Reply	Storage

Absence — **Controls?** — **Presence**

(10) ----- To page 14

Conduct interview on the document and process flowcharts as part of agency manual of operations to determine identified controls

Reference Materials — Working Papers

Absence — **Controls?** — **Presence**

(10) ----- To page 14   (8) ----- To page 12

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.7 Interview on Narrative Procedure and Walkthrough

Processing	Reviewing	Approving	Recording	Safekeeping

From page 11 ------ 8

Conduct interview on the document / process narrative procedures reflecting input-process-output as part of manual of operations to determine identified controls

Reference Materials

Working Papers

Absence --- Controls? --- Presence

10 ------ To page 14

Conduct interview on Walkthrough to determine: (a) identified controls; (b) if designed based in law, rules and regulations and/or managerial policies; (c) if can be implemented as designed through simulation; and (d) if can achieve control objectives

Reference Materials

Working Papers

Absence --- Controls? --- Presence

10 ------ To page 14

9 ------ To page 13

Page 12

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.8 Interview on Test of Control
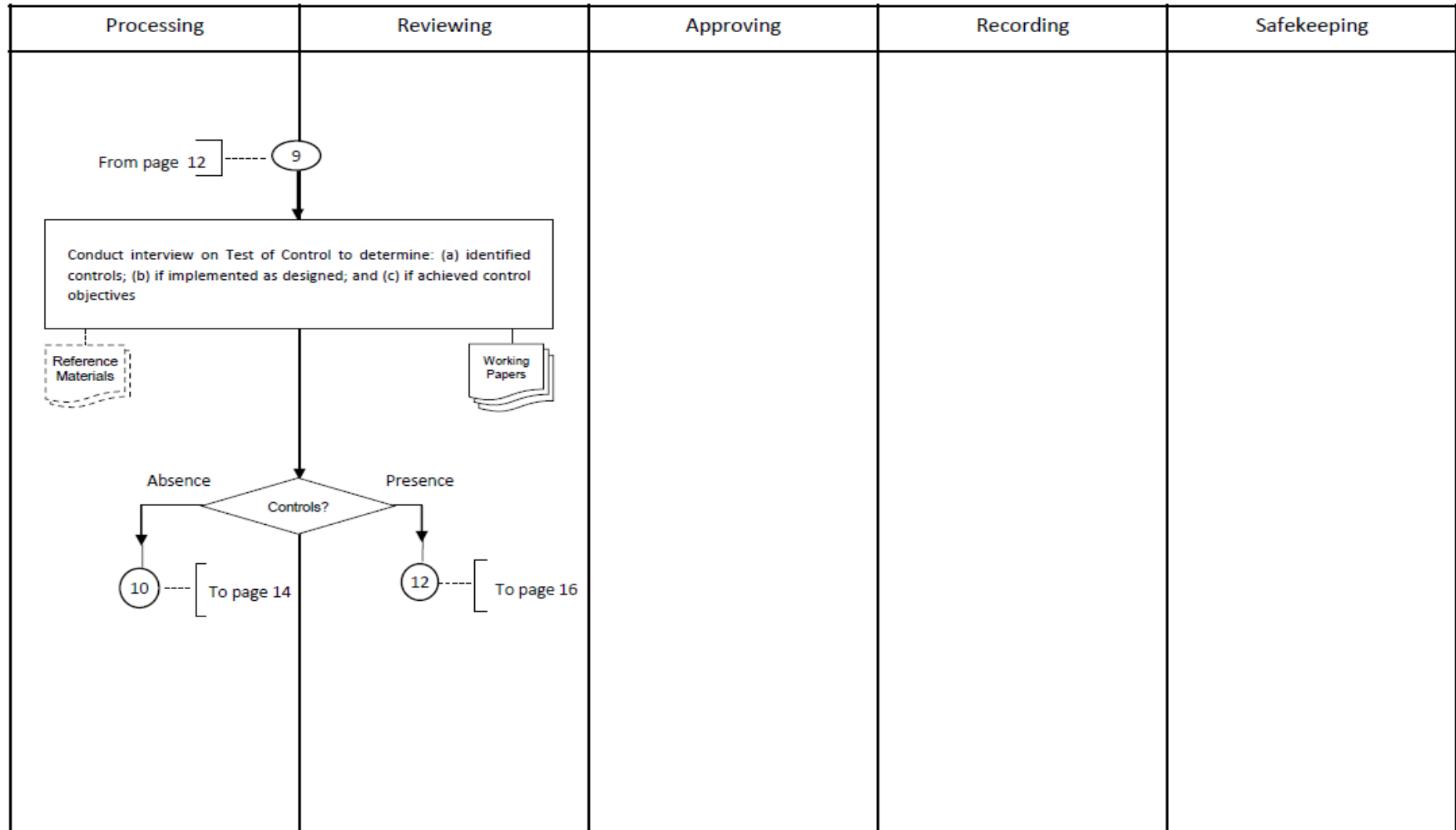
Processing	Reviewing	Approving	Recording	Safekeeping

From page 12 ----- (9)

Conduct interview on Test of Control to determine: (a) identified controls; (b) if implemented as designed; and (c) if achieved control objectives

Reference Materials

Working Papers

Absence   Presence

Controls?

(10) ---- To page 14

(12) ---- To page 16

Page 13

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.9 Interim Analysis

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 6-8; 11-13 ------ (10)

Process to determine if control gaps/absence require immediate action

Working Papers

Working Papers

Draft Interim Analysis if control gaps / absence require immediate action

Reviews draft Interim Analysis

Working Papers

Draft Interim Analysis

Working Papers

Draft Interim Analysis

Revise draft Interim Analysis

No — **Recommend?** — Yes

Reviews draft Interim Analysis

Working Papers

Draft Interim Analysis

Working Papers

No — **Approved?** — Yes

(12) ------ To page 16   (11) ------ To page 15

Page 14

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.10 Interim Report
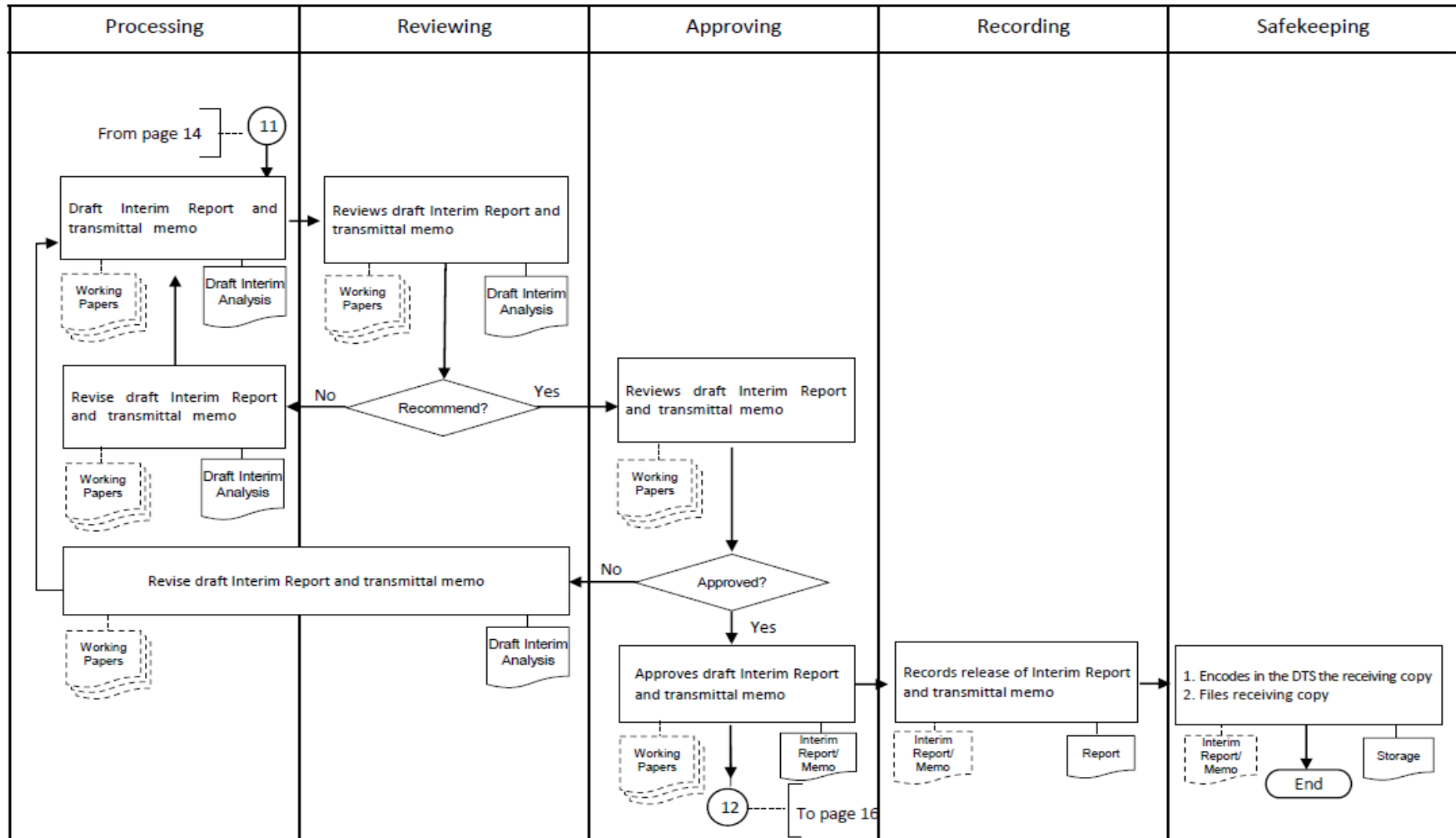
Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.11 Control Universe Document (CUD)

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 9, 13-15 --- (12)

Prepare all working papers on the absence and presence of controls and all interim analyses and interim report/s for the preparation of Control Universe Document (CUD)

Working Papers

Working Papers

Draft CUD on the absence and presence of controls

Reviews draft CUD

Working Papers

Draft CUD

Working Papers

Draft CUD

Revise draft CUD

No — Recommend? — Yes

Reviews draft CUD

Working Papers

Draft CUD

Working Papers

No

Revise draft CUD

Approved?

Working Papers

Yes

Draft CUD

(13) --- To page 17

Page 16

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.12 Reports of Oversight Bodies Local/International Development Partners

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.1 Conduct of Baseline Assessment of Internal Control System (BAICS)
D.4.1.13 Baseline Assessment Report (BAR)

Processing	Reviewing	Approving	Recording	Safekeeping

From page 17 ----- (14)

Process (1) Interim Report/s; (2) Control Universe Document; and (3) report/s oversight bodies and local/international development partners for controls and control gaps/deficiencies/breakdowns identified to be considered in the BAR

Working Papers

Working Papers

Draft BAR

Reviews draft BAR

Working Papers   Draft BAR

Working Papers   Draft BAR

Revise draft BAR

No   Recommend?   Yes   Reviews draft BAR

Working Papers   Draft BAR

Working Papers

Revise draft BAR

No   Approved?

Working Papers

Draft BAR

Yes

(15) --- To page 19

Page 18

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.1 Establishing the External Context

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D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.2 Establishing the External Context

Processing	Reviewing	Approving	Recording	Safekeeping

From page 19 — (16)

Define the internal context in which the agency operates to achieve objectives taking into account the following:
1. vision, mission and values;
2. governance, organizational structure, roles and accountabilities;
3. strategy, objectives and policies;
4. the organization's culture;
5. standards, guidelines and models adopted by the organization;
6. capabilities, understood in terms of resources and knowledge (e.g. capital, time, people, intellectual property, processes, systems and technologies);
7. data, information systems and information flows;
8. relationships with internal stakeholders, taking into account their perception and values;
9. contractual relationships and commitments; and
10. interdependencies and interconnections.

Guides staff and monitor assessment

Working Papers

Reference Materials

Working Papers

Draft report of internal context of agency in the conduct of control risk assessment

Reviews draft report of internal context

Working Papers — Draft Report

Working Papers — Draft Report

Revise draft report of internal context

No — Recommend? — Yes

Reviews draft report of internal context

Working Papers — Draft Report

Working Papers

Revise draft report of internal context

No — Approved?

Working Papers

Draft Report

Yes — (18) — To page 21

Page 20

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART

D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk

D.4.2.3 Defining the Risk Criteria

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D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.4 Risk Identification

Processing	Reviewing	Approving	Recording	Safekeeping

From page 21 ---- (19)

Perform risk identification by identifying, recognizing and describing the following elements:
1) sources and drivers of risk
2) potential event and associated likelihood
3) consequences and associated likelihood
4) cause

Guides staff and monitor assessment

Working Papers

Working Papers

Techniques for Identifying Risk:
1) Checklists, Classifications, Taxonomies
2) FMEA and FMECA
3) HAZOP
4) Scenario Analysis
5) SWIFT
(Detailed discussion in Annex B, B.2, IEC 31010:2019)

Techniques for Determining Sources and Drivers of Risk:
1) Cindynic approach
2) Ishikawa analysis (fishbone diagram)
3) Root Cause Analysis (PNS IEC 62740:2016)
(Detailed discussion in Annex B, B.3, IEC 31010:2019)

(20) ---- To page 23

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.4 Risk Identification

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.5 Risk Analysis

Processing	Reviewing	Approving	Recording	Safekeeping

From page 23 ----- (21)

Analyze sources and drivers of risk ◄──► Guides staff and monitor assessment

Techniques for Determining Sources and Drivers of Risk:
1) Cindynic approach
2) Ishikawa analysis (fishbone diagram)
3) Root Cause Analysis (PNS IEC 62740:2016)
(Detailed discussion in Annex B, B.3, IEC 31010:2019)

Risk register/list

Working Papers

Working Papers

Investigate effectiveness of identified controls/policies/measures in the list/register of risk on control objectives. The following are considered:
1. the mechanism by which the controls are intended to modify risk;
2. whether the controls are in place, are capable of operating as intended, and are achieving the expected results;
3. whether there are shortcomings in the design of controls or the way they are applied;
4. whether there are gaps in controls;
5. whether controls function independently, or if they need to function collectively to be effective;
6. whether there are factors, conditions, vulnerabilities or circumstances that can reduce or eliminate control effectiveness including common cause failures;
7. whether controls themselves introduce additional risks

Guides staff and monitor assessment

Working Papers

Techniques for analyzing controls:
1) Bow tie analysis;
2) Hazard analysis and critical control points (HACCP)
3) Layers of protection analysis (LOPA)
(Detailed discussion in Annex B, B.4, IEC 31010:2019)

Risk register/list

Working Papers

(22) ---- To page 25

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.5 Risk Analysis

Processing	Reviewing	Approving	Recording	Safekeeping

From page 24 ----- (22)

Perform consequence analysis by analyzing the type, magnitude and timing of consequences of identified controls/policies/measures in the list/register of risk on control objectives.

Guides staff and monitor assessment

Working Papers

Working Papers

The techniques for understanding consequences :
1. Business Impact Analysis
2. Event Tree Analysis
3. Cause Consequence Analysis
4. Privacy Impact Analysis / Data Protection Impact Analysis
(Detailed discussion in Annex B, B.5, IEC 31010:2019)

Perform likelihood analysis by analyzing likelihood of an event and likelihood of a specified consequence of identified control risk in the list/register of risk on control objectives.

Guides staff and monitor assessment

Working Papers

Working Papers

The techniques for Understanding Likelihood:
1. Bayesian Analysis
2. Fault Tree Analysis
3. Marcov Analysis
4. Monte Carlo Analysis
(Detailed discussion in Annex B, B.5, IEC 31010:2019)

(23) ----- To page 26

Page 25

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.5 Risk Analysis

Processing	Reviewing	Approving	Recording	Safekeeping
From page 25 — (23)				

Conduct uncertainty analysis by analyzing uncertainties and their implications in the risk analysis outputs considering the following:
1. there is variability in the system being considered;
2. the data is from an unreliable source, inconsistent or insufficient, for example, the type of data collected or methods of collection might have changed;
3. there might be ambiguity, for example in the way that qualitative descriptors are stated or understood;
4. the analysis method does not adequately represent the complexity of the system;
5. there is high reliance on people's expert opinion or judgement;
6. relevant data might not exist or the organization might not have collected the data needed;
7. data form the past might not provide a reliable basis from which to predict the future because something within the context or circumstances have changed;
8. there are uncertainties or approximations in the assumptions that are made.

Guides staff and monitor assessment

Working Papers

Working Papers

Working Papers

Conduct sensitivity analysis and evaluate the significance of uncertainties in data or the assumptions underlying the analysis:
1. determine the relative change to the results brought about by changes in the individual input parameters;
2. identify data that need to be accurate, and those that are less sensitive and hence, have less effect upon overall accuracy.

Guides staff and monitor assessment

Working Papers

Working Papers

Working Papers

(24) — To page 27

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.5 Risk Analysis

Processing	Reviewing	Approving	Recording	Safekeeping

From page 26 — (24)

Analyzing interactions and dependencies between risks:
1) identify links and interactions between risks and themes within a list of risks;
2) evaluate changes in the probability of the occurrence of given set of events consequent on the actual occurrence of one of them.

Guides staff and monitor assessment

Working Papers

Working Papers

Techniques for Analyzing Dependencies and Interactions:
1. Causal Mapping
2. Cross impact analysis
(Detailed discussion in Annex B, B.6, IEC 31010:2019

Perform verification by checking that the analysis was done correctly. Verification activities involve the following:
1. checking the validity of mathematical manipulations and calculations;
2. checking that the results are insensitive to the way data or results are displayed or presented;
3. comparing results with past experience where data exist or by comparison with outcomes after they occur;
4. establishing whether the results are sensitive to the way data or results are displayed or presented and to identify input parameters that have a significant effect on the results of the assessment; and
5. comparing results with past or subsequent experience including explicitly obtaining feedback as time progresses.

Guides staff and monitor assessment

Working Papers

Working Papers

Working Papers

Perform validation by checking that the right analysis was done to achieve the required objectives: Validation activities involve the following:
1. checking that the scope of the analysis is appropriate for the stated goals;
2. reviewing all critical assumptions to ensure they are credible in the light of available information;
3. checking that appropriate methods, models and data were used;
4. using multiple methods, approximations and sensitivity analysis to test and validate conclusions.

Guides staff and monitor assessment

Working Papers

Working Papers

Working Papers

(25) --- To page 28

Page 27

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.5 Risk Analysis

Processing	Reviewing	Approving	Recording	Safekeeping

From page 27 → (25)

Processing:
Draft report of risk analysis output / level of risk
- Working Papers
- Draft Risk Analysis output / Level of Risk

Reviewing:
Reviews draft report of risk analysis
- Working Papers
- Draft Risk Analysis output / Level of Risk

Recommend? — No → Revise draft report of risk analysis
- Working Papers
- Draft Risk Analysis output / Level of Risk

Recommend? — Yes → **Approving:** Reviews draft report of risk analysis
- Working Papers

Approved? — No → Revise draft report of risk analysis
- Working Papers
- Draft Risk Analysis output / Level of Risk

Approved? — Yes → (26) ---- To page 29

Page 28

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.6 Risk Evaluation

Processing	Reviewing	Approving	Recording	Safekeeping

From page 28 ----(26)

Apply risk analysis results to support decisions by comparing estimated levels of risk with the established risk criteria ←→ Guides staff and monitor assessment

Risk Analysis Report

Working Papers

Working Papers

No — **Acceptable?** — **Yes**

(27) ---- To page 30

Documentation on the risks considered as acceptable

Working Papers

Documentation Report

Draft report on acceptable risks ← Reviews draft report on acceptable risks

Working Papers | Draft Report

Working Papers | Draft Report

Revise draft report on acceptable risks | **No** — **Recommend?** — **Yes** | Reviews draft report on acceptable risks

Working Papers | Draft Report

Working Papers

No — Revise draft report on acceptable risks ← **Approved?**

Working Papers

Draft Report

Yes

(29) ---- To page 32

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.6 Risk Evaluation

Processing	Reviewing	Approving	Recording	Safekeeping

From page 29 ----- (27)

Determine the comparative significance of risks relative to the objectives and performance thresholds of the agency and the magnitude of risk by combining consequence and associated likelihood

Guides staff and monitor assessment

Working Papers

Working Papers

Techniques for evaluating the significance of risk:
1. ALARP/SFAIRP
2. Frequency-number (F-N) diagrams
3. Pareto charts
4. Reliability centered maintenance (RCM)
5. Risk indices
(Detailed discussion in Annex B, B.8, IEC 31010:2019)

treatment

do nothing further/monitoring

Significance of risk?

(28) ---- To page 31

(29) ---- To page 32

Page 30

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.6 Risk Evaluation

Processing	Reviewing	Approving	Recording	Safekeeping

From page 31 — (28)

Select between options involves weighing the potential advantages and disadvantages of each option taking into account:
1. uncertainties associated with the potential outcomes of the options and estimates of costs and benefits;
2. potential events and developments that may affect outcomes;
3. the agency's appetite for risk;
4. the different attitudes and beliefs of stakeholders;
5. the varied values that different stakeholders place on costs and benefits;
6. trade-offs that may need to be made between competing objectives.
7. uncertainty around judgements made from the outputs of risk analysis, including considerations such as whether objectives and criteria will continue unchanged into the future.

Guides staff and monitor assessment

Working Papers

Techniques for selecting between options:
1. Cost benefit analysis (CBA)
2. Decision tree analysis
3. Game theory
4. Multi-criteria analysis (MCA)
(Detailed discussion in Annex B, B.9, IEC 31010:2019)

Working Papers

(29) ---- To page 32

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.2 Assessment of OSEC Control Risk, OPS, STO, GAS and/or IAS Risk
D.4.2.6 Risk Evaluation

Processing	Reviewing	Approving	Recording	Safekeeping

Draft report of risk evaluation containing the following:
1. Acceptable risks / do nothing further
2. Requires treatment
   2.1. decisions that involve selecting between options
   2.2. how to treat risks
   2.3. priorities for treatment

Reviews draft report of risk evaluation

Revise draft report of risk evaluation

Recommend?

Reviews draft report of risk evaluation

Revise draft report of risk evaluation

Approved?

Page 32

Revised Philippine Government Internal Audit Manual (2020)

D.4 STRATEGIC AUDIT PLANNING FLOWCHART
D.4.3 Formulation of Strategic Plan

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 32 — (30)

Process result of the assessment of internal audit risks

Internal Audit Risk Report

Working Papers

1. Draft Strategic Plan
   with following components:
   a. Objectives
   b. Methodology
   c. Organizational Strategic Environment
   d. Risks and opportunities associated with Strategic Plan
   e. Management Strategies
   f. Work Strategies & Audit Coverage
   g. Allocation of Audit Resources
   h. Performance Measures
   i. Review of the Strategic Plan
2. Draft transmittal memo

Reviews draft Strategic Plan and transmittal memo

Reference Materials

Draft Strategic Plan & memo

Reference Materials

Draft Strategic Plan & memo

Revise draft Strategic Plan and transmittal memo

No — Recommend? — Yes

Reviews draft Strategic Plan and transmittal memo

Reference Materials

Draft Strategic Plan & memo

Reference Materials

Draft Strategic Plan & memo

No

Approved?

Revise draft Strategic Plan and transmittal memo

Reference Materials

Draft Strategic Plan & memo

Yes

Approves draft Strategic Plan and transmittal memo

Records release of Strategic Plan with transmittal memo to the Head of Agency

1. Encodes in the DTS the receiving copy
2. Files receiving copy

Reference Materials

Strategic Plan & memo

Strategic Plan & memo

Report

Strategic Plan & memo

Storage

End

Page 33

Revised Philippine Government Internal Audit Manual (2020)

D.5 ANNUAL AUDIT PLANNING FLOWCHART
D.5.1 The Annual Work Plan (AWP)

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.5 ANNUAL AUDIT PLANNING FLOWCHART

D.5.1 The Annual Work Plan (AWP)

Processing	Reviewing	Approving	Recording	Safekeeping
		From page 34 ---- (1) Approves draft AWP and transmittal memo Working Papers / AWP and memo	Records release of AWP and transmittal memo to the Head of Agency (HoA) AWP and memo / Report	1. Encodes in the DTS the receiving copy 2. Files receiving copy AWP and memo / Storage End

Page 35

Revised Philippine Government Internal Audit Manual (2020)

D.5 ANNUAL AUDIT PLANNING FLOWCHART

D.5.2 Prioritize by Process, the Control Methods and Measures in to Potential Audit Areas (2nd year or 3rd year)

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D.5 ANNUAL AUDIT PLANNING FLOWCHART

D.5.2 Prioritize by Process, the Control Methods and Measures in to Potential Audit Areas (2nd year or 3rd year)

Processing	Reviewing	Approving	Recording	Safekeeping

From page 36 ---- (1)

Directs the preparation of the AWP (2nd or 3rd year) to PTL

Process (1) validation report to determine the types and areas of audit as well as the timeliness of audit; and (2) transmittal memo

Validation Reports

Working Papers

Draft AWP (2nd or 3rd year) and transmittal memo

Reviews draft AWP (2nd or 3rd year) and transmittal memo

Working Papers | Draft AWP & transmittal memo

Working Papers | Draft AWP & transmittal memo

Revise draft AWP (2nd or 3rd year) and transmittal memo

No — Recommend? — Yes

Reviews draft AWP (2nd or 3rd year) and transmittal memo

Working Papers | Draft AWP & transmittal memo

Working Papers

No

Revise draft AWP (2nd or 3rd year) and transmittal memo

Approved?

Working Papers

Draft AWP & transmittal memo

Yes

(2) --- To page 38

Page 37

Revised Philippine Government Internal Audit Manual (2020)

D.5 ANNUAL AUDIT PLANNING FLOWCHART
D.5.2 Prioritize by Process, the Control Methods and Measures in to Potential Audit Areas (2nd year or 3rd year)

Processing	Reviewing	Approving	Recording	Safekeeping

From page 37 ---- (2)

Approves draft AWP and transmittal memo

Working Papers

AWP and transmittal memo

Records release of AWP (2nd or 3rd year) and transmittal memo to the Head of Agency

AWP & transmittal memo

Report

1. Encodes in the DTS the receiving copy
2. Files receiving copy

AWP & transmittal memo

Storage

End

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.1 Audit Engagement Planning

Processing	Reviewing	Approving	Recording	Safekeeping
		Start		
Consultation with the audit team, assign each team member audit responsibilities / functions		Issue Office Order creating an Audit Team to conduct Compliance Audit (CA), Management Audit (MA) and/or Operations Audit (OA)	Records Office Order creating an Audit Team to conduct Compliance Audit (CA), Management Audit (MA) and/or Operations Audit (OA)	1. Encodes in the DTS the receiving copy 2. Files receiving copy
Office Order, Audit Program	Working Papers	Approved AP/AWP, Strategic Plan · Office Order	Office Order · Report	Office Order · Storage
Process updated documents gathered from auditee such as : organization's mandate, objectives, strategies, operating and support systems, manual of operations, flowcharts, narrative notes, relevant laws, rules and regulations together with organizational performance and previous audit reports		Guides staff and monitor assessment		
Reference Materials	Working Papers	Working Papers		
Define the objectives of individual audit		Guides staff and monitor assessment		
Reference Materials	Working Papers	Working Papers		
Define audit scope consistent with the individual audit objectives. Audit scope includes timeframe, locations and the major processes / operating systems / support systems or key controls that will be covered by the audit to achieve audit objectives		Guides staff and monitor assessment		
Reference Materials	Working Papers	Working Papers		
1 To page 40				

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.1 Audit Engagement Planning

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.1 Audit Engagement Planning

Processing	Reviewing	Approving	Recording	Safekeeping

From page 40 ----(2)

Determine schedule audit and other activities relevant to the individual audit.

Reference Materials | Working Papers

Guides staff and monitor assessment

Working Papers

Determine Key Performance Indicators of the audit engagement to assess the outputs / outcomes contributing to the overall efficiency and effectiveness of the audit

Reference Materials | Working Papers

Guides staff and monitor assessment

Working Papers

Develop monitoring and evaluation activities and incorporates into the audit plan

Reference Materials | Working Papers

Guides staff and monitor assessment

Working Papers

(3) --To page 42

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.1 Audit Engagement Planning

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.1 Opening Meeting

Processing	Reviewing	Approving	Recording	Safekeeping
		Start		

Directs the conduct of Opening Meeting:
1. confirming agreement of all participants to the audit plan
2. introduce the audit team and their function
3. ensure that all planned activities in the audit plan can be performed

Process the identification of all participants / attendees, location, schedule of the opening meeting and the preparation of the Audit Notification Memorandum (ANM)

Audit Plan

Working Papers

Office Order

Draft ANM

Reviews draft ANM

Audit Plan & ref. materials

Draft ANM

Working Papers

Draft ANM

Revise draft ANM

No — Recommend? — Yes

Reviews draft ANM

Working Papers

Draft ANM

Working Papers

Revise draft ANM

No — Approved? — Yes

Working Papers

Draft ANM

Approves draft ANM

Records release of the ANM and transmittal memo to the auditee

1. Encodes in the DTS the receiving copy
2. Files receiving copy

Working Papers

Approved ANM

Approved ANM

Report

Approved ANM

Storage

End

Page 43

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.1 Opening Meeting

Processing	Reviewing	Approving	Recording	Safekeeping

Start

Conduct of Opening Meeting with the Head of Internal Audit Office, Audit Team and the Auditee to:
1. confirm agreement of all participants to the audit plan
2. introduce the audit team and their function
3. ensure that all planned activities in the audit plan can be performed

Audit Plan

Working Papers

Take down minutes, notes and records of the Opening Meeting

Discuss the audit plan and obtain the auditee's views and expectations for the overall framework for the conduct of the audit

Reference Materials

Opening Meeting Notes

Audit Plan

Working Papers

Conclude the meeting by summarizing the issues discussed, in particular, the plans for the audit, auditee's view and expectations for the overall framework

Audit Plan

Working Papers

1 — To page 45

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.1 Opening Meeting

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.1 Opening Meeting

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process additional information / corrections on the minutes of the Opening Meeting		Reviews submitted auditee's reply / comments on the Minutes of the Opening Meeting and instructs audit Team to revise / incorporate additional information	Records receipt of auditee's comments on the Minutes of the Opening Meeting and forwards the same to the Head of IAS	1. Encodes in the DTS the receiving copy 2. Files receiving copy
Reply/ Comments	Working Papers	Reply/ Comments	Reply/ Comments	Report	Storage
Draft concurred Minutes of the Opening Meeting	Review draft concurred Minutes of the Opening Meeting			
Reply/ Comments — Draft concurred Minutes	Reply/ Comments	Draft concurred Minutes		
	No — Recommend? — Yes			
Revise draft concurred Minutes of the Opening Meeting		Reviews draft concurred Minutes of the Opening Meeting		
Reply/ Comments — Draft concurred Minutes		Reply/ Comments		
		No — Approved?		
Revise draft concurred Minutes of the Opening Meeting		Yes		
Reply/ Comments	Draft concurred Minutes	Approves draft concurred Minutes of the Opening Meeting	Records release of a copy of concurred Minutes of Opening Meeting to the Auditee	1. Encodes in the DTS the receiving copy 2. Files receiving copy
		Reply/ Comments	Concurred Minutes	Concurred Minutes	Concurred Minutes	Report	Concurred Minutes	Storage
				End

Page 46

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process documents from auditee and prepare list of criteria on the subject matter of audit based on audit objectives and scope	Reviews documents from the auditee	Records receipt of requested documents from the auditee	1. Encodes in the DTS the receiving copy 2. Files receiving copy	

Documents from auditee

Working Papers

Documents from auditee

Documents from auditee

Report

Documents from auditee

Storage

| Draft report of audit criteria on the subject matter of audit based on audit objectives and scope | Review draft report of audit criteria | | | |

Working Papers

Draft Report

Working Papers

Draft Report

| Revise draft report of audit criteria | No ◇ Recommend? Yes | Reviews draft report of audit criteria | | |

Working Papers

Draft Report

Working Papers

| Revise draft report of audit criteria | | No ◇ Approved? | | |

Working Papers

Draft Report

Yes

(1) — To page 49

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

From page 48 ---- (1)

Perform audit tools and techniques identified during the audit planning to build up facts and evidences to determine compliance with laws, rules, regulations, managerial policies, systems and processes in the agency including compliance with accountability measures, ethical standards and contractual obligations

Documents from auditee

Working Papers

No — Human interaction? — Yes

(5) --- To page 53

Prepare Internal Control Questionnaire (ICQ) / Flowcharts / narrative notes on the subject matter of audit and transmittal memo

Documents from auditee

Working Papers

(2) ---- To page 50

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

D.6 AUDIT PROCESS

D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process accomplished ICQ with attached information/ documents, submitted and open-source information/documents on the subject matter of audit to determine the following: 1. "YES" answers with appropriate information/documents; 2. "Yes" answers without or lacks appropriate information/documents	Reviews the accomplished ICQ and submitted information/ documents from various office/s concerned on the subject matter of audit		1. Performs cursory review on the checklist of attached information / documents 2. Records receipt of accomplished ICQ with attached information / documents.	1. Encodes in the DTS the receiving copy 2. Files receiving copy
ICQ and Reference Materials	Working Papers	ICQ and Reference Materials	ICQ and Reference Materials	Report	ICQ and Reference Materials	Storage
No Controls? **Yes**				
	7 ---- To page 56			
Process accomplished ICQ with attached information/ documents, submitted and open-source information/documents on the subject matter of audit to determine compensating controls in the following: 1. "YES" answers with out or lacks appropriate information/documents; 2. "No" answers				
ICQ and Reference Materials	Working Papers			
No Compensating control? **Yes**				
3 ---- To page 52 7 ---- To page 56				

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6. AUDIT PROCESS

D.6.2 Audit Execution

D.6.2.2 Compliance Audit

D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From page 57 ----- (9)

Conduct interview and examination of Control based on sampling on the subject matter of audit to determine: (a) identified controls; (b) if implemented as designed; (c) in case of management audit, if achieved control objectives; and (d) in case of operations audit; if achieved program outcome, project and/or process output/s (off or on-site review, verification and validation)

Reference Materials

Working Papers

Absence — Controls? — Presence

(3) ---- To page 52

(10) ---- To page 59

Revised Philippine Government Internal Audit Manual (2020)

D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 58 ---- (10)

Perform substantive tests on the subject matter of audit to determine compliance with rules, regulations, managerial policies, systems and processes

Working Papers

Draft Report

Draft report of audit condition on the results of review and appraisal of control based on sampling

Review draft report of audit condition

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of audit condition

No ← Recommend? → Yes

Reviews draft report of audit condition

Working Papers

Draft Report

Working Papers

Revise draft report of audit condition

No ← Approved?

Working Papers

Draft Report

Yes

(11) ---- To page 60

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.3 Audit Conclusion

Processing	Reviewing	Approving	Recording	Safekeeping
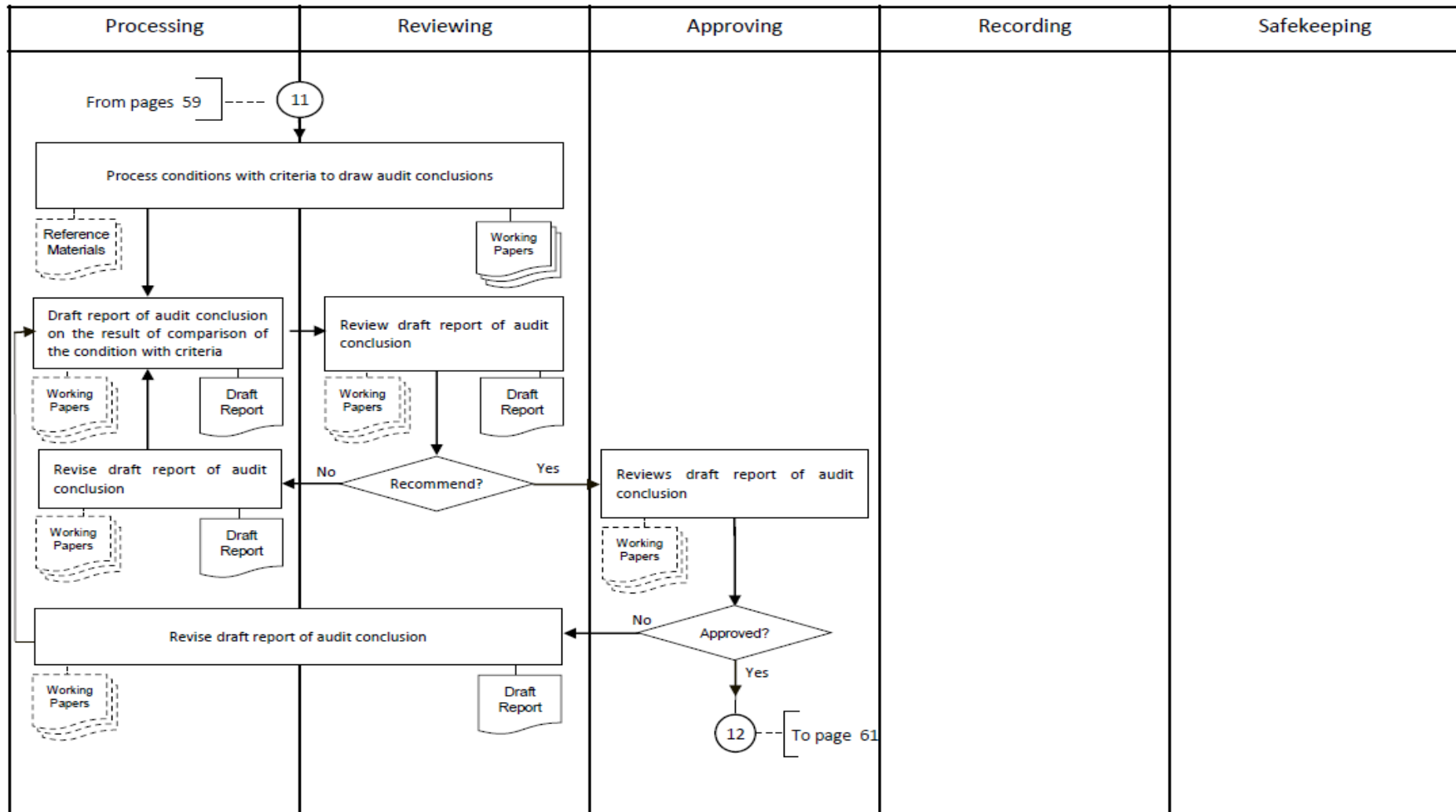
D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.4 Audit Cause
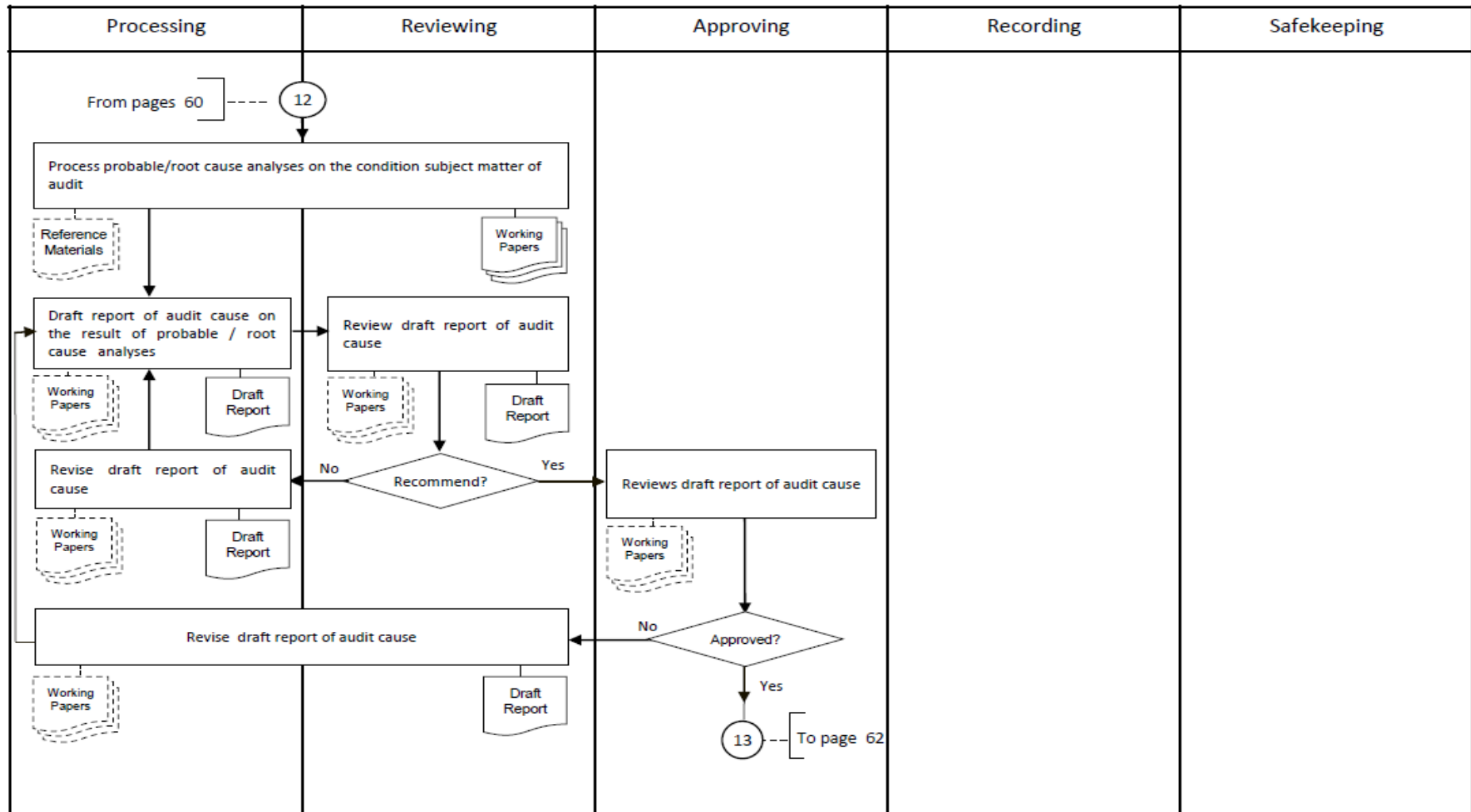
Processing	Reviewing	Approving	Recording	Safekeeping

D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.5 Audit Working Papers

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)
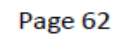
D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2. Compliance Audit
D.6.2.2.6 Audit Findings

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)
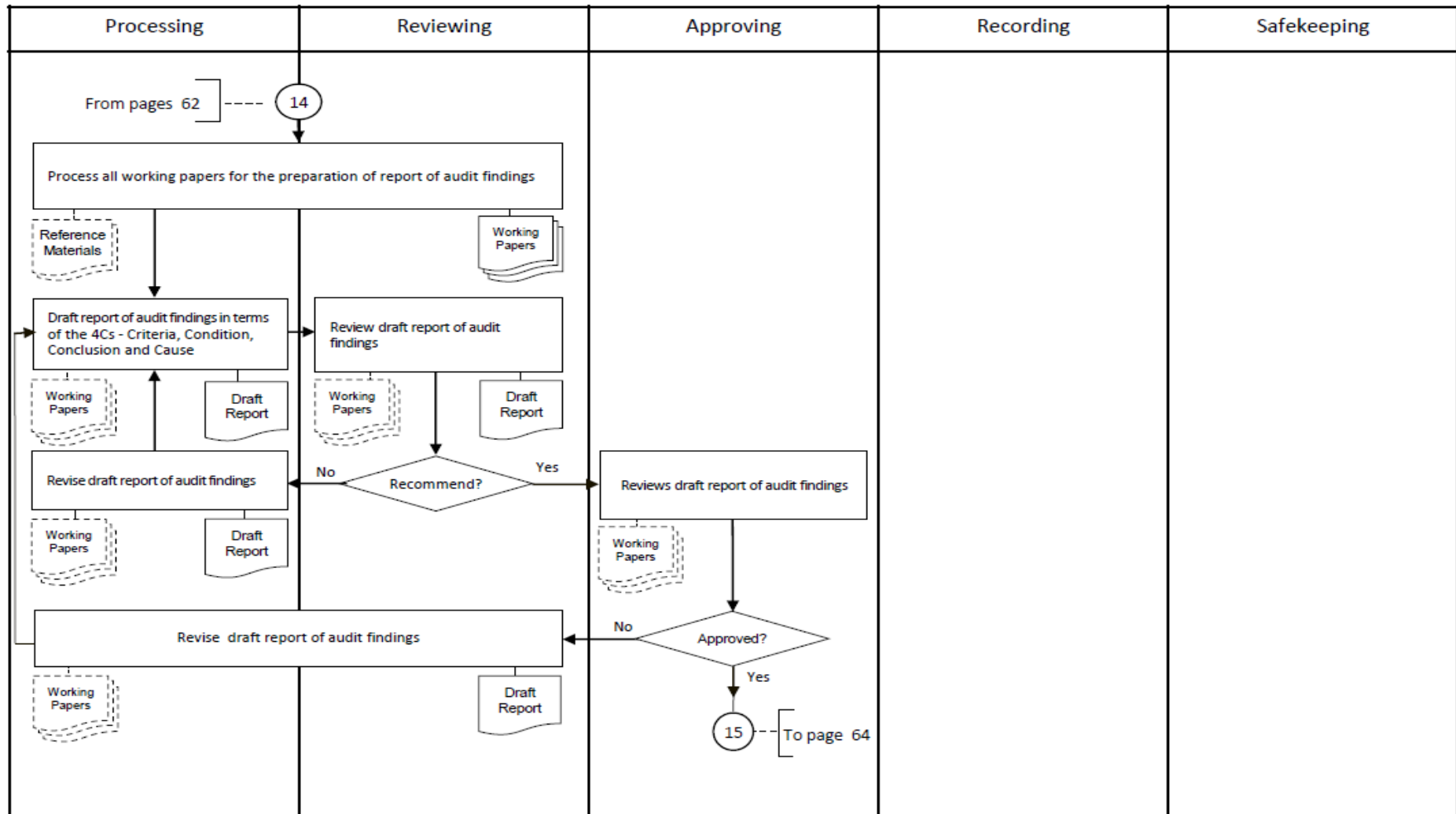
D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.7 Highlights of Audit Findings

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)
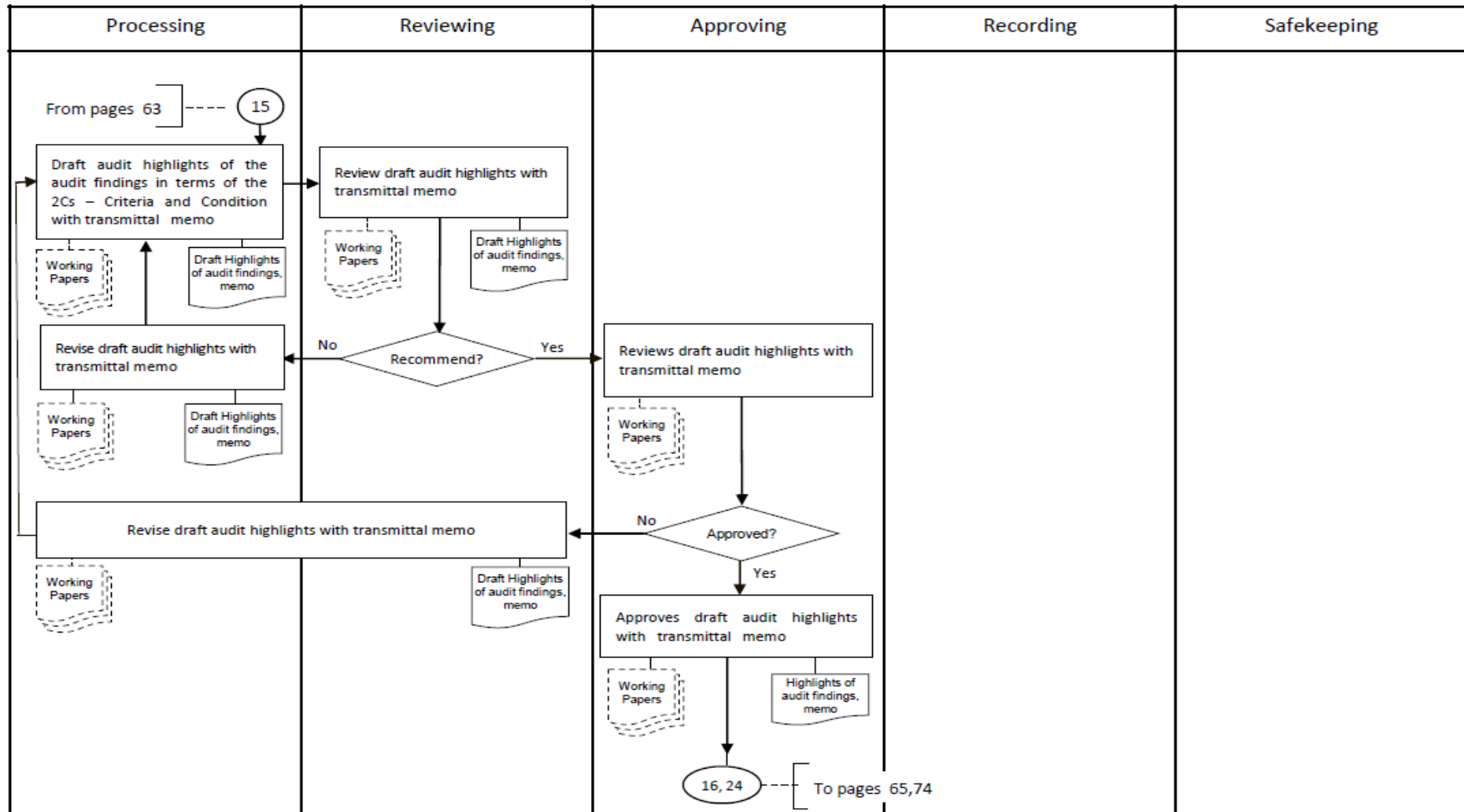
D.6. AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.2 Compliance Audit
D.6.2.2.8 Audit Progress Assessment

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 64 ---- (16)

Conduct progress assessment based on monitoring plan

Working Papers

Working Papers

Draft progress assessment report based on monitoring plan

Review draft progress assessment report

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft progress assessment report

No ← Recommend? → Yes

Reviews draft progress assessment report

Working Papers

Draft Report

Working Papers

Revise progress assessment report

No ← Approved?

Working Papers

Draft Report

Yes

(17) -- To page 66

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

From pages 65 - - - - (17)

Approving: Directs the conduct of management audit
- Audit Plan

Processing: Discuss the audit plan, objective, scope, methods
- Audit Plan
- Working Papers

Processing: Determine essential documents needed that will:
1. Identify Standards/Criteria;
2. Establish the Condition; and
3. Identify probable/root cause
- Audit Plan
- Working Papers

Processing: Draft letter/memo for auditee requesting for additional documents
- Working Papers
- Draft Letter/Memo

Reviewing: Review draft letter/memo
- Working Papers
- Draft Letter/Memo

Decision: Recommend? — No → Revise draft letter/memo / Yes → Reviews draft letter/memo

Processing: Revise draft letter/memo
- Working Papers
- Draft Letter/Memo

Approving: Reviews draft letter/memo
- Working Papers

Decision: Approved? — No → Revise draft letter/memo / Yes

Processing: Revise draft letter/memo
- Working Papers
- Draft Letter/Memo

Approving: Approves draft letter/memo
- Working Papers
- Letter/Memo

Recording: Records released letter/memo
- Letter/Memo
- Report

Safekeeping:
1. Encodes in the DTS the receiving copy
2. Files receiving copy
- Letter/Memo
- End
- Storage

Page 66

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping
		Start		
Process the submitted documents and perform substantive tests on system / process to establish the condition		Reviews submitted documents from the auditee	1. Performs cursory evaluation on the checklist of submitted documents/evidences 2. Records receipt of additional documents /evidences	1. Encodes in the DTS the receiving copy 2. Files receiving copy
Reference Materials	Working Papers	Reference Materials		Reference Materials / Storage
Draft results of review and appraisal of control based on sampling on the subject matter of audit that: (a) identified controls; (b) designed based in law, rules and/or managerial policies; (c) implemented or designed; and (d) achieved control objectives			Reference Materials / Report	
Working Papers	Draft Report			
Draft report of audit condition on the result of the review and appraisal of control based on sampling on the subject matter of audit	Review draft report of audit condition			
Working Papers / Draft Report	Working Papers / Draft Report			
Revise draft report of audit condition	No ← Recommend? → Yes	Review draft report of audit condition		
Working Papers / Draft Report		Working Papers		
Revise draft report of audit condition	Draft Report	No ← Approved?		
Working Papers		Yes → 18 To page 68		

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.3 Audit Conclusion

Processing	Reviewing	Approving	Recording	Safekeeping

Process conditions with criteria to draw audit conclusions

Reference Materials

Working Papers

Draft report of audit conclusion on the result of comparison of the condition with criteria

Review draft report of audit conclusion

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of audit conclusion

No — Recommend? — Yes

Reviews draft report of audit conclusion

Working Papers

Draft Report

Working Papers

Revise draft report of audit conclusion

No — Approved?

Working Papers

Draft Report

Yes

Page 68

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.4 Audit Cause

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.5 Audit Working Papers

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.6 Audit Findings

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.7 Highlights of Audit Findings

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.3 Management Audit
D.6.2.3.8 Audit Progress Assessment

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process the submitted documents from auditee and determine/identify the following as part of audit criteria: 1. program/s and corresponding outcome/s 2. component projects and corresponding component project outputs 3. component processes and corresponding process outputs 4. Delivery Units under the Operations responsible for critical services or key processes in the achievement of Program Outcomes 5. inputs / resources	Reviews submitted documents from the auditee Reference Materials		1. Performs cursory evaluation on the checklist of submitted documents 2. Records receipt of additional documents Reference Materials	1. Encodes in the DTS the receiving copy 2. Files receiving copy Reference Materials Storage
Reference Materials Working Papers			Report	
Determine agency program/s: 1. programs are based on functions / mandate; 2. programs monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations; 3. unique expected results or outcomes; 4. clear target population or client group external to the agency; 5. defined method of intervention to achieve desired results; and 6. clear management structure that defines accountabilities				
Reference Materials Working Papers				
No ◀ Presence? ▶ Yes				
(33) --- To page 84 (25) --- To page 76				

Page 75

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

From page 75 ---- (25)

Determine program/s outcome/s:
1. outcome monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations; and
2. outcome indicators and performance measurement

Reference Materials

Working Papers

No   Yes
Presence?

(33) ---- To page 84

Determine component projects :
1. components projects can be attributed to a particular program;
2. component projects contribute to a common particular outcome; and
3. component projects have monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations

Reference Materials

Working Papers

No   Yes
Presence?

(33) ---- To page 84   (26) ---- To page 77

Page 76

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping
From page 76 ---- (26)				

Determine project outputs:
1. output monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations; and
2. output indicators and performance measurement

Reference Materials

Working Papers

No ←— Presence? —→ Yes

(33) ---- To page 84

Determine component process:
1. components process that can be attributed to a particular project;
2. component process contribute to a particular output; and
3. component process have monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations;

Reference Materials

Working Papers

No ←— Presence? —→ Yes

(33) ---- To page 84

(27) ---- To page 78

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

From page 77 ---- (27)

Determine process outputs:
1. output monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations; and
2. output indicators and performance measurement

Reference Materials

Working Papers

No — Presence? — Yes

(33) ---- To page 84

Determine the Delivery Units under the Operations responsible for critical services or key processes in the achievement of Program Outcomes

Reference Materials

Working Papers

No — Presence? — Yes

(33) ---- To page 84

Determine outputs of Delivery Units:
1. output monitoring and evaluation for the status, issues and concerns supervised by Undersecretary for Operations; and
2. output indicators and performance measurement

Reference Materials

Working Papers

No — Presence? — Yes

(33) ---- To page 84

(28) ---- To page 79

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.1 Audit Criteria

Processing	Reviewing	Approving	Recording	Safekeeping

Process all working papers on the audit criteria and all interim analyses and interim report/s for the consolidated audit criteria report

Reference Materials

Working Papers

Draft report of audit criteria

Review draft report of audit criteria

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of audit criteria

No — Recommend? — Yes

Reviews draft report of audit criteria

Working Papers

Draft Report

Working Papers

Revise draft report of audit criteria

No — Approved?

Working Papers

Draft Report

Yes

(29)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From page 79 - - - - (29)

Process the submitted documents and perform substantive tests based on sampling on the subject matter of audit that establish condition:
1. program/s and corresponding outcome/s
2. component projects and corresponding component project outputs
3. component processes and corresponding process outputs
4. Delivery Units under the Operations responsible for critical services or key processes in the achievement of Program Outcomes
5. inputs / resources

Documents from auditee

Working Papers

Conduct review and appraisal of program outcome by using outcome indicators (PREXC) and other performance measures (Balanced Scorecards and under M&E system, and other measures, as required):
1. contribution of program outcome to the achievement of auditee's legislated mandate;
2. attribution of program outcome to the change, effect or result to individuals, social structures, or the physical environment of intended beneficiaries;
3. how well a program has achieved its stated objectives through its program outcome; and
4. establish 4Es of government operations in the delivery of outcome (table top review, verification and validation)

Reference Materials

Reports

No   Yes
          < Presence? >

(32) - - - - [To page 83

(30) - - - - [To page 81

Page 80

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From page 81 ----(31)

Conduct review and appraisal of processes:
1. implementation of processes interrelated activities as to conformity with established standards and policies to determine whether or not such processes/interrelated activities add value to the inputs for their transformation into outputs;
2. determine contribution of each activity within a process to the achievement of process output (table top review, verification and validation)

Reference Materials

No   Yes   Reports

Presence?

(32)----[To page 83

Conduct review and appraisal of resource/inputs:
1. establish efficiency in the use of available resources/inputs and conformity to norms of conducts and ethical standards;
2. whether there is appropriate and economical sourcing and leveraging of resources/inputs;
3. whether resources/inputs are acquired at the right cost, at the right time, at the right place, in the right quantity and of the right quality;
4. whether resources/inputs have the ability to meet the requirements of efficient, effective, economical and ethical delivery of the outputs (table top review, verification and validation)

Reference Materials

Reports

(32)----[To page 83

Page 82

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From page 82 ----(32)

Conduct review and appraisal of program Monitoring and Evaluation System to establish cause/causes of gaps deficiencies in the realization of the program outcome:
1. agency has a monitoring and evaluation for the status, issued and concerns supervised by the Undersecretary for Operations
2. periodic monitoring and evaluation of performance;
3. provision of information on commitments/targets and corresponding accomplishments to internal and external entities or other reportorial bodies in compliance with administrative, functional and/or operational requirements;
4. results-based and credible monitoring and evaluation (M&E) policy framework that provides evidence-based information (table top review, verification and validation)

Reference Materials

Reports

No   Yes
        < Presence? >

(33) ----[To page 84]   (28-29) --[To pages 79-80]

Page 83

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Page 84

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

Draft Interim Report and transmittal memo

Reviews draft Interim Report and transmittal memo

Working Papers

Draft Interim Report/ Memo

Working Papers

Draft Interim Report/ Memo

Revise draft Interim Report and transmittal memo

No — Recommend? — Yes

Reviews draft Interim Report and transmittal memo

Working Papers

Draft Interim Report/ Memo

Working Papers

Revise draft Interim Report and transmittal memo

No — Approved?

Yes

Working Papers

Draft Interim Report/ Memo

Approves Draft Interim Report and transmittal memo

Records release of Interim Report and transmittal memo

1. Encodes in the DTS the receiving copy
2. Files receiving copy

Working Papers

Interim Report/ Memo

Interim Report/ Memo

Report

Interim Report/ Memo

Storage

End

Page 85

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.2 Audit Condition

Processing	Reviewing	Approving	Recording	Safekeeping

From page 85 ----- (35)

Perform substantive tests on the subject matter of audit to determine if government operations are conducted efficiently, effectively, economically and ethically

Working Papers

Working Papers

Draft report of Review and Appraisal based on the subject matter of audit

Review draft report of Review and Appraisal

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of Review and Appraisal

No ◄─── Recommend? ───► Yes

Reviews draft report of Review and Appraisal

Working Papers

Draft Report

Working Papers

Revise draft report of Review and Appraisal

No ◄─── Approved?

Yes

Working Papers

Draft Report

(36) ----- To page 87

Page 86

D.6 AUDIT PROCESS

D.6.2 Audit Execution

D.6.2.4 Operations Audit

D.6.2.4.3 Audit Conclusion

Processing	Reviewing	Approving	Recording	Safekeeping

From page 86 ---- (36)

Process conditions with criteria to draw audit conclusions

Working Papers

Working Papers

Draft report of audit conclusion → Review draft report of audit conclusion

Working Papers | Draft Report

Working Papers | Draft Report

Revise draft report of audit conclusion

No ← Recommend? → Yes → Reviews draft report of audit conclusion

Working Papers | Draft Report

Working Papers

Revise draft report of audit conclusion ← No ← Approved?

Working Papers

Draft Report

Yes

(37) ---- To page 88

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.4 Audit Cause

Processing	Reviewing	Approving	Recording	Safekeeping

From page 87 ---- (37)

Process probable / root cause analyses on the condition of the subject matter of audit

Working Papers

Working Papers

Draft report of the result of the probable / root cause analyses

Review draft report of audit cause

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of audit cause

No ◄— Recommend? —► Yes

Reviews draft report of audit cause

Working Papers

Draft Report

Working Papers

Revise draft report of audit cause

No ◄— Approved?

Working Papers

Draft Report

Yes

(38) ---- To page 89

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.5 Audit Working Papers

Revised Philippine Government Internal Audit Manual (2020)
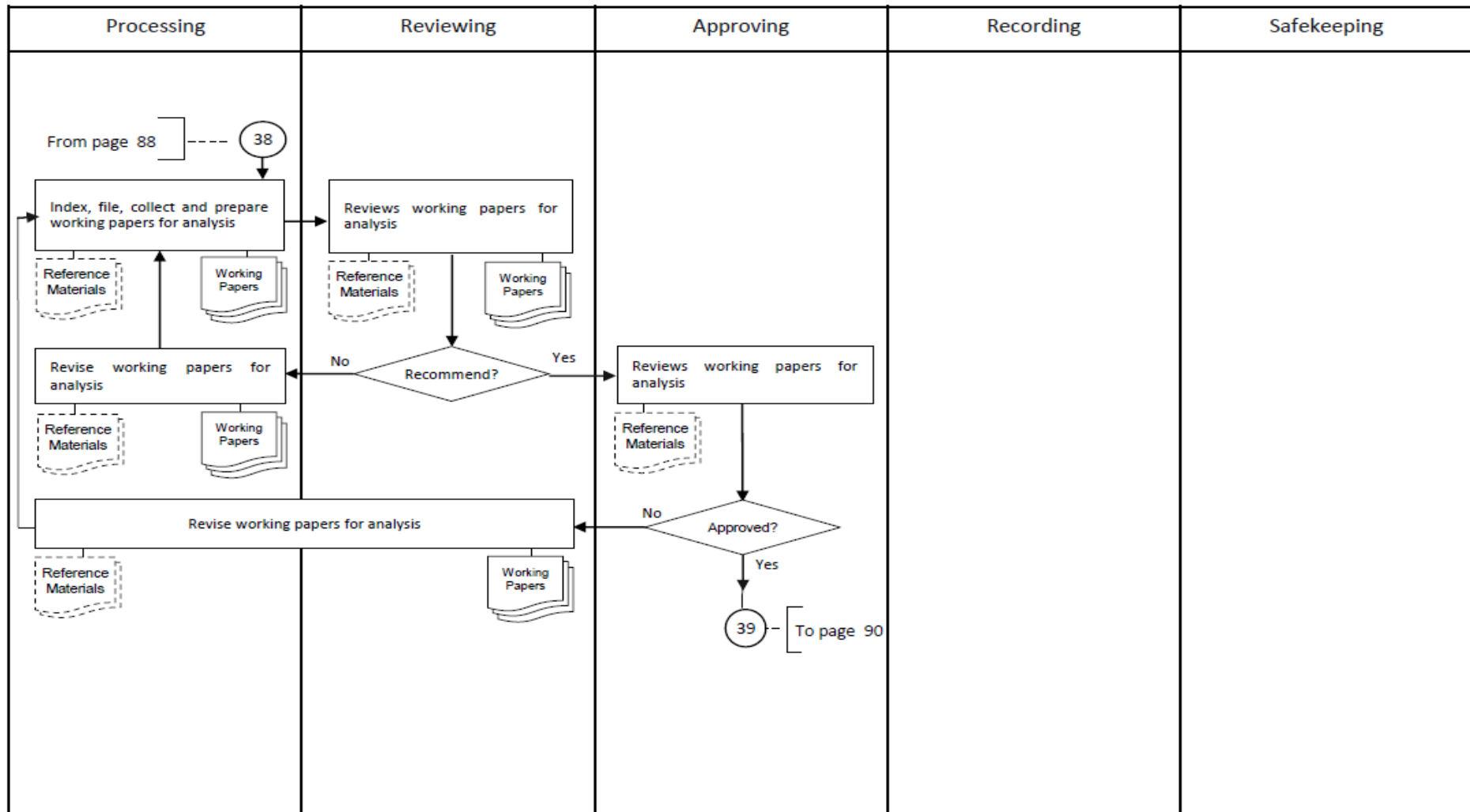
D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.6 Audit Findings

Processing	Reviewing	Approving	Recording	Safekeeping

From page 89 ---- (39)

Process all working papers for the preparation of report of audit findings

Reference Materials

Working Papers

Draft report of audit findings in terms of the 4Cs - Criteria, Condition, Conclusion and Cause

Review draft report of audit findings

Working Papers

Draft Report

Working Papers

Draft Report

Revise draft report of audit findings

No ◄—— Recommend? ——► Yes

Reviews draft report of audit findings

Working Papers

Draft Report

Working Papers

Draft Report

Working Papers

Revise draft report of audit findings ◄—— No —— Approved?

Working Papers

Draft Report

Yes

(40) ---- To page 91

Page 90

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.7 Highlights of Audit Findings

Processing	Reviewing	Approving	Recording	Safekeeping

From page 90 ---- (40)

Draft audit highlights of the audit findings in terms of the 2Cs – Criteria and Condition with transmittal memo

Working Papers — Draft Highlights of audit findings, memo

Review draft audit with transmittal memo

Working Papers — Draft Highlights of audit findings, memo

Revise draft audit highlights with transmittal memo

Working Papers — Draft Highlights of audit findings, memo

No ← Recommend? → Yes

Reviews draft audit highlights with transmittal memo

Working Papers

Revise draft audit highlights with transmittal memo

Working Papers — Draft Highlights of audit findings, memo

No ← Approved?

Yes

Approves draft audit highlights with transmittal memo

Working Papers — Highlights of audit findings, memo

(41) --- To page 92

Page 91

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.4 Operations Audit
D.6.2.4.8 Audit Progress Assessment

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.5 Closing Meeting

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.5 Closing Meeting

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)
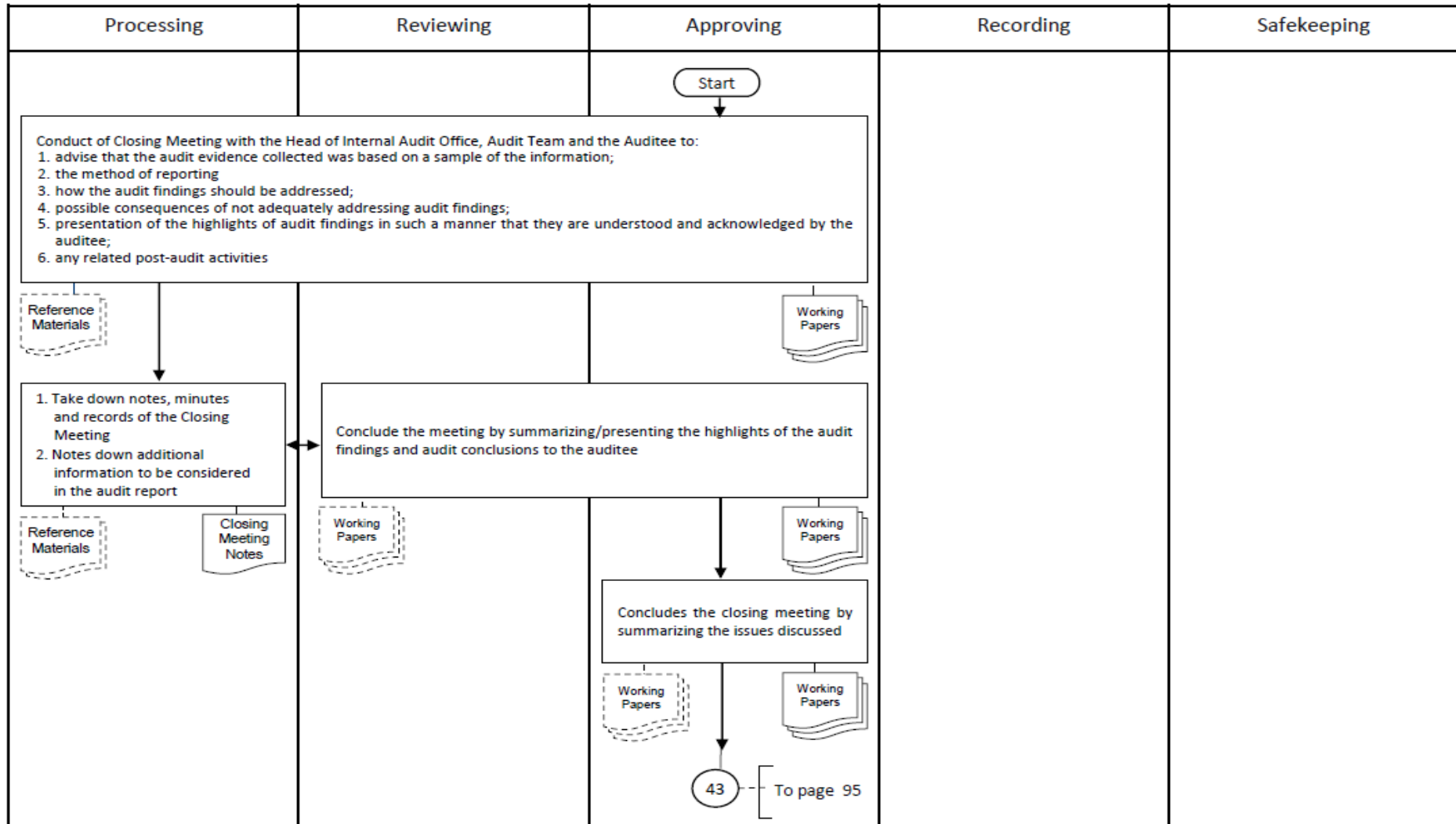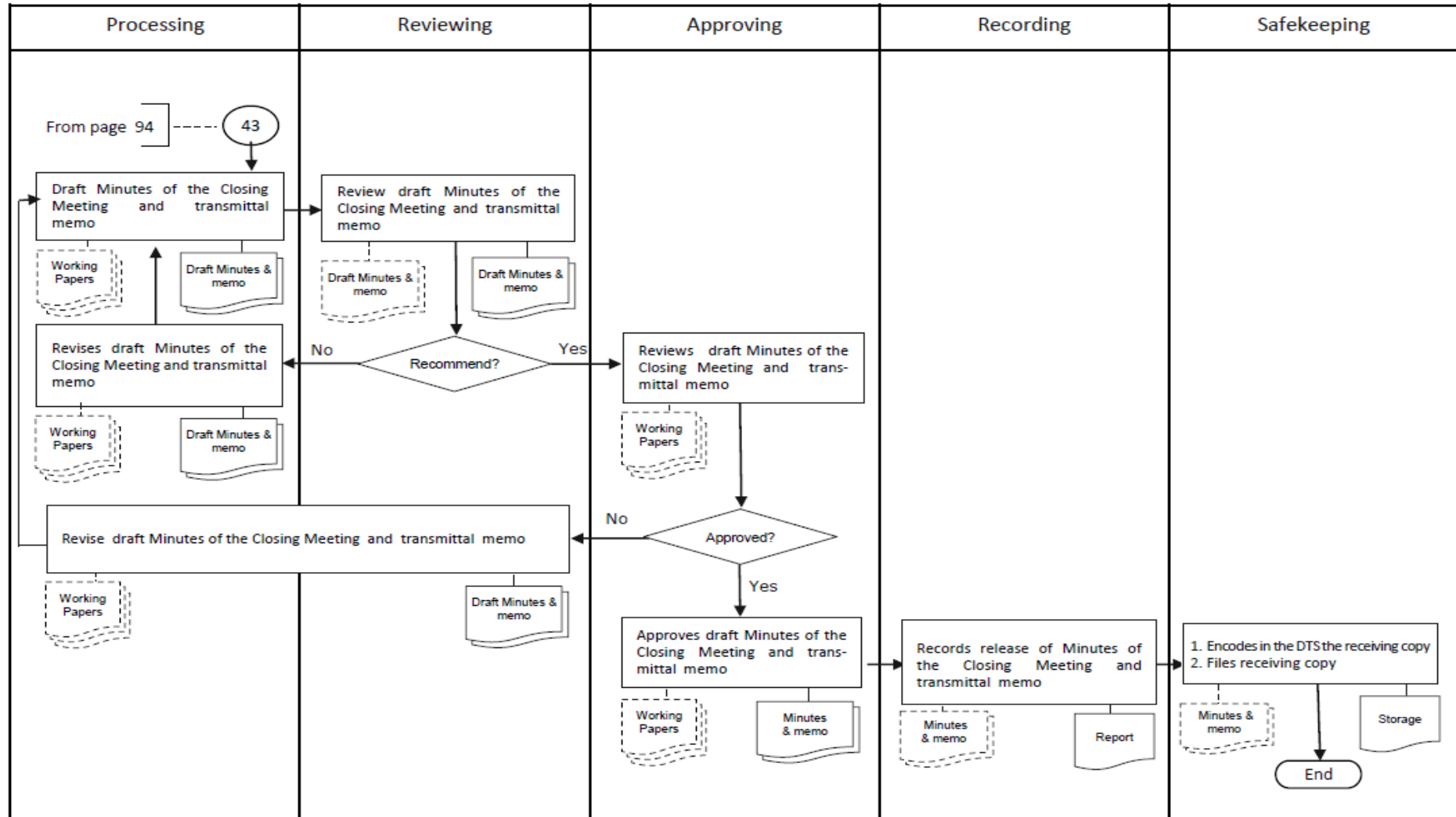
D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.5 Closing Meeting

D.6 AUDIT PROCESS
D.6.2 Audit Execution
D.6.2.5 Closing Meeting

Revised Philippine Government Internal Audit Manual (2020)
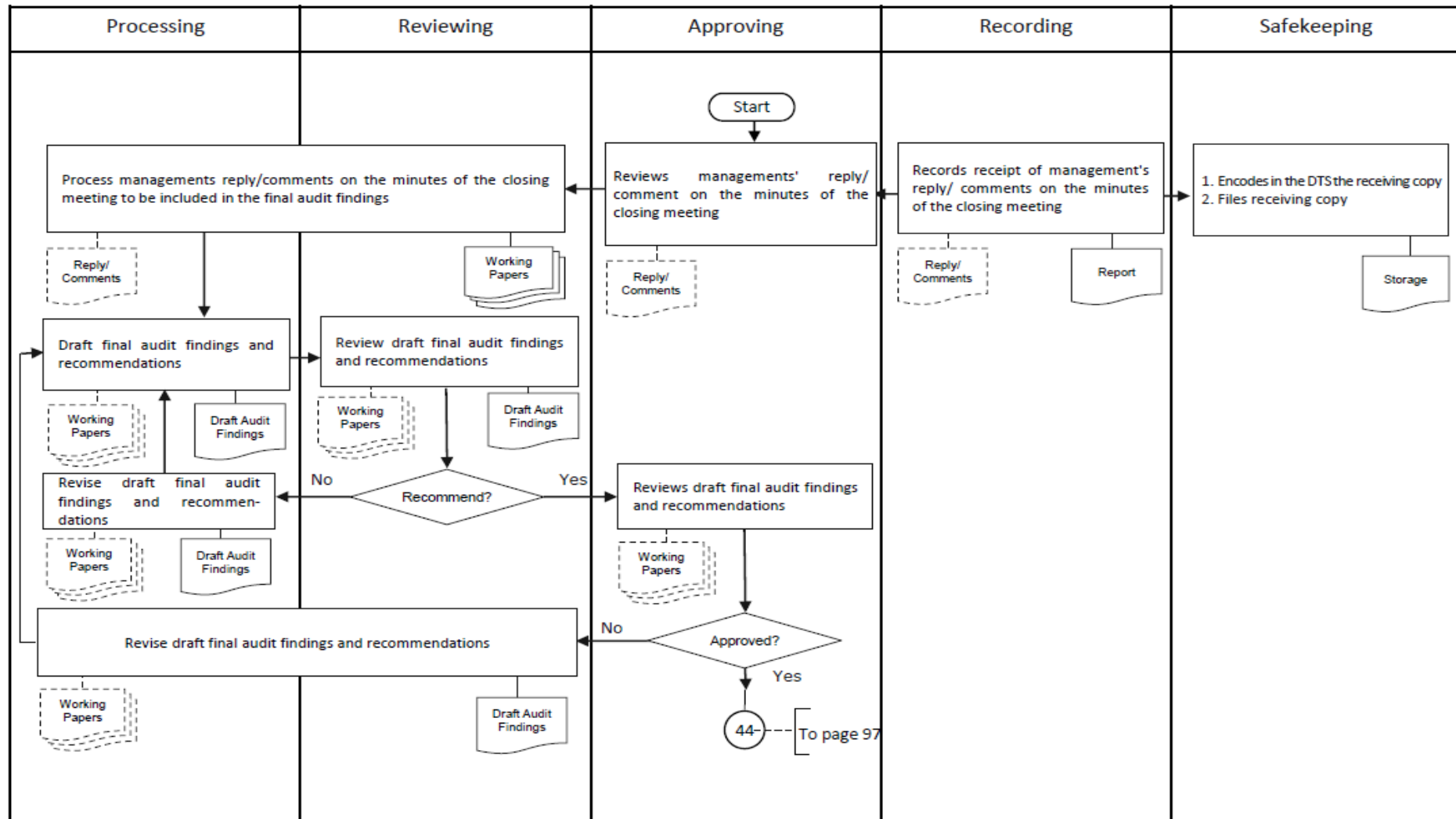
D.6 AUDIT PROCESS
D.6.3 Audit Reporting

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.4 Audit Follow-up
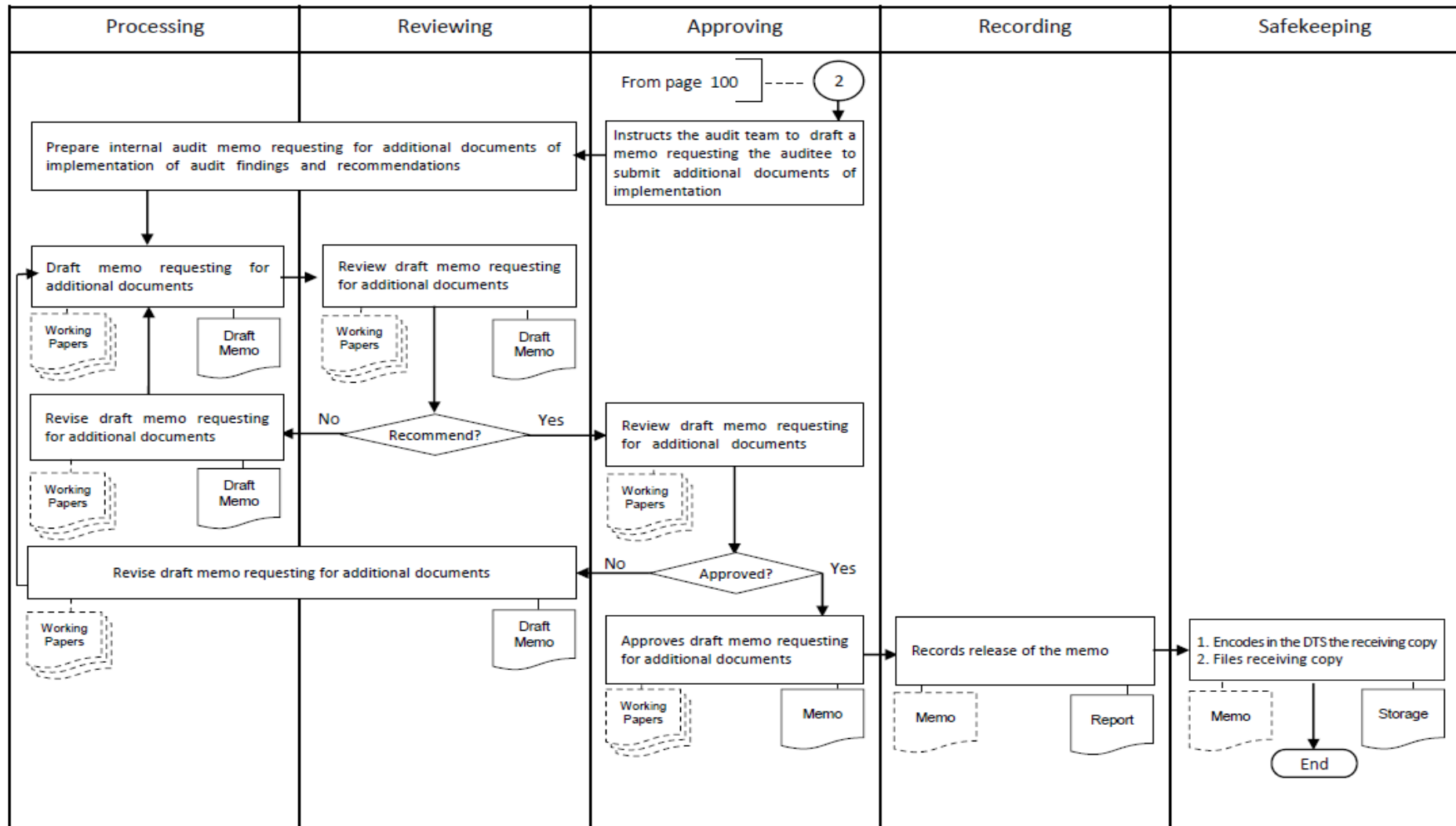D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

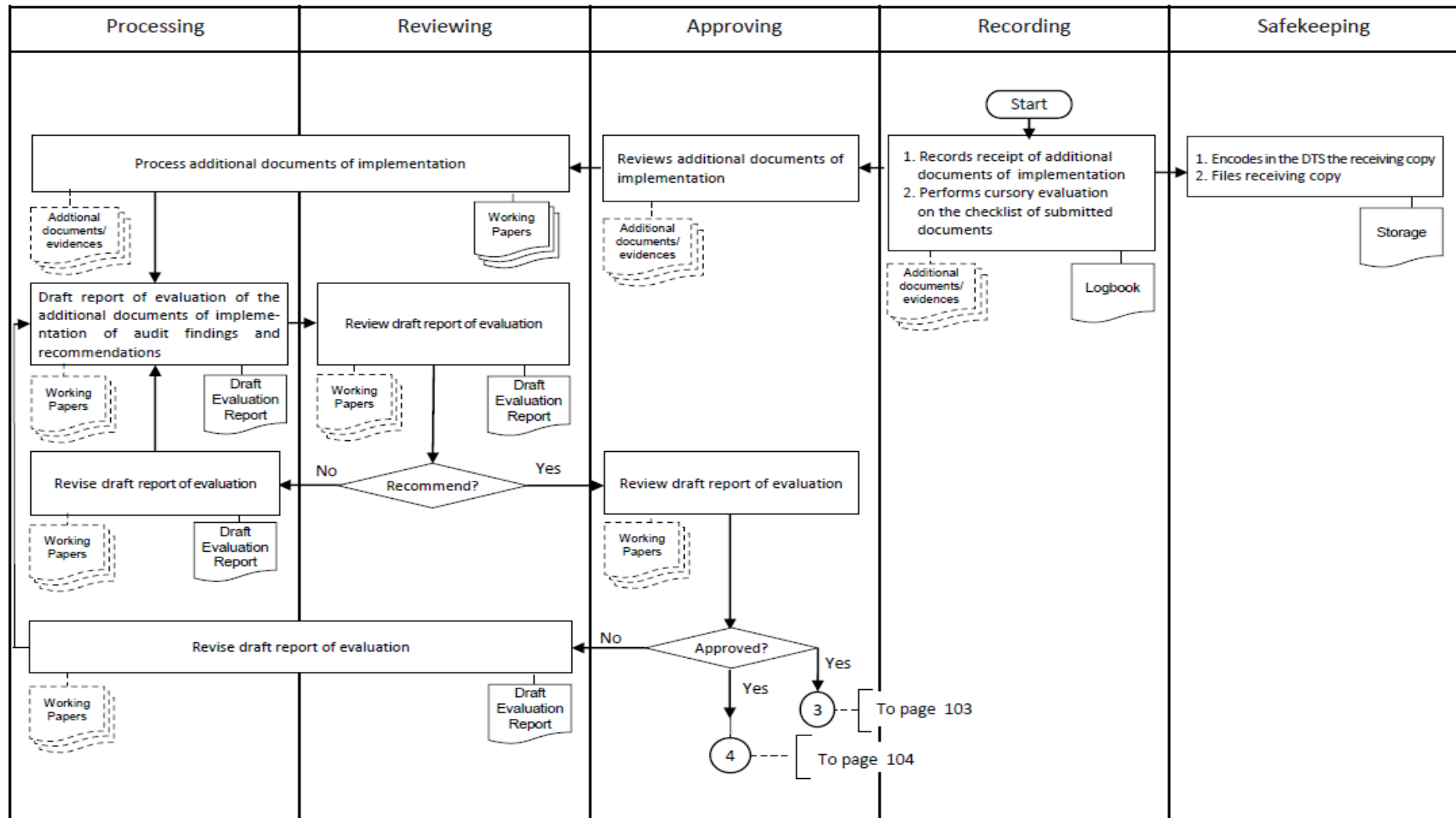| Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.4 Audit Follow-up
D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

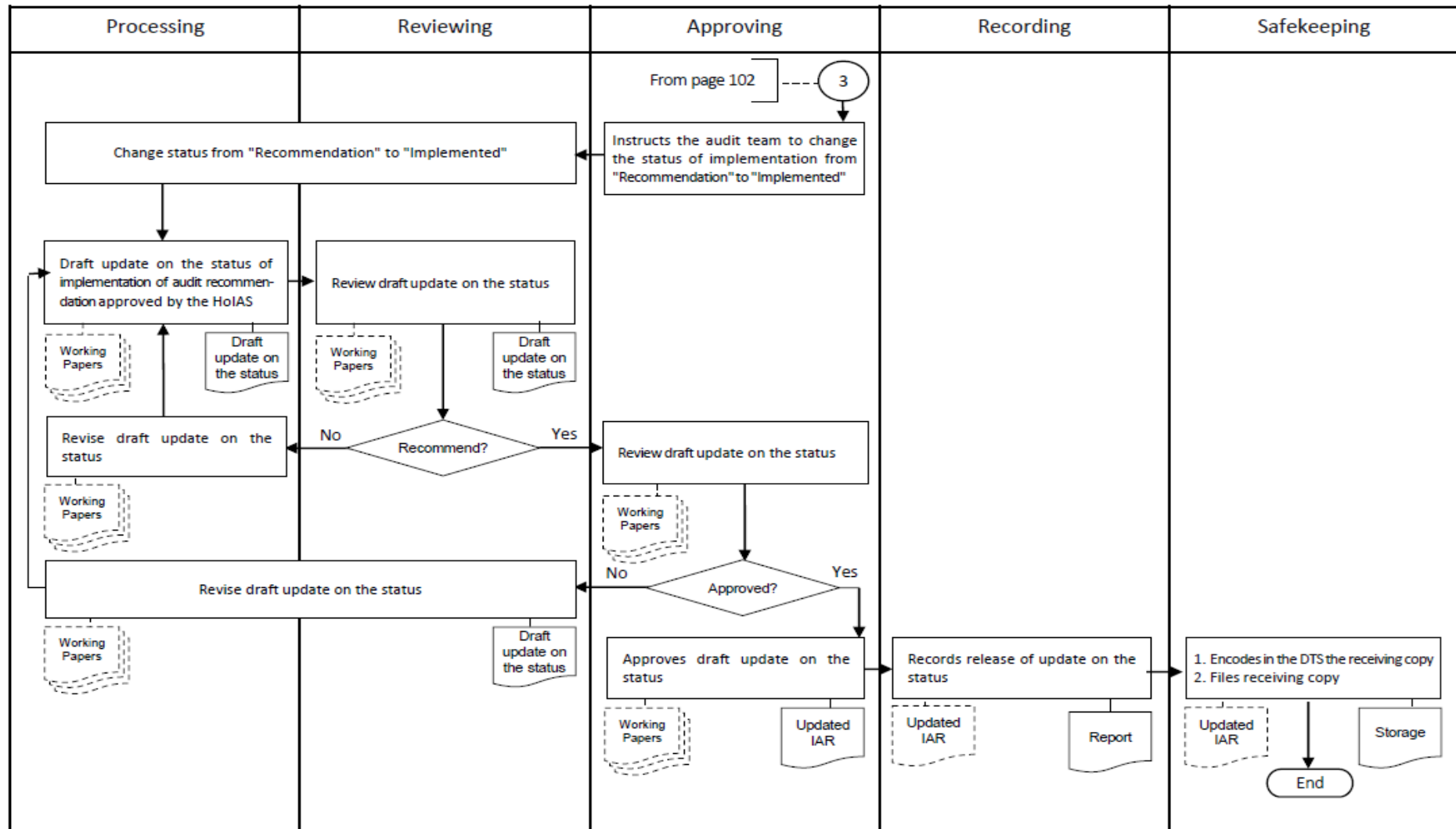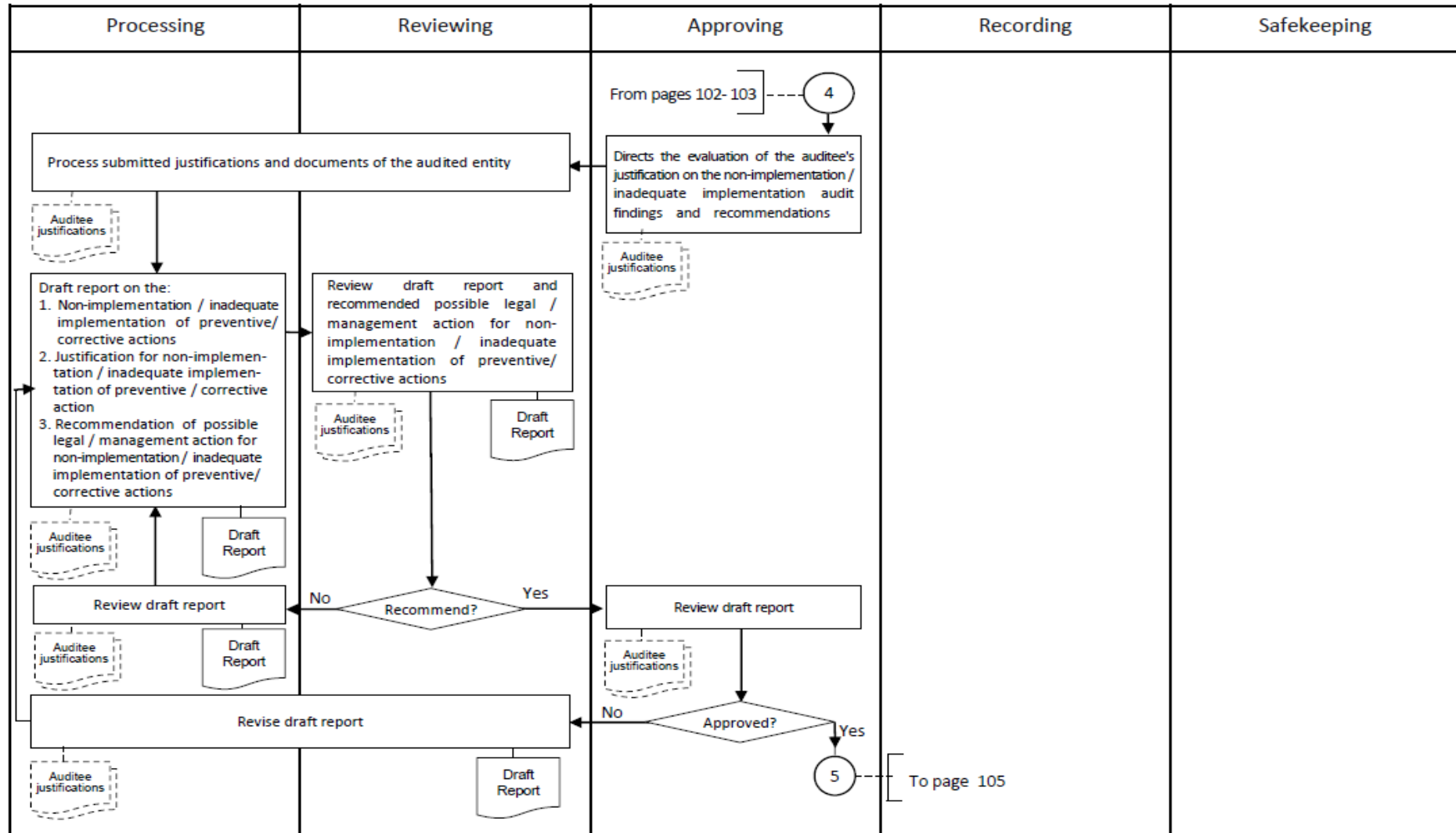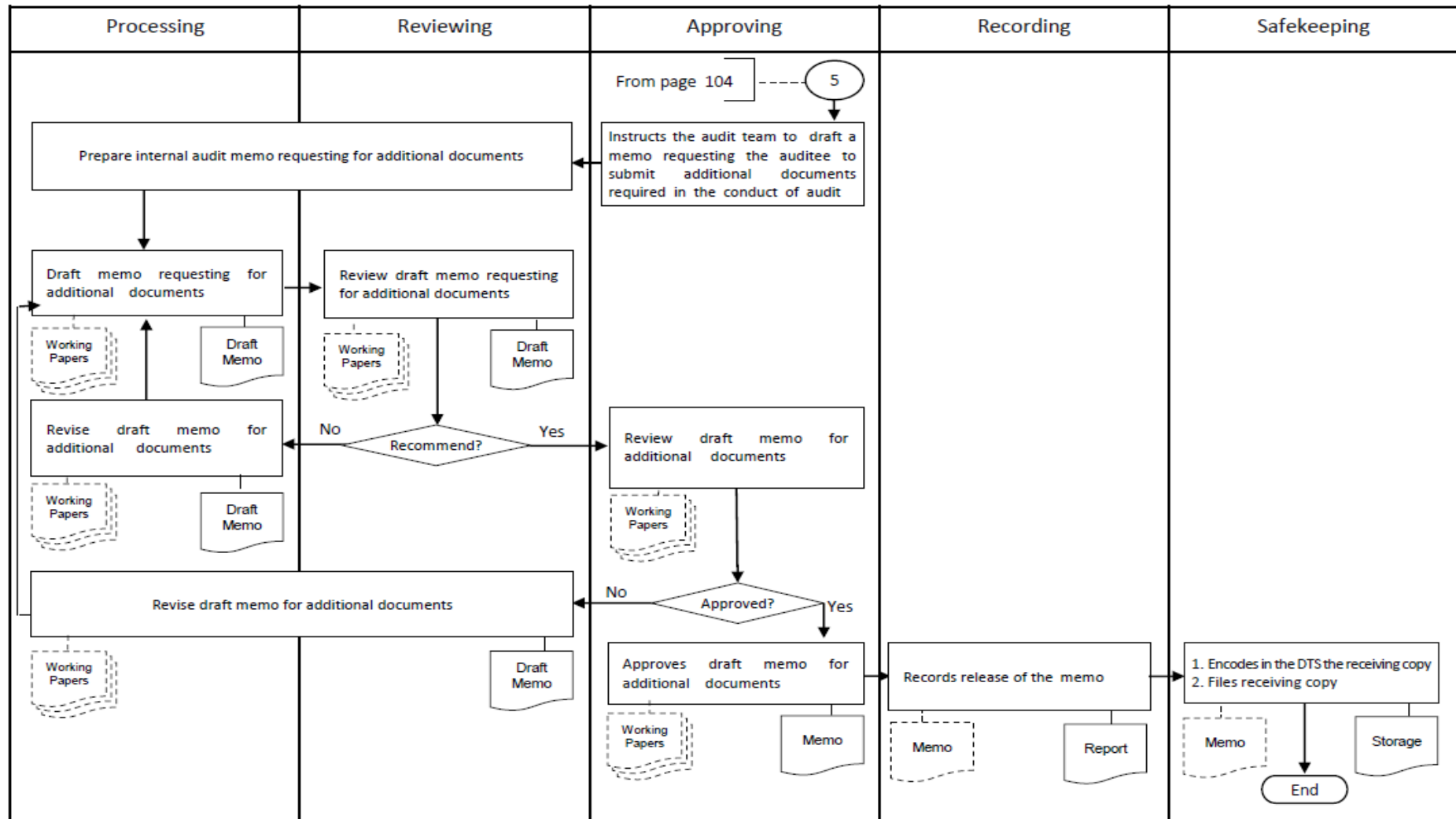| Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process report on status of implementation of audit findings and recommendations to determine the following: 1. documents and supporting evidences submitted 2. Status of action or actions taken by the auditee on each recommend-dation	Reviews report on status of implementation with supporting documents		1. Records receipt of report on status of implementation of audit findings and recommendations with supporting documents. 2. Performs cursory evaluation on the checklist of submitted documents	1. Encodes in the DTS the receiving copy 2. Files receiving copy
Status of implementaiton & evidences	Working Papers	Status of implementaiton & evidences	Status of implementaiton & evidences	Storage
			Report	
Draft report of evaluation of the status of implementation and supporting documents	Review draft report of evaluation			
Working Papers	Draft report of evaluation	Working Papers	Draft report of evaluation	
Revise draft report of evaluation	**No** ◇ Recommend? **Yes**	Review draft report of evaluation		
Working Papers	Draft report of evaluation	Working Papers		
Revise draft report of evaluation		**No** ◇ Approved? **Yes**		
Working Papers	Draft report of evaluation	2 -- To page 101		

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

Processing	Reviewing	Approving	Recording	Safekeeping
			Start	
Process additional documents of implementation		Reviews additional documents of implementation	1. Records receipt of additional documents of implementation 2. Performs cursory evaluation on the checklist of submitted documents	1. Encodes in the DTS the receiving copy 2. Files receiving copy
Addtional documents/ evidences	Working Papers	Additional documents/ evidences	Additional documents/ evidences	Logbook	Storage
Draft report of evaluation of the additional documents of impleme-ntation of audit findings and recommendations	Review draft report of evaluation			
Working Papers	Draft Evaluation Report	Working Papers	Draft Evaluation Report		
Revise draft report of evaluation	No — Recommend? — Yes	Review draft report of evaluation		
Working Papers	Draft Evaluation Report		Working Papers	
Revise draft report of evaluation		No — Approved? Yes		
Working Papers	Draft Evaluation Report	Yes → 3 — To page 103		
		4 — To page 104		

Page 102

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.1 Monitoring Implementation of Approved Audit Findings and Recommendations

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS
D.6.4 Audit Follow-up
D.6.4.2 Resolving Non-implemented/Inadequate Implementation of Recommendations

Processing	Reviewing	Approving	Recording	Safekeeping

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.2 Resolving Non-implemented/Inadequate Implementation of Recommendations

Page 105

D.6 AUDIT PROCESS
D.6.4 Audit Follow-up
D.6.4.2 Resolving Non-implemented/Inadequate Implementation of Recommendations

Revised Philippine Government Internal Audit Manual (2020)

D.6 AUDIT PROCESS

D.6.4 Audit Follow-up

D.6.4.2 Resolving Non-implemented/Inadequate Implementation of Recommendations

Processing	Reviewing	Approving	Recording	Safekeeping
		From pages106 - - - - - (6)		
Process/review audit follow-up report (AFR) and transmittal memorandum		Instructs the audit team to prepare transmittal memorandum for the Head of Agency for appropriate legal / management action		
Draft internal audit follow-up report with transmittal memorandum	Review draft internal audit follow-up report with transmittal memorandum			
Working Papers / Draft IAFR & memo	Working Papers / Draft IAFR & memo			
Revise draft internal audit follow-up report with transmittal memorandum	No ◄ Recommend? ► Yes	Review draft internal audit follow-up report with transmittal memorandum		
Working Papers / Draft IAFR & memo		Working Papers		
		No ◄ Approved? ► Yes		
Revise draft internal audit follow-up report and transmittal memorandum				
Working Papers / Draft IAFR & memo		Approves draft internal audit follow-up report and transmittal memorandum	Records release of the internal audit follow-up report and transmittal memorandum for the Head of Agency	1. Encodes in the DTS the receiving copy 2. Files receiving copy
		Working Papers / IAFR & memo	IAFR & memo / Report	IAFR & memo / Storage
				End

Page 107

Revised Philippine Government Internal Audit Manual (2020)

Appendix E: Guidance on Flowcharting, Including the Standard Flowchart Format and Symbols

A process map or flowchart is an analytical technique used to document a system in a clear, concise and logical manner, showing the flow of documents thru various steps and actions from its origin up to the final disposition.

It is used to illustrate, by means of symbols, the procedures, forms, records and reports handled by each position, and charts the flow of forms, records and reports by each position, and from one position to another.

A flowchart shows the series of procedures and their inter-relationships, identifies the major controls and aids in the review of the system.
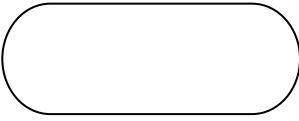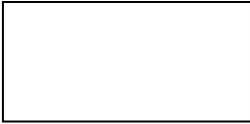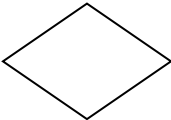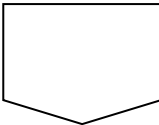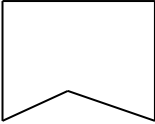
It is a workflow diagram in a graphic representation of all the major steps of a process. It helps visualize the process and therefore facilitates an analysis of the operation and assists in identifying inefficiencies, overlaps and duplications/missing procedures and control weaknesses. It helps the auditor:

i.   Understand the complete process;
ii. Identify the critical stages of a process;
iii. Locate problem areas;
iv. Show relationships between different steps in a process; and
v.   Evaluate/test controls, where an audit impact has been identified.

Elements of a Flowchart:

(1) Heading   - Name of Organization
                  - Name of System (being documented)
                  - Existing Procedural Flowchart

(2) Area of Responsibility - defines the organizational unit and the position or name of personnel responsible for the procedures being charted.

(3) Symbols - used to show predefined items, steps and actions. The IAS/IAU should adopt and follow standard symbols for uniformity.

Flowcharting symbols[303]

	Start/end of audit process
	Description of process
	Document
	Reference document
	Decision box
	Process flow direction
	Link to reference document
	Link to document
	Off-page reference
	Incoming reference

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[303] PNS ISO 5807:2004 – "Information processing – Documentation symbols and conventions for data, program and system flowcharts, program network charts and system resources charts"

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. It is the auditor's responsibility to design and perform audit procedures to obtain sufficient audit evidence to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Audit sampling can use either a statistical or a non-statistical sampling technique when designing and selecting the audit sample, performing tests of controls and evaluating the results from the sample.

a. Statistical sampling involves determining the sample size objectively, selecting the samples from the population randomly and evaluating the sample results mathematically to draw conclusion about the population. Statistical sampling approach must be used if the auditor wishes to infer or extrapolate sample results to draw conclusion about the entire population.

b. Non-statistical sampling approach relies solely on the auditor's professional judgment, and the auditor uses his or her own experience and knowledge to determine the sample size and the method for selecting the samples from the population. Non-statistical sampling (e.g. judgmental samples) may not be objective and the results of such sampling normally pertain only to the sampled items, and cannot be extrapolated over the population.

1. Statistical Sampling

In a statistical sampling, the sampling plan should be based on the audit objectives and what is known about the characteristics of overall population from which the samples are to be taken.

Statistical sampling design uses a sample selection process based on probability theory. Attribute-based sampling is used when there are only two possible sample outcomes for each sample (e.g. correct/incorrect or pass/fail). Variable-based sampling is used when the sample outcomes occur in a continuous range.[304]

The sampling plan should take into account whether the outcomes being examined are likely to be attribute-based or variable-based. For example, when evaluating conformance with rules and regulations, an attribute-based approach could be used. When examining the occurrence of say, incidents or the number

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[304] Item B.3.3 – Statistical Sampling, ISO 19011:2011, "Guidelines for auditing management systems"

of security breaches, a variable based approach would likely be more appropriate.[305]

When a statistical sampling plan is developed, the level of sampling error that the auditor is willing to accept is an important consideration. This is often referred to as the acceptable confidence level. For example, a sampling error of 5% corresponds to an acceptable confidence level of 95%. A sampling error of 5% means the auditor is willing to accept the error that 5 out of 100 (or 1 in 20) of the samples examined will not reflect the actual values that would be seen if the entire population was examined.[306]

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. They are as follows:

➢ Determine the objectives of the test;
➢ Define the population;
➢ Define acceptable levels of sampling risk (i.e., 5%, 10%, etc.);
➢ Calculate the sample size using tables, formulae, or software applications;
➢ Select the sampling approach (i.e., 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).

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[305] Item B.3.3 – Statistical Sampling, ISO 19011:2011, "Guidelines for auditing management systems"
[306] Id.

Statistical/Probability Sampling Methods:

Strategy	Description	Some Strengths	Some Limitations
Simple random sampling	It is the simplest method of drawing a statistical sample. It is the basis of all other sampling designs. There is moderate variation among the values/characteristics of the items in the population and can be sampled from a single list of sampling units. Every case/item in the population has an equal chance of being selected.	Allows you to select cases/items while ensuring there is no selection bias. Useful if you have no characteristics or basis on which to choose another approach and have no time to screen cases to identify others better suited to your job.	Does not ensure that specific types of cases are selected and, thus, does not allow you to say anything about cases with particular characteristics. Requires you to have a list of the population from which to select cases.
Stratified Sampling	Population is divided into two or more subgroups (strata or subpopulation) and use simple random sampling to select for each part (stratum). An estimate is determined separately for each stratum, and these are combined to form an estimate for the entire population. A stratum is a sub-population from the total population. When defining strata and setting boundaries, internal auditor should keep certain rules: ▪ Each sampling unit can be included in one and only one stratum; ▪ The strata must not overlap; and ▪ The sampling unit in each stratum should be as much alike as possible in relation to the characteristic being measured.	A stratified sample can be used to: ▪ Obtain equal precision with smaller sample or tighter precision with the same sample size; ▪ Reduce the cost of a sample for a given precision; ▪ Obtain separate estimates for the groups in the individual strata, if such estimates would be useful for comparison purposes; and ▪ Give special emphasis to certain groups within the population, say, with those with great error potential.	Internal auditors should be able to identify every case/item of the population and classify each into one, and only one, strata. Hence, stratified sampling is challenging when internal auditors cannot confidently classify every item of the population into a strata. Also, finding an exhaustive and definitive list of an entire population can be challenging. Overlapping of item/s within stratum can be an issue if there are items that fall into multiple strata. Consequently, those that are in multiple strata are more likely to be chosen and as a result, would be a misrepresentation or inaccurate reflection of the population.

Strategy	Description	Some Strengths	Some Limitations
Systematic Sampling	Cases/items in the population are chosen according to a pre-determined strategy (e.g., every X case), which include stratification.	Ensures selection from the range of possible cases throughout the population. Can be used when you have no list of cases from the population.	May result in a biased sample if systematic patterns correspond to your selection strategy.
Cluster Sampling	Cluster sampling is the selection of groups of sampling units (or clusters) rather than selection of individual sampling units directly. If clusters are large, the internal auditor may select a random sample of units within the selected cluster. This is referred to as two-stage cluster sampling.	Easy and convenient	There is a possibility that case/items are different from one another, decreasing its effectiveness.

Sources: ISO 19011:2011, "Guidelines for auditing management systems"; ISO 24153:2009, "Random sampling and randomization procedures"; US Government Accountability Office (U.S. GAO), GAO internal guidance/resource – 7/17/17, "Selecting a Sample of Nongeneralizable Cases for Review in GAO Engagements"

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 softwares 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 approaches may be possible if other useful information are 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 maybe 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. Afterwhich, 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 that 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

➢ Focuses on important subpopulations and ignores irrelevant ones;
➢ Allows use of different sampling techniques for different subpopulations;
➢ Improves the accuracy/efficiency of estimation; and
➢ 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

➢ Requires selection of relevant stratification variables which can be difficult;
➢ Is not useful when there are no homogeneous subgroups;
➢ Can be expensive to implement; and
➢ Requires accurate information about the population or introduces bias as a result of either measurement error/s (effects of which can be modeled by the errors-in-variables model) or selection bias.

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.

2. Non-Statistical Sampling Method

Judgement-based 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.

Judgement-based sampling relies on the knowledge, skills and experience of the audit team. For judgement-based sampling, the following can be considered:

➢ previous audit experience within the audit scope;
➢ complexity of requirements (including legal requirements) to achieve the objectives of the audit;
➢ complexity and interaction of the organization's processes and management system elements;
➢ degree of change in technology, human factor or management system;
➢ previously identified key risk areas and areas of improvement;
➢ output from monitoring of management systems.[307]

A drawback to judgement-based sampling is that there can be no statistical estimate of the effect of uncertainty in the findings of the audit and the conclusions reached.

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[307] ISO 19011:2011, "Guidelines for auditing management systems"; ISO 24153:2009, "Random sampling and randomization procedures"

Non-Statistical/Non-Probability Sampling Methods

Strategy	Description	Some Strengths	Some Limitations
Purposeful Sampling	A relatively small number of cases are selected to be illustrative of program operations under a variety of conditions	Can help in interpreting other data; can provide anecdotes and illustrations about program operations under a variety of conditions; does not require a complete population list	Data collected are anecdotal and firmer conclusions could only be drawn through the use of more rigorous data collection/sampling methods. Moreover, it cannot provide many insights into the effects of any one set of conditions.
Convenience sampling	Cases are selected that are most easily and quickly accessed	Often requires fewer resources since little preparation is required; does not require a complete population list	The sample represents only one segment of the population.
Stratified purposeful sampling	This is a specific type of purposeful sampling. Cases are selected from within major sub-groups, or strata, of the population, to capture major variations, although commonalities may emerge when data are analyzed.	Allows you to make qualified comparisons between different sub-groups of a population and to discuss issues each subgroup faces; need not have a complete population list	The increase in the number of criteria/strata will require more number of cases for sampling.
Intense case sampling, or heterogeneity or maximum variation sampling	As in stratified purposeful sampling, cases are chosen that have the greatest variation on key factors in order to describe central themes that emerge across cases with great variation. Developing a matrix of cases and their characteristics can be useful for identifying how they differ and selecting which to include in the sample.	Heterogeneity in small samples can be difficult for other sampling approaches; maximum variation; sampling overcomes this limitation since themes emerging across cases capture the core experiences of a phenomenon Allows the internal auditor to describe the context of the issues and interactions of multiple factors; may be less resource intensive and it is like a one-stop shop for information; does not require a complete population list	Does not allow you to know whether factors individually have the same effect as they do when combined

Source: US Government Accountability Office (U.S. GAO), GAO internal guidance/resource – 7/17/17, "Selecting a Sample of Nongeneralizable Cases for Review in GAO Engagements"

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; and

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.

GLOSSARY

Accountability. The obligation of an individual or institution to account for its activities, accept responsibility for them, and disclose the results in a transparent manner.

Auditee. The public official responsible for the subject of the audit. The auditee for each audit is the senior manager with overall responsibility for the organizational area being reviewed.

This person will be the primary senior point of contact for the audit and be responsible for responding to the audit report, including the suggested courses of action. For example, the DS/HoA or GB/AuditCom may request an audit of the Human Resources Management (HRM) System. The auditee is the subordinate unit under the DS/HoA or GB/AuditCom which includes, among others, the Office of the Undersecretary.

The NGICS prohibits the auditor to have a client/customer relationship with the auditee.

Compliance Audit. Compliance audit is the evaluation of the degree of compliance of supervision or control with laws, regulations, managerial policies, systems and processes of government, including compliance with accountability measures, ethical standards and contractual obligations.

It also covers the determination of whether or not all other internal control components are well designed and properly implemented. This type of audit is a necessary first step to, and part of, management and operations audits.

Citizen's Charter. An official document, a service standard, or a pledge, that communicates in simple terms, information on the services provided by the government to its citizens pursuant to Section 6 of Republic Act No. 11032 (s. 2018). It describes in detail the comprehensive and uniform checklist of requirements for each type of application or request; procedure to obtain a particular service; person/s responsible for each step; maximum time to conclude the process; document/s to be presented by the applicant or requesting party, if necessary; amount of fees, if necessary; and procedure for filing complaints.

Detail. Temporary movement of an employee from one department or agency to another which does not involve a reduction in rank, status or salary (refer to CSC MC No. 14, s. 2018, 2017 Omnibus Rules on Appointments and Other Human Resource Actions, Revised July 2018, 30 August 2018; CSC Resolution No. 1800692, "2017 Omnibus Rules on Appointments and Other Human Resource Actions [Revised July 2018]," 3 July 2018)

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 (DS/HoA/GB/AuditCom) and not directly with the IAS/IAU.

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.[308]

Four (4) Cs in Audit Findings. Stands for criteria, condition, cause and conclusion.
- **Criteria** is 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.[309]
- **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.[310]
- **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[311] 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.

Four (4) 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.

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[308] Black's Law Dictionary, 6th Edition, (1891-1991) citing Midtown Properties, Inc. v. George Richardson, Inc. 139 Ga.App. 182, 228 S.E.2d 303, 307 and Balfour v. State, Ind. 427 N.E.2d 1091, 1094
[309] Air France v. Carrascoso, G.R. No. L-1438, 28 September 1966
[310] Sixth Edition (1990), Black's Law Dictionary, p. 290
[311] Galario v. Office of the Ombudsman, et. al., G.R. No. 166797, 10 July 2007; Webb v. De Leon, G.R. No. 121234, 23 August 1995; and Boiser v. People of the Philippines, G.R. No. 180299, 31 January 2008

- **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 No. 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/Unit of a Department or agency concerned. He has overall responsibility for auditing the organization, managing the entire audit cycle and a team of internal auditors, and ensuring the quality of audit products produced by the team.

Internal Audit. 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.[312]

Internal Audit Annual Work Plan. It contains the coverage of the audit for a given calendar year and approved by the DS/HoA or GB/AuditCom. 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.

Internal Audit Strategic Plan. An internal audit strategic plan outlines the broad strategic direction of internal audit over the medium term (i.e., three to five years) and provides an important basis for managerial policies from the DS/HoA and the detailed internal audit annual work plan. It is approved by the DS/HoA or GB/AuditCom.

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.

Internal Stakeholders. These are the individuals and groups that can affect and be affected by the agency'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;

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[312] Section 8, Chapter 3, Title V – Pubic Works and Highways, Book IV – The Executive Branch, Executive Order No. 292 (Administrative Code of 1987), 25 July 1987, as amended; and Section 123, Presidential Decree No. 1445 (Government Auditing Code of the Philippines), 11 June 1978, as amended

other review and oversight bodies). In terms of relationship, the IAS/IAU basically coordinates with internal stakeholders and collaborates with external stakeholders.

Key Performance Indicator. Performance measures reflecting the central importance of evidence and information to support performance results. It is important that the KPIs for internal audit are aligned with the Strategic and Annual Internal Audit Plans.

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/IAU 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 National Guidelines on Internal Control Systems [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 agency'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/IAU 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.

Philippine Government Internal Audit Manual. The documentation of the standards and procedures for conducting compliance, 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 Sector 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.

Qualification Standards. Minimum and basic requirements for positions in the government in terms of education, training, experience, Civil Service eligibility, physical fitness and other qualities required for successful performance of the duties of the position. These shall serve as the basic guide in the selection of personnel and in the evaluation of appointments to all positions in the government.[313]

Related Audit Services. Related activities such as being a resource person (e.g., attending to functions outside the organization) for external organizations like the Office of the Ombudsman, oversight or regulatory bodies and financing institutions; training of IAS/IAU staff, and intervening activities or tasks that may be assigned to the IAS/IAU.

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. Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. It should be conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders. It should use the best available information, supplemented by further enquiry as necessary.[314]

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[313] CSC Resolution No. 1800692, [2017 Omnibus Rules on Appointments and Other Human Resource Actions (Revised July 2018)], 3 July 2018
[314] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

Risk Management. The coordinated activities to direct and control an organization with regard to risks.[315]

Root Cause Analysis. Root cause analysis (RCA) is a systematic process that is used to address a deficiency to determine the "root cause" of a particular event of interest or focus event. It is used 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 a 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.

Secondment. The movement of an employee from one department or agency to another which is temporary in nature and which may or may not require the issuance of an appointment which may either involve a reduction or increase in compensation and benefits. Acceptance thereof is voluntary on the part of the employee (refer to CSC MC No. 14, s. 2018, 2017 Omnibus Rules on Appointments and Other Human Resource Actions, Revised July 2018, 30 August 2018; CSC Resolution No. 1800692, "2017 Omnibus Rules on Appointments and Other Human Resource Actions [Revised July 2018]," 3 July 2018; CSC Resolution No. 061165, s. 2006 for guidelines on secondment).

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/IAU 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 /IAU relates with both internal and external stakeholders.

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[315] PNS ISO 31000:2018 (Risk management – Guidelines), second edition, 2018-02

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