



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

CIRCULAR LETTER

No. 2023-14

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

Subject : **REVISED GUIDELINES ON THE ORGANIZATION AND STAFFING OF AN INTERNAL AUDIT UNIT (IAU) IN DEPARTMENTS, AGENCIES, SUCs, GOCCs/GFIs, AND LGUs**

1.0 **RATIONALE/BACKGROUND**

- 1.1 Various issuances of the Office of the President¹ direct the Department of Budget and Management (DBM) to promulgate the necessary rules and regulations for the strengthening of internal control systems in government, including internal audit as a key part thereof.
- 1.2 Relative thereto, the DBM has issued various guidelines on the organization and staffing of an IAU in various departments, agencies, SUCs, GOCCs/GFIs, and LGUs, which include, but not limited to, the following:
 - a. Budget Circular No. 2004-4 dated 22 March 2004;²
 - b. Annex D of Executive Committee on the Rationalization Program [DBM – Civil Service Commission (CSC) Resolution No. 1, s. 2006] dated 12 May 2006;³

¹ **Administrative Order (AO) No. 119, s. 1989** dated 29 March 1989 (Directing the Strengthening of Internal Control Systems of Government Offices, Agencies, Government-Owned or -Controlled Corporations and Local Government Units in Their Fiscal Operations), as amended by **AO No. 278, s. 1992** 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), and **AO No. 70, s. 2003** 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); **Memorandum Order No. 277, s. 1990** 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); and **Memorandum Circular No. 89, s. 2005** dated 18 August 2005 (Reiterating Compliance with AO No. 70, s. 2003 "Strengthening of the Internal Control Systems of the Government Offices, Agencies, Government-Owned and/or -Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges, and Local Government Units" and Its Implementing Guidelines under DBM Budget Circular No. 2004-4)

² Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)

³ Rationalization Program's Organization and Staffing Standards and Guidelines

- c. Circular Letter (CL) No. 2008-5 dated 14 April 2008;⁴
- d. CL No. 2008-8 dated 23 October 2008;⁵
- e. CL No. 2011-5 dated 19 May 2011,⁶ as amended by CL No. 2020-8 dated 26 May 2020;⁷
- f. National Budget Circular (NBC) No. 589 dated 25 May 2022;⁸ and
- g. Local Budget Circular (LBC) No. 153 dated 31 August 2023.⁹

1.3 Based on the issues and concerns raised, and requests forwarded by various agencies to the DBM relative to organization and staffing-related actions to augment their existing manpower, it can be gleaned that there is an inadequacy of the existing staffing complement of the IAU of certain government agencies, which may have an adverse effect on their effective and efficient conduct of internal audit. Among the perceived consequences include the limited audit coverage of the IAU, notwithstanding the magnitude of the agency operations, and lack of follow-up on the implementation of audit recommendations to address the audit findings.

1.4 Hence, there is a need to revisit and update the existing guidelines on the organization and staffing of IAU in departments, agencies, SUCs, GOCCs/GFIs, and LGUs to ensure the efficient and effective operationalization of the internal audit function in government for purposes of strengthening their internal control systems, and promoting transparency and accountability in various aspects of the operations of government, among other objectives.

2.0 **PURPOSE**

This CL is being issued to provide the revised guidelines on the organization and staffing of an IAU in departments, agencies, SUCs, GOCCs/GFIs, and LGUs.

3.0 **GENERAL POLICIES**

3.1 The departments, agencies, SUCs, GOCCs/GFIs, and LGUs are authorized to establish their respective IAUs.

3.2 The IAU shall be an integral part of the office and shall assist the Department Secretary (DS)/Head of the Agency (HoA)/Governing Body (GB)/Audit Committee (AuditCom)/Local Chief Executive (LCE) in conducting a separate evaluation of the internal control system to determine if controls are well-designed and properly implemented. Particularly, the IAU shall be responsible for the evaluation of management controls and operations performance, and the determination of the degree of compliance of internal controls with laws, rules, regulations, managerial policies, accountability measures, ethical standards, and contractual obligations.

⁴ Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management/Unit in Departments/Agencies/GOCCs/GFIs Concerned

⁵ National Guidelines on Internal Control Systems (NGICS)

⁶ Philippine Government Internal Audit Manual (PGIAM)

⁷ Revised Philippine Government Internal Audit Manual (RPGIAM)

⁸ Revised Organization and Staffing Standards (OSS) for SUCs - Phase I

⁹ Internal Audit Manual for Local Government Units (IAM for LGUs), 2023 Edition

3.3 The IAU shall report directly to the DS/HoA/GB/AuditCom/LCE.

4.0 **SPECIFIC GUIDELINES**

4.1 **Authority to Establish an IAU**

- 4.1.1 Each department of the Executive Branch is authorized to establish its own IAU to cover audit areas in the bureaus, offices, agencies, and units, including regional/field offices, regulatory agencies, and other agencies under the supervision and control or administrative supervision of the department, consistent with the provisions of the Administrative Code of 1987 (Executive Order No. 292), as amended, on administrative relationships.
- 4.1.2 In the case of regular agencies attached to a department for policy and program coordination, their respective GBs shall determine the propriety of establishing a separate IAU for the purpose, or the same attached agency may tap the services of the IAU of its department, subject to the approval of the DS.
- 4.1.3 The GOCCs/GFIs which have original charters or those created through the Revised Corporation Code shall likewise establish their respective IAUs.
- 4.1.4 The SUCs and LGUs are also authorized to establish their respective IAUs.

4.2 **Functions of the IAU**

The IAU shall conduct a comprehensive audit of various activities of the department, agency, SUC, GOCC/GFI, or LGU. Specifically, it shall have the following functions:

- 4.2.1 Advise the DS/HoA/GB/AuditCom/LCE on all matters relating to the separate evaluation of the internal control system;
- 4.2.2 Conduct management and operations audit of the agency functions, programs, projects, and activities with outputs, and determine the degree of compliance with their mandates, policies, government regulations, established objectives, systems, procedures/processes, and contractual obligations;
- 4.2.3 Review and appraise systems and procedures, organizational structures, and the administrative, financial, and management practices, records and reports, including performance standards of the agency;

- 4.2.4 Analyze and evaluate internal control deficiencies, conduct root cause analysis in cases when controls are weak, and recommend realistic courses of action (corrective and preventive measures) to the DS/HoA/GB/AuditCom/LCE; and
- 4.2.5 Perform such other internal audit-related duties and responsibilities as may be assigned or delegated by the DS/HoA/GB/AuditCom/LCE or as may be required by law.

In order for the IAU to focus on its intended functions, it shall not be responsible for nor required to participate in activities that are essentially part of the regular operating functions or under the primary responsibility of another unit in the organization, and in conflict with its post-audit (ex post facto or after the fact/ transaction) function. The IAU shall be strictly detached from all non-internal audit functions.

4.3 **Organizational Structure, Staffing, and Reporting Line**

4.3.1 **Departments**

- 4.3.1.1 The IAU of the department shall be a service-level entity, to be referred to as Internal Audit Service (IAS). It shall be headed by a Director IV, SG-28, unless otherwise prescribed by the Administrative Code of 1987 (EO No. 292), as amended, or other special laws. The head of the IAS shall preferably be a career executive service officer with a rank commensurate to the position.
- 4.3.1.2 The IAS shall have a maximum of two (2) divisions, namely, Internal Audit Division I and Internal Audit Division II, which shall each be headed by an Internal Auditor V, SG-24. The staffing of said divisions shall be determined by the agency based on the coverage, magnitude, and complexity of operations, nature of its undertakings, and other related and appropriate factors, subject to the evaluation and approval by the DBM.
- 4.3.1.3 Each division shall conduct compliance, management, and/or operations audit, depending on the priority audit areas of the department as identified in its audit plans. The conduct of special audit engagements instructed by the DS may be assigned to either or both the two (2) divisions.
- 4.3.1.4 The IAS shall report directly to the DS both functionally/ operationally and for administrative purposes.

4.3.2 **Attached Agencies**

- 4.3.2.1 The level and corresponding staffing of the IAU in an agency attached to a department for policy and program coordination shall be determined by the agency based on the coverage, magnitude, and complexity of operations, nature of its undertakings, and other related and appropriate factors, subject to the evaluation and approval by the DBM.
- 4.3.2.2 The IAU, as the case may be, shall conduct compliance, management, and/or operations audit, depending on the priority audit areas of the attached agency as identified in its audit plans. It may also undertake special audit engagements instructed by its principal.
- 4.3.2.3 For single-headed attached agencies, the IAU shall report directly to the HoA both functionally/operationally and for administrative purposes.
- 4.3.2.4 For multi-headed attached agencies (e.g., commission, council, or board), the IAU shall functionally/operationally report to the GB, which may opt to organize an AuditCom from among its members to which the IAU shall report directly to. The IAU shall report to the Executive Officer of the attached agency for administrative purposes.

4.3.3 **SUCs**

- 4.3.3.1 The organization and staffing of an IAU in SUCs shall be guided by the applicable prevailing guidelines on the organization and staffing standards for SUCs, such as DBM NBC No. 589 dated 25 May 2022.
- 4.3.3.2 The IAU of SUCs shall functionally/operationally report to the Board of Regents/Trustees, which may opt to organize an AuditCom from among its members to which the IAU shall report directly to. The IAU shall report to the SUC President for administrative purposes.

4.3.4 **GOCCs/GFIs**

- 4.3.4.1 In the case of GOCCs/GFIs, the IAU could be a group, department, division, or section-level unit, namely, Internal Audit Group/Department/Division/Section. It shall be headed by the appropriate official/personnel in the agency, e.g., Vice President, Department Manager, Division Chief, Section Chief, or their equivalent, depending on the IAU level.

- 4.3.4.2 The level and corresponding staffing of the IAU shall be determined by the GOCC/GFI based on the coverage, magnitude, and complexity of operations, nature of its undertakings, and other related and appropriate factors, subject to the evaluation and approval by the DBM or the Governance Commission for GOCCs (GCG), whichever is applicable.
- 4.3.4.3 As applicable, the Internal Audit Group/Department/Division shall have a maximum of two (2) departments/divisions/sections, namely, Internal Audit Department/Division/Section I and Internal Audit Department/Division/Section II, which shall be headed by the appropriate official/personnel in the agency, e.g., Department Manager, Division Chief, Section Chief, or their equivalent, respectively.
- 4.3.4.4 Each sub-division of the IAU shall conduct compliance, management, and/or operations audit, depending on the priority audit areas of the GOCC/GFI as identified in its audit plans. The conduct of special audit engagements instructed by the principal may be assigned to either or both the two (2) departments/divisions/sections.
- 4.3.4.5 The IAU of GOCCs/GFIs shall functionally/operationally report to the AuditCom of the GB of the GOCC/GFI. The IAU shall report to the Chief Executive Officer, e.g., President, General Manager, Administrator, or Executive Director, of the GOCC/GFI for administrative purposes.

4.3.5 **LGUs**

- 4.3.5.1 The organization and staffing of an IAU in LGUs shall be governed by, among others, the pertinent provisions of the Local Government Code (LGC) of 1991 (Republic Act No. 7160), CSC Memorandum Circular No. 12, s. 2022 dated 8 November 2022,¹⁰ DBM LBC No. 137 dated 13 July 2021,¹¹ DBM LBC No. 145 dated 2 March 2022,¹² pertinent Internal Audit Manual for LGUs, and other applicable prevailing guidelines on the organization and staffing standards for the LGUs.

¹⁰ 2022 Guidelines and Standards in the Establishment of Organizational Structures and Staffing Pattern in Local Government Units

¹¹ Index of Occupational Services, Position Titles and Salary Grades in the Local Government (IOS-LGU), CY 2021 Edition

¹² Guidelines on the Implementation of Personal Services (PS) Limitation on Local Government Budgets and Determination of Waived PS Items Pursuant to Section 93 of the General Provisions (GPs) of the Fiscal Year (FY) 2022 General Appropriations Act (GAA), Republic Act (RA) No. 11639, and Years Thereafter

4.3.5.2 The IAU of the LGUs shall functionally/operationally report to the LCE for matters relating to management control and operations audit of the Executive Branch. However, in cases when the Legislative Branch is being audited, it shall functionally/operationally report to the Presiding Officer of the *Sanggunian*. The IAS/IAU in the LGU is administratively under the LCE.

4.3.6 The matrix below shows a summary of guidelines in terms of the IAU level, corresponding head, organization, staffing, and reporting line:

Particulars	IAU Level	IAU Head	Organizational Structure	Staffing	Reporting Line
Departments	Service-level entity <i>(item 4.3.1.1)</i>	Director IV, SG-28, unless otherwise prescribed by existing laws <i>(item 4.3.1.1)</i>	Maximum of two (2) divisions <i>(item 4.3.1.2)</i>	To be determined on the basis of coverage, magnitude, and complexity of operations, nature of its undertakings, and other related factors <i>(item 4.3.1.2)</i>	DS (functionally/operationally and administratively) <i>(item 4.3.1.4)</i>
Attached Agencies	To be determined on the basis of coverage, magnitude, and complexity of operations, nature of its undertakings, and other related factors <i>(item 4.3.2.1)</i>				Single-headed agencies – HoA (functionally/operationally and administratively) <i>(item 4.3.2.3)</i> Multi-headed agencies – GB/AuditCom (functionally/operationally); Executive Officer (administratively) <i>(item 4.3.2.4)</i>
SUCs	Guided by the applicable prevailing guidelines on the organization and staffing standards for SUCs <i>(item 4.3.3.1)</i>				Board of Regents/ Trustees, which may opt to organize an AuditCom (functionally/operationally); SUC President (administratively) <i>(item 4.3.3.2)</i>

Particulars	IAU Level	IAU Head	Organizational Structure	Staffing	Reporting Line
GOCCs/GFIs	Group, department, division, or section-level unit, depending on its coverage, magnitude, and complexity of operations, nature of its undertakings, and other related factors <i>(items 4.3.4.1 and 4.3.4.2)</i>	Appropriate official/ personnel in the agency <i>(item 4.3.4.1)</i>	Maximum of two (2) departments/ divisions/ sections, as applicable <i>(item 4.3.4.3)</i>	To be determined on the basis of coverage, magnitude, and complexity of operations, nature of its undertakings, and other related factors <i>(item 4.3.4.2)</i>	AuditCom of the GB (functionally/ operationally); Chief Executive Officer (administratively) <i>(item 4.3.4.5)</i>
LGUs	Governed by the pertinent provisions of the LGC and the applicable prevailing guidelines on the organization and staffing standards for LGUs <i>(item 4.3.5.1)</i>				LCE or Presiding Officer of the <i>Sanggunian</i> , whichever is applicable (functionally/ operationally); LCE (administratively) <i>(item 4.3.5.2)</i>

4.3.7 Other Staffing Guidelines

- 4.3.7.1 No Internal Auditor and Internal Auditing Assistant positions shall be created in various components or sub-units, bureaus, and regional/field offices of a department, attached agency, SUC, GOCC/GFI, LGU, and in agencies which are under the direct supervision and control or administrative supervision of a department.
- 4.3.7.2 Departments, agencies, and GOCCs/GFIs shall adopt the "scrap and build" policy in the creation of the necessary positions for the IAU, wherein existing vacant funded positions would have to be offered for abolition to create the appropriate positions.
- 4.3.7.3 Where there are no existing vacant funded positions to be offered for abolition, an agency may transfer the positions of personnel who are deemed capable of performing the functions of these units, provided that said positions shall be relieved of their regular or routinary functions and other non-internal audit functions. The transfer of personnel could involve the reclassification of positions based on the staffing requirements of the agency.

4.3.7.4 The budgetary requirements of the positions to be converted/reclassified shall likewise be sourced from the agency's funded positions.

4.3.7.5 Any staffing proposal to effect the revised guidelines established herein shall be submitted to the DBM or GCG, as the case may be, for evaluation and approval.

5.0 **RESPONSIBILITY**

It shall be the responsibility of the DS/HoAs, GBs/AuditComs, and LCEs to strictly implement the provisions of this CL.

6.0 **RESOLUTION OF ISSUES**

Interpretation of the provisions of this CL, including relevant items not covered herein, shall be referred to the DBM for resolution.

7.0 **SEPARABILITY**

If any provision of this CL is declared invalid or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

8.0 **REPEAL**

All provisions of existing guidelines, such as those enumerated in item 1.2 of this CL, that are not consistent with this CL are hereby revised, modified, and/or repealed accordingly.

9.0 **EFFECTIVITY**

This CL shall take effect immediately upon publication in the Official Gazette or in a newspaper of general circulation.


AMENAH F. PANGANDAMAN
Secretary

