



Republic of the Philippines
DEPARTMENT OF BUDGET AND MANAGEMENT

INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS

2023 EDITION





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**This Manual was prepared with the Technical Assistance of the
Asian Development Bank.**



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

LOCAL BUDGET CIRCULAR

No. 153
Date: August 31, 2023

To : Local Chief Executives (LCEs), Members of the Local Sanggunian, Local Internal Auditors, Local Budget Officers, Local Treasurers, Local Planning and Development Coordinators, Local Accountants, Local Human Resource Management Officers, and All Others Concerned

Subject : **INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS (IAM for LGUs), 2023 EDITION**

1.0 BACKGROUND

1.1 The IAM for LGUs was first issued by the Department of Budget and Management (DBM) through Local Budget Circular (LBC) No. 110 dated 10 June 2016, pursuant to its mandate under Executive Order No. 292, s. 1987,¹ and the following Office of the President issuances directing the Department to promulgate the necessary rules and regulations for the strengthening of the internal control systems (ICS) in government:

1.1.1 Administrative Order (AO) No. 119 dated 29 March 1989,² as amended by AO No. 278 dated 28 April 1992³ and AO No. 70 dated 14 April 2003;⁴

1.1.2 Memorandum Order No. 277 dated 17 January 1990;⁵ and

1.1.3 Memorandum Circular No. 89 dated 18 August 2005.⁶

¹ Administrative Code of 1987 dated 25 July 1987, as Amended

² Directing the Strengthening of Internal Control Systems of Government Offices, Agencies, Government-Owned or Controlled Corporations and Local Government Units in their Fiscal Operations

³ 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

⁴ 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

⁵ 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

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

- 1.2 The IAM for LGUs aims to provide a guide in establishing, maintaining, and operating an Internal Audit Service Unit (IAU) in LGUs. It is anchored on the Philippine Government Internal Audit Manual (PGIAM) issued by the DBM through Circular Letter (CL) No. 2011-5 dated 19 May 2011.

Nine (9) years after the issuance of the PGIAM, the DBM promulgated the Revised PGIAM (RPGIAM) and issued the same through DBM CL No. 2020-8. The revision primarily aims 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 have certain provisions clarified and/or harmonized with pertinent laws, rules, regulations, guidelines, and standards.

- 1.3 Hence, to be aligned with the RPGIAM and existing Philippine laws, rules, and regulations, the revision of the IAM for LGUs has been pursued.

2.0 **PURPOSE**

This Circular is being issued to prescribe the institutionalization of the IAM for LGUs, 2023 Edition as a reference for LGUs in establishing and thereafter strengthening their internal audit function to promote effective, efficient, economical, and ethical operations in government, among other objectives.

3.0 **THE IAM for LGUs, 2023 EDITION**

- 3.1 The IAM for LGUs, 2023 Edition serves as a generic guide for internal auditors in LGUs to help them: *(i)* understand the legal bases, nature, and scope of the internal audit function in the Philippine public sector, including the institutional arrangements, protocols, and processes for the conduct of the same, *(ii)* identify and prioritize potential audit areas for appraisal as they progress in the internal audit activity, and *(iii)* describe the logical procedures to facilitate a structured and systematic approach in internal auditing.
- 3.2 Among the major changes that have been adopted in the IAM for LGUs, 2023 Edition are as follows:
 - 3.2.1 Clearer guidelines on the establishment of an IAU, including its organization, staffing, and reporting line;
 - 3.2.2 Stronger justification on the delineation of the role of the local accountant in relation to internal audit;
 - 3.2.3 Delineation of the roles and responsibilities of various key players in the LGU on internal control and internal audit to foster participation and involvement at all levels;

- 3.2.4 Provision of concrete examples of the various types of audits that can be performed by the IAU in the LGU;
 - 3.2.5 Provision of more comprehensive and detailed internal audit processes, and general templates on internal audit reports, plans, and communications to better guide internal auditors;
 - 3.2.6 Inclusion of actual examples of non-audit functions, as well as the appropriate series of actions to be taken by the IAU when it is instructed to do the same; and
 - 3.2.7 Clarification on the distinction between internal audit and internal quality audit; authority, purpose, and functions of an IAU; and involvement of internal auditors in the improvement of operations, among others.
- 3.3 The IAM for LGUs, 2023 Edition, which is made an integral part of this LBC, shall govern the internal audit work in the LGUs. Thus, LGUs are directed to make use of the same as their guide in executing the internal audit function. The LGUs should refrain from using other guidelines and standards on internal auditing that are inconsistent with existing Philippine laws, rules, and regulations and/or not applicable for adoption by the Philippine public sector.

4.0 ROLL-OUT ACTIVITIES

To ensure the widest dissemination and application of the IAM for LGUs, 2023 Edition, the roll-out activities shall be conducted by the DBM for all provinces, cities, and municipalities. In addition, capacity-building training shall be provided to the IAUs of LGUs concerned to ensure their full adoption of the IAM for LGUs, 2023 Edition in the operationalization of their internal audit functions.

5.0 ITEMS FOR RESOLUTION

Interpretation of the provisions of this Circular and the IAM for LGUs, 2023 Edition including relevant items not covered therein, shall be referred to the DBM for resolution.

6.0 PERIODIC REVIEW AND SUBSEQUENT GUIDELINES

The IAM for LGUs, 2023 Edition shall be periodically reviewed by the DBM to ensure its responsiveness to the prevailing circumstances in LGUs related to their conduct of internal control and internal audit activities. The need to amend

the IAM for LGUs, 2023 Edition may be prompted by, among others, any future modification, updating, and enhancement of the RPGIAM that may have implications to the LGUs, feedback from the LGUs on the implementation of the IAM for LGUs, 2023 Edition, changes in laws, policies, guidelines, and regulations, and other requisites for enhancing work practices.

Meanwhile, subsequent guidelines that may be issued by the DBM relative to the strengthening of internal audit in the bureaucracy, including the guidelines on establishing IAU and operationalizing the internal audit function, shall be adopted by the LGUs, as may be deemed applicable.

7.0 SEPARABILITY CLAUSE

If any part or provision of this Circular and the IAM for LGUs, 2023 Edition is declared invalid or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

8.0 REPEALING CLAUSE

All existing guidelines, circulars, issuances, manuals, or parts thereof which are inconsistent with this Circular and the IAM for LGUs, 2023 Edition are hereby repealed, amended, or modified accordingly.

9.0 EFFECTIVITY

This Circular shall take effect immediately after its publication.


AMÉNAH F. PANGANDAMAN
Secretary


Message from the Secretary



The Department of Budget and Management (DBM) takes great pride and honor in the publication of the Internal Audit Manual (IAM) for Local Government Units (LGUs), 2023 Edition.

My heartfelt thanks and congratulations to all the people, within and outside DBM, who worked doubly hard and diligently to make this publication possible. Your efforts and commitment to providing a valuable tool to our development partners at the local level will surely make a difference towards improvements in the way LGUs operate and perform.

The revision of the IAM for LGUs is in line with our efforts to pursue game-changing reforms to improve government systems and processes. As we push for innovation in government, it is equally important to revolutionize our mechanisms in internal audit.

Specially designed for LGUs, this manual will serve as a guide in establishing and operationalizing internal audit units, in evaluating an LGU's management controls and operations performance, and in determining whether these are aligned with existing rules and policies. This manual is also envisioned to improve the effectiveness of risk management, controls, and governance processes, as well as aid in gaining the trust of the public by ensuring that LGUs seamlessly and effectively respond to the people's needs.

This manual also harmonizes the rules and guidelines based on several references on internal control and internal audit in the Philippine public sector.

With everyone's support and cooperation, I am confident that our IAM for LGUs, 2023 Edition will help translate standards and procedures into better performance and responsive governance.

Assalamualaikum Warahmatullahi Wabarakatuh.


AMENAH F. PANGANDAMAN
Secretary

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LIST OF ACRONYMS

2Cs	Criteria and Condition
4Cs	Criteria, Condition, Conclusion, and Cause
4Es	Effective, Efficient, Ethical, and Economical
AO	Administrative Order
ADB	Asian Development Bank
AIP	Annual Investment Program
BAC	Bids and Awards Committee
BAICS	Baseline Assessment of Internal Control System
BC	Budget Circular
CAST	Causal Analysis for Systems Theoretic
CBA	Cost-Benefit Analysis
CDP	Comprehensive Development Plan
CL	Circular Letter
COA	Commission on Audit
CPA	Certified Public Accountant
CSC	Civil Service Commission
CTM	Cause Tree Method
DBM	Department of Budget and Management
DBIFC	Disclosure of Business Interests and Financial Connections
DILG	Department of the Interior and Local Government
ECF	Events and Causal Factors
EO	Executive Order
FMS	Financial Management System
GAAM	Government Accounting and Auditing Manual
GAD	Gender and Development
GAO	Government Accountability Office
GFI	Government Financial Institution
GOCC	Government Owned- and/or -Controlled Corporation
GPPB	Government Procurement Policy Board
IAU	Internal Audit Unit
IAM	Internal Audit Manual
ICQ	Internal Control Questionnaire
ICS	Internal Control System
INTOSAI	International Organization of Supreme Audit Institutions
IQA	Internal Quality Audit
IRR	Implementing Rules and Regulations
ISO	International Standards Organization
KPI	Key Performance Indicator
LBC	Local Budget Circular
LCE	Local Chief Executive
LDIP	Local Development Investment Program
LGC	Local Government Code
LGU	Local Government Unit
MC	Memorandum Circular
MES	Multilinear Events Sequencing
MORT	Management Oversight and Risk Tree

MR	Management Review
NGICS	National Guidelines on Internal Control System
OP	Office of the President
OPIF	Organizational Performance Indicators Framework
PES	Performance Evaluation System
PD	Presidential Decree
PDIP	Provincial Development Investment Program
PDPFP	Provincial Development and Physical Framework Plan
PFM	Public Financial Management
PFMAT	Public Financial Management Assessment Tool
PGIAM	Philippine Government Internal Audit Manual
PPAs	Programs, Projects, and Activities
PREXC	Program Expenditure Classification
PS	Personal Service
QMS	Quality Management System
RA	Republic Act
RCA	Root Cause Analysis
RPGIAM	Revised Philippine Government Internal Audit Manual
SALN	Statement of Assets, Liabilities and Net Worth
SC	Supreme Court
SG	Salary Grade
SPMS	Strategic Performance Management System
STEP	Sequentially Timed Events Plotting
TCWP	Test of Control Work Paper
WBA	Why-because Analysis

Foreword

Internal audit in the Philippine government, as a component of the internal control system, allows for efficient, effective, and accountable public financial management.

The Internal Audit Manual (IAM) for Local Government Units (LGUs), 2023 Edition is primarily based on the Department of Budget and Management (DBM)-issued National Guidelines on Internal Control System (NGICS) and the Revised Philippine Government Internal Audit Manual (RPGIAM), which are the official references on internal control and internal audit in the Philippine public sector.

The NGICS, issued under DBM Circular Letter (CL) 2008-8 dated October 23, 2008, unifies existing Philippine laws, rules, and regulations on internal controls in one document to serve as a benchmark for designing, installing, implementing, and monitoring internal controls in the public service.

On the other hand, the RPGIAM, an updated version of the PGIAM developed in 2011, was issued under CL No. 2020-8 dated May 26, 2020. Nine (9) years after the issuance of the 2011 PGIAM, the RPGIAM aims to clarify and address various existing and emerging issues and concerns that are relevant to the effective and efficient conduct of internal audit in government.

The IAM for LGUs issued under DBM Local Budget Circular No. 110 dated June 10, 2016 has been revised primarily to align the same with the NGICS and RPGIAM. This revised Manual is meant to help the LGUs to establish and operationalize their internal audit unit (IAU) and strengthen the same so that the LGUs will reap the benefits of an effectively functioning internal audit.

This IAM for LGUs, 2023 Edition has six (6) parts:

Part 1: Concepts and Principles of Internal Audit – provides an overview of internal audit in the Philippine government setting. It contains the definition, importance, legal basis, scope and types of internal audit in LGUs, and audit principles standards. It also distinguishes the internal audit from regular functions in the LGU; operations and processes of other units; and internal quality audit. Furthermore, it specifies the roles and responsibilities of internal auditors, including those of the auditees.

Part 2: Concepts and Principles of Internal Control – illustrates the internal control system in the LGU context as it presents its definition, framework, objectives, and components. It also outlines the roles and responsibilities of various key players relative to the design, implementation, and monitoring of the internal control system at the local level.

Part 3: Organizing the Internal Audit Unit – provides for the internal audit organizational arrangement in the LGU, including its legal bases. It details the structure and staffing in the IAU depending on the type of LGU. It itemizes the roles and responsibilities of the key stakeholders in the LGU on internal audit, their relationships with the IAU, as well as human resource movements applicable to the IAU.

Part 4: Annual Work Plan and Strategic Planning – covers the whole strategic planning process, including the baseline assessment of the internal control system (BAICS), consideration of the control risks of key processes, and the assessment of the internal audit risks. This part illustrates the transition of the internal audit strategic plan to the annual work plan.

Part 5: Audit Process – presents the complete audit process, including audit engagement planning, audit execution, audit reporting, and audit follow-up. It also contains the various tools and techniques that translate the internal audit plan into actual results.

Part 6: Internal Audit Performance Monitoring and Evaluation – covers the steps, mechanisms, tools, and scope to monitor and evaluate the performance of the IAU.

This makes the IAM for LGUs, 2023 Edition a comprehensive and effective guide on the nature and scope of internal auditing in the Philippine public sector, ultimately contributing to enhancing bureaucratic efficiency and public service delivery toward the growth of our localities and the nation.

PART I

CONCEPTS AND PRINCIPLES OF INTERNAL AUDIT



1.1 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 control with laws, regulations, managerial policies, accountability measures, ethical standards, and contractual obligations. It involves the appraisal of the plan of the organization and all the coordinated methods and measures, in order to recommend courses of action on matters relating to operations and management control. This definition is adopted from the existing provision under the Administrative Code of 1987.

Internal audit, being a distinct component of internal control, is instituted to determine whether or not internal controls are well-designed and properly implemented.

1.2 Benefits of Having Internal Audit

The changing landscape of local governance compels local government units (LGUs) to manage their resources in the most advantageous manner. With the implementation of the Supreme Court (SC) ruling on the Mandanas-Garcia case, the national tax allotment (previously referred to as the internal revenue allotment) shares of the LGUs have significantly increased, hence, LGUs have more fiscal space and leeway to implement the basic services and facilities devolved to them under Section 17 of the Local Government Code (LGC) of 1991, Republic Act (RA) No. 7160, and other existing laws which subsequently directed the devolution of functions from the national government to the LGUs.

The increasing expectations of the public for better service delivery require continuous improvement in the systems and processes of the LGUs. Thus, LGUs must undertake processes or systems improvements. While the Internal Audit Unit (IAU) does not engage itself in undertaking any process or system improvement for or providing assistance to operating and support service units in the LGUs, it conducts root cause analysis (RCA) in cases where controls are weak and recommends courses of action (corrective or preventive measures) for the local chief executive (LCE) to take. It is in these areas where the IAU will be beneficial to the LGU in general and the LCE in particular.

LGUs with established and effectively functioning IAU are able to strengthen their internal control system (ICS). The objective of internal audit is to assist the LCE in

the evaluation of the effectiveness of the ICS to determine whether or not controls are well-designed and properly operated. Specifically, these LGUs will have better means to safeguard their assets and ensure effective, efficient, ethical, and economical (4Es) operations. They will also have the necessary mechanisms to check the accuracy and reliability of their accounting data. Moreover, their practices become compliant with laws, rules and regulations, and managerial policies.

In addition, LGUs with an operational internal audit function would be able to reap the following benefits:

- a. Instilling public confidence in the LGU's ability to operate effectively.
 - i. This will help an LGU establish citizens' trust that the LGU's resources are effectively and efficiently managed for optimum service delivery.
 - ii. This will create a public perception that the LCE understands that control is a function of management and that the LCE is sincere in making continuous improvements to the systems and processes in the LGU.
- b. Strengthening the mechanism for ensuring stronger accountability of LGUs to their respective constituents.

This will help an LGU to demonstrate that it takes seriously the principle of holding its officials answerable and responsible for the use of public funds.

With a fully functioning internal audit, LGUs will be able to benefit from a strong ICS. These benefits include an improved ability to address risks to achieve general control objectives, better systems of responding to the needs of citizens, delivering outputs and outcomes, and effective governance.

1.3 Legal Bases for Internal Audit

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

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

- a. **Office of the President (OP) Administrative Order (AO) No. 119** dated March 29, 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 April 28, 1992 (*Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, In Their Operations*) mandates government entities to strengthen their ICS and organize systems and

procedures in coordination with the Department of Budget and Management (DBM).

Specifically, these offices/agencies were directed to organize their respective 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 ICS and procedures in coordination with the COA and promulgate the proper and appropriate rules, regulations, or circulars.

- b. **OP Memorandum Order No. 277** dated January 17, 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*) directs the DBM to promulgate the necessary rules, regulations, and circulars for the strengthening of the ICS of government offices, agencies, Government-Owned or Controlled Corporations (GOCCs), and LGUs.
- c. Section 3 (b) of the **LGC** mandates the establishment of an accountable, efficient, and dynamic organizational structure and operating mechanism that will meet the priority needs and service requirements of its communities in every LGU. Section 76 of the LGC also stipulates that every LGU shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability, subject to the minimum standards and guidelines prescribed by the Civil Service Commission (CSC). Section 474 (b) of the same law further provides for the qualifications, powers, and duties of an accountant, among which is the mandate to take charge of both the accounting and internal audit.
- d. **OP AO No. 70** dated April 14, 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 IAU and its functions.
- e. **DBM Budget Circular (BC) No. 2004-4** dated March 22, 2004 (*Guidelines on the Organization and Staffing of Internal Auditing Units*) provides for the policy guidelines in the organization, staffing, positions, and salary grades (SG) of the IAU in Departments/Agencies/ GOCCS/Government Financial Institutions (GFIs)/LGUs concerned.
- f. **OP MC No. 89** dated August 18, 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*) enjoined all heads of agencies to (a) create an 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.

- g. **DBM Circular Letter (CL) No. 2008-8** dated October 23, 2008 (*National Guidelines on Internal Control Systems [NGICS]*), provides guidance to heads of departments and agencies in designing, implementing, and monitoring their respective ICS, taking into consideration the requirements of their organizations. It emphasized that the IAU, as a key part of the agency's ICS, is mandated in the agency structure to conduct a separate evaluation or appraisal of the ICS to determine whether or not internal controls are well-designed and properly implemented.
- h. **DBM CL No. 2020-8** dated May 26, 2020 (*Revised Philippine Government Internal Audit Manual [PGIAM]*) aims to assist government agencies concerned in the Executive Branch in establishing and thereafter strengthening their internal audit function to promote 4Es operations in government, among other objectives.
- i. Section 9 of **CSC Memorandum Circular (MC) No. 12, s. 2022** dated November 8, 2022 (*2022 Guidelines and Standards in the Establishment of Organizational Structures and Staffing Patterns in Local Government Units*) provides that other offices and positions in the organizational structure and staffing pattern not provided under Sections 3 and 4 of the subject MC may be created by the LGUs, provided that they are the priority needs as identified by the LCE, the sanggunian and/or the local development councils concerned consistent with Section 17 of the LGC, the mandatory positions shall have been created, and the budgetary limitations under Section 325 of the LGC have been complied with.

Specifically, Sections 3 and 4 of **MC No. 12, s. 2022** identify, among others, the Office of the Internal Audit Services which may be created by the LGUs, subject to the provisions of Sections 1, 2, and 9 of the subject MC.

1.4 Scope and Types of Internal Audit

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

Among others, internal audit encompasses the evaluation of the degree of compliance of controls with laws, rules, and regulations governing the operations of the LGUs, the appraisal of the adequacy of internal controls, the conduct of management audit, and the evaluation of the results of operations, focusing on the effectiveness of controls of operating and support units/systems in the attainment of the LGU objectives.

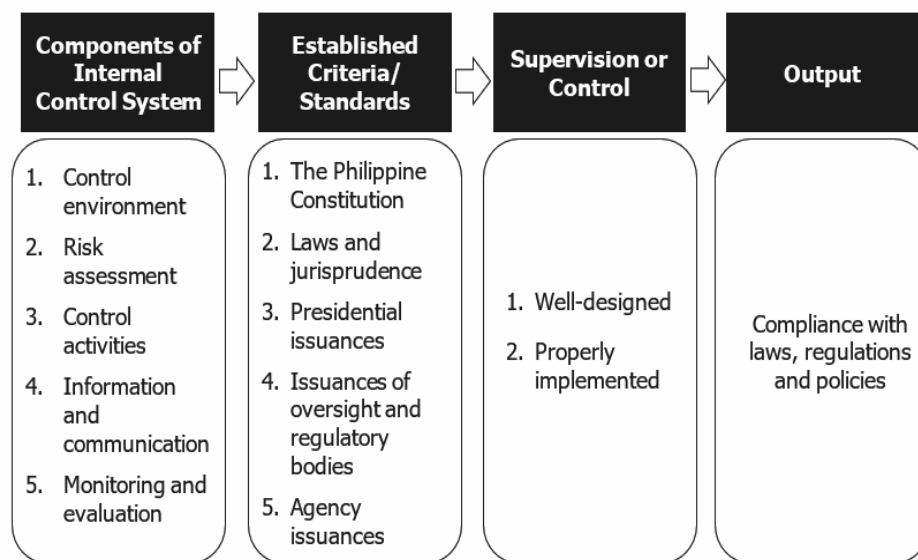
There are three (3) types of audit namely: compliance, management, and operations audit.

1.4.1 Compliance Audit

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

Figure 1 shows the compliance audit flow diagram.

Figure 1. Compliance Audit Flow Diagram



Compliance audit should be distinguished from compliance review which is the periodic review conducted by the heads of operating and support units to ensure that operations and processes are in compliance with laws, regulations, managerial policies, procedures, accountability measures, ethical standards, contractual obligations, or other requirements. It is not enough that a unit regularly reviews the level of its performance, it must also review its compliance with laws and regulations, among others. A compliance review is part of the ongoing monitoring of internal controls done by delivery units, while a compliance audit is done by the IAU as part of its separate evaluation and post-audit function.

Examples of Compliance Audit

1. Audit on the procurement of infrastructure projects through competitive public bidding undertaken by the Bids and Awards Committee

Objective: To assess the degree of compliance to RA No. 9184 and its Implementing Rules and Regulations

2. Audit of the conditional matching grant for road repair, rehabilitation, and improvement

Objective: To determine compliance with the requirements/ conditions set forth in the implementing guidelines per Department of the Interior and Local Government-Department of Budget and Management Joint Memorandum Circular No. 2017-2 dated April 26, 2017 (*Guidelines for the Implementation of the Conditional Matching Grant to Provinces for Road, Repair, Rehabilitation and Improvement [CMGP] for FY 2017 and Thereafter*)

3. Audit of the programs, projects and activities (PPAs) on gender and development (GAD)

Objective: To ascertain compliance to existing laws, rules and regulations of the identification, approval, implementation, and monitoring of PPAs on GAD

4. Follow-up audit of the Cash Management System of the Cash Receipts and Disbursement Section of the Treasurer's Office

Objective: To assess compliance to approved audit recommendations

5. Audit of the Performance Evaluation System

Objective: To assess compliance to the corrective action request issued on infrastructure projects relative to the contractor's performance evaluation

1.4.2 Management Audit

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

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

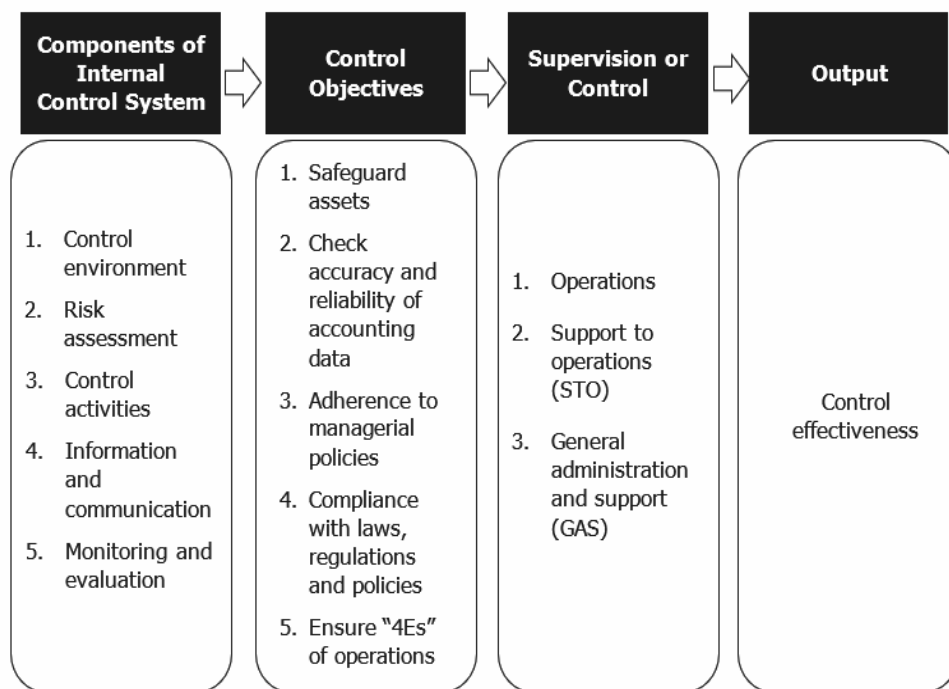
It is a review and appraisal of the systems and processes, organizational and staffing structures, operations and management practices, records, reports, and performance standards of the agencies/units covered.

Management audit may encompass a comprehensive and thorough examination of an organization or a specific operating or support system or work process. The audit is conducted to identify issues and control weaknesses or management deficiencies in the system, thus, providing the LCE with courses of action to address the problem area.

Examples of support services systems are human resource management system, financial management system (FMS), quality management system (QMS), risk management system, and their respective sub-systems.

Figure 2 shows the management audit flow diagram.

Figure 2. Management Audit Flow Diagram



Management audit should be distinguished from management review (MR) which is conducted by the executive committee or management committee or delegated to another unit depending on the structure of the LGUs. Under MR, the existing organizational structure, methods, measures, systems, and processes are reviewed to ensure continuing suitability, adequacy and effectiveness, and identify and assess opportunities for improvement.

MR is part of the ongoing monitoring of internal controls done by the management, while management audit is done by the IAU as part of its separate evaluation and post-audit function.

Examples of Management Audit

1. Audit of the dormant accounts
2. Audit on the utilization of the existing Department of Health 2016 variable tranche covered by service level agreements or terms of partnership
3. Audit of the disaster risk reduction and management funds
4. Audit of the time and motion study of the Accounts Liquidation Division, Accountant's Office
5. Audit of the Real Property Appraisal and Assessment System
6. Audit of the Information Technology Infrastructure System
7. Audit of the Property, Plant, and Equipment Management System
8. Audit of the Records Management System
9. Audit of the Payroll System of the job order workers

Common Objective: To evaluate the adequacy and effectiveness of internal controls, and assess whether or not the existing procedures are in accordance with relevant laws, rules, regulations and implementing guidelines

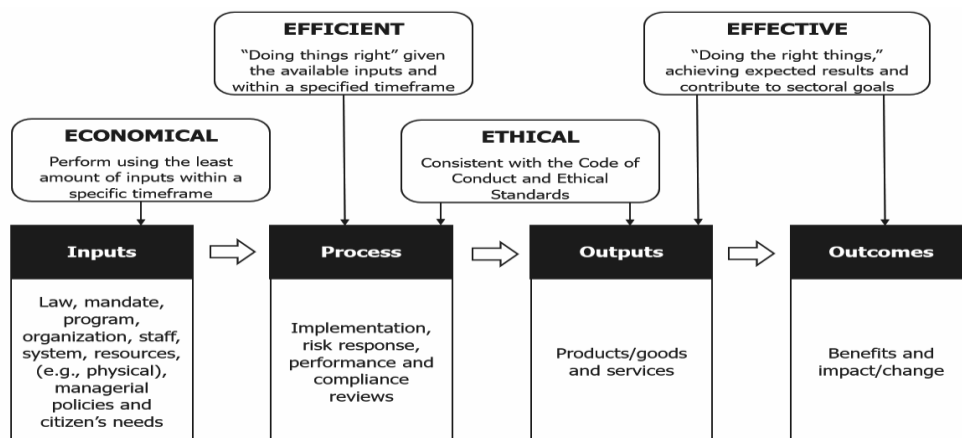
1.4.3 Operations Audit

Operations audit is a separate evaluation of the outcome, output, process, and input to determine whether or not government operations, programs, and projects are 4Es. It likewise includes the conduct of compliance audit. 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 essential to the delivery of better public services, accountability, and better governance. The matter of outcomes, outputs, processes, and inputs, as well as their correlation with the goals of the 4Es of operations, are the focus of the evaluation.

Figure 3 shows the operations audit flow diagram.

Figure 3. Operations Audit Flow Diagram



Operations audit should be distinguished from operations review which is conducted by the head of operating and support units. Operations review involves the determination of whether or not actual accomplishments meet established objectives and standards, and the implementation of improvements when necessary. In the conduct of an operations review, performance is checked regularly. If actual accomplishments do not meet the established objectives and standards, the processes established to achieve the objectives should be reviewed to determine if improvements are needed.

Operations review is part of the ongoing monitoring of internal controls done by the delivery units, while operations audit is done by the IAU as part of its separate evaluation and post-audit function.

Examples of Operations Audit

1. Audit of the tax relief measure implemented through the grant of tax condonation of interests and surcharges on delinquent real property taxes

Objective: To assess its implementation pursuant to applicable implementing guidelines and evaluate the effectiveness, efficiency, economy and ethicality of the implemented tax relief measures

2. Follow-up audit of the Tracking System

Objective: To assess the effectiveness, efficiency, economy and ethicality of the implementation of the system

3. Audit of the Disaster Awareness and Preparedness, Information Material and Tools Development and Dissemination project of the Disaster Risk Reduction and Management Office

Objective: To determine whether or not the office has effectively capacitated the key stakeholders through timely distribution of adequate information materials and conduct of seminars/trainings

4. Audit of the Engineer's Office Document Tracking System

Objective: To determine compliance with the requirements or conditions set forth in the implementing guidelines and evaluate the effectiveness, efficiency, economy and ethicality of the implementation of the system

Essential to the conduct of operations audit is the assessment of progress with respect to processes, projects, programs, their respective outputs or outcomes, or impact or 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-process-input as they relate to the 4Es. 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 or outcomes.

An alternative to differentiating management audit and operations audit is shown in Table 1.

Table 1. Management Audit as Distinguished from Operations Audit

Particulars	Management Audit	Operations Audit
Scope/Coverage	Management systems <ul style="list-style-type: none"> • FMS • Human resource management system • Procurement system • Risk management system • Information and Communication system 	Outcomes, outputs, processes, and inputs of programs, projects, and operations
Objective	Evaluation of the effectiveness of controls	Evaluation of 4Es
Approach of Evaluation	Driven by control objectives	Driven by results

1.5 Internal Audit Principles and Standards

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.

1.5.1 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. Local ordinances and resolutions;
- e. Standards and other issuances of intergovernmental organizations such as those of the United Nations specialized committees and agencies; and

- f. Relevant or applicable standards and best practices in governance, accountability, and operations, both local and international such as those of International Organization for Standardization, and other officially recognized organizations and associations.

1.5.2 Objectivity and Impartiality, and Avoidance of Conflict of Interest

Objectivity and impartiality are vital to the effectiveness of the internal audit function. To maintain objectivity and impartiality, and uphold public interest, the internal auditor should avoid conflict of interest at all times. Internal auditors should constantly maintain an impartial, unbiased attitude, characterized by integrity and an objective approach to work, and be conscious of and alert to factors that may give rise to a 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 auditors must base their findings on relevant, reliable, sufficient, and timely audit evidence and a set of criteria. Such criteria include statutory policies, rules, regulations, and procedures.

Impartiality, on the other hand, means that the internal auditors are free from bias and conflict of interest. They do not use their position to acquire benefits or advantages for themselves or their related interests.

To be objective and impartial, the internal auditors shall, at all times: (1) uphold public interest over and above personal interest; (2) have no direct authority or responsibility for the activities they review nor any responsibility for developing or implementing processes or systems; (3) not engage in regular functions or activities which are the primary duties of another department or office in the LGU; and (4) not have a vested interest in the activity being audited.

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

1.5.3 Professional Competence

Internal auditors must maintain high standards of competence and professional integrity commensurate with his/her responsibilities and mandated functions. They should commit to the highest degree of professional competence, both in the technical and ethical sense, through empowerment and continuing self-development. They must possess and

continually develop the knowledge, skills, and other competencies needed to perform their responsibilities to enhance the quality of the audit.

1.5.4 Authority and Confidentiality

Based on the audit objectives and subject to compliance with the internal security policies of public service organizations, the LCE shall authorize internal auditors to have full, free, and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the IAU considers necessary and relevant 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. Internal auditors shall respect the confidentiality of information acquired while performing 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 auditors acquiring information in the course of the audit neither use nor appear to use that information for personal advantage or the advantage of a third party.

The 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 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 LCE, or the Presiding Officer of the Sanggunian, in case the legislative branch is being audited. In addition, access to such documents should be in accordance with the LGU-specific policies on the security of information and disclosure.

1.5.5 Evidence-Based Approach

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

Please refer to Part 5. Audit Process for the discussion of the tools and techniques in gathering and analyzing evidence.

1.5.6 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 (RA No. 6713) in the performance of their functions. Aside from the grounds for administrative disciplinary actions prescribed under existing laws, Rule X of the implementing guidelines of RA No. 6713 identifies the acts and omissions of any official or employee, whether or not he/she holds office or employment in a casual, temporary, hold-over, permanent or regular capacity which are declared unlawful or prohibited by the Code as grounds for administrative disciplinary action. Internal auditors must familiarize themselves with these acts or omissions.

1.6 Roles and Responsibilities in Internal Audit

1.6.1 Local Chief Executive

Sections 444 (b), 455 (b), and 465 (b) of RA No. 7160 provide that the LCE shall exercise such powers and perform duties and functions for the efficient, effective, and economical governance for the general welfare of its respective territorial jurisdictions and its inhabitants.

Relatedly, pursuant to Section 124 of the Government Auditing Code of the Philippines (PD No. 1445 dated June 11, 1978) and the Administrative Code of 1987, the LCE has the direct responsibility to install, implement, and monitor a sound system of internal control in the LGU. However, the LCE may task the IAU to undertake the appraisal of the internal control within the LGU.

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

The LCE, in the performance of internal audit in the Executive Branch, is responsible for the following, among other tasks:

- i. Ensure that the IAU fully discharges its internal audit function;
- ii. Provide insights on, review, verify the veracity of, and approve internal audit plans and reports;
- iii. Discuss the internal audit findings and recommendations with other key officials/personnel concerned in the LGU, as necessary;
- iv. Ensure timely distribution of audit reports to auditees for implementation of the approved audit findings and recommendations;

- v. Lead the implementation of the approved audit findings and recommendations;
- vi. Instruct key officials/personnel concerned in the LGU to undertake necessary actions, including the development/refinement of certain policies/guidelines to avoid the occurrence (preventive action) or recurrence (corrective action) of control weaknesses and incidences;
- vii. 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
- viii. Periodically review the performance of the internal audit, as part of supervision and control.

1.6.2 Sanggunian

The sanggunian, as the local legislature, has a key role in establishing the IAU through the enactment of an ordinance creating the IAU, and by providing funding support in accordance with the provisions set out in AO No. 278 and DBM BC No. 2004-04.

The Presiding Officer of the Sanggunian may also exercise the same roles and responsibilities of the LCE in cases when the legislative branch is being audited.

1.6.3 Internal Audit Unit

As the assigned unit in the appraisal of the ICS within the organization, the IAU head is accountable to the LCE or Presiding Officer of the sanggunian for the efficient and effective operation of the internal audit function.

The functions of the IAU are as follows:

- a. Advise the LCE or Presiding Officer of the sanggunian on all matters relating to the separate evaluation of the ICS in the Executive or Legislative Branches, respectively;
- b. Conduct management and operations audit of LGU functions and programs, projects, and activities (PPAs) 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, management practices, records, reports, and performance standards of the LGU;

- d. Analyze and evaluate internal control deficiencies, conduct RCA in cases when controls are weak, and recommend realistic courses of action (corrective and preventive measures) for the LCE or the Presiding Officer of the sanggunian to consider; and
- e. Perform such other internal audit-related duties and responsibilities, as may be assigned or delegated by the LCE or the Presiding Officer of the Sanggunian or as may be required by law.

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

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

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

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."

Moreover, the internal audit being undertaken by the IAU is not the same as the fraud audit. Nevertheless, at any point during the baseline assessment of the internal control system (BAICS) and conduct of internal audit engagement, when significant risks or issues arise that require immediate action, the IAU will prepare an interim report to be submitted to the LCE to communicate findings, issues, and problems that may affect the conduct of the audit and expose the LGU to considerable risks. Said significant risks or issues may include fraudulent activities discovered by the IAU during the course of the audit.

1.6.4 Auditees

The auditee is the senior official 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.

The auditees may also include the different departments, offices, divisions, sections, or units.

The auditees play a cooperative role in the course of the conduct by the 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 LCE or the Presiding Officer of the sanggunian, as applicable, allow the IAU to have full, free, and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the IAU considers necessary in undertaking internal audit activities;
- c. Provide comments and insights about the significant audit issues as a way of validating the IAU findings;
- d. Comply with the approved audit findings and recommendations;
- 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 IAU in its audit engagements.

The auditees of the IAU are not its customers or clients. As such, the NGICS prohibits the auditor to have a client/customer relationship with the auditee.

1.7 Role of the Local Accountant in Relation to Internal Audit

Section 76 of the LGC provides that each LGU shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability subject to CSC minimum standards. Further, Sections 447 (a) (1) (vii), 458 (a) (1) (vii), and 468 (a) (1) (vii) of the LGC provide for the sanggunian to determine the powers and duties of officials and employees of its respective LGU.

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

The accountant performs regular functions (e.g. pre-audit) because it is an inherent function of the accounting unit to ensure that disbursements comply with laws, rules, and regulations and that they are properly documented, while the

Internal Auditor performs non-regular functions (e.g. compliance, management and operations audits).

COA Circular No. 2011-001 dated July 22, 2011 (*Lifting of Pre-Audit of Government Transactions*) indicates that pre-audit of government financial transactions is inherent to the accounting and fiscal control processes of the government agency. Hence, the conduct of such activity is part of the establishment and maintenance of an adequate ICS to: (i) achieve 4Es in the management and utilization of the agency resources; (ii) prevent illegal, irregular, unnecessary, excessive, extravagant, and unconscionable expenditures and uses of funds and property; and (iii) ensure the legality and propriety of collection of what is due to the government.

On the other hand, an internal audit is undertaken *ex post facto* or after the fact/transaction. Being part of a separate internal control component (monitoring and evaluation), it is instituted to determine whether internal controls are well-designed and properly implemented.

Foregoing considered, pre-audit activity is considered a non-internal audit task as this is in conflict with the post-audit function of the IAU.

Pursuant to AO No. 278 s. 1992, it is clear that the pre-audit of vouchers is not a function of the internal auditor and that the internal audit is detached from all regular functions.

As part of its post-audit function, the role of the IAU in the disbursement of funds is to undertake a separate evaluation to determine whether or not the local accounting office has instituted the necessary controls relative to accounting and financial reporting of such funds and to determine whether or not the local accounting office has properly performed the pre-audit of disbursements. This is based on the nature of internal audit as an *ex-post facto* or after-the-fact/transaction function.

Further, the DBM BC No. 2004-04 dated March 22, 2004 provides for LGUs to determine their own staffing modifications, subject to the approval of the sanggunian.

With this, if the sanggunian issues an ordinance authorizing the creation of an IAU, the LGU shall follow AO No. 278 and DBM BC No. 2004-04 in establishing the IAU.

1.8 Internal Audit as Detached from Regular Functions

Inasmuch as the LGU operations, programs, and projects, including their systems and processes, may be subject to future audit, the IAU shall 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 IAU is not responsible for or required to participate in activities that are essentially part of the regular operating functions or the primary responsibility of another unit in the organization. These include management and process improvement of operating and support services systems, such as quality management, human resources management, and financial management, which are the responsibilities of the operating and support services units concerned.

The IAU shall be detached from all non-internal audit functions, such as, but not limited to the following:

- a. Risk management, assurance activity, and design/development/installation/implementation/improvement of systems and processes;
- b. Conduct of internal quality audit as part of the ongoing implementation of the QMS;
- c. Participation in procurement activities, including membership in the Bids and Awards Committee (BAC), its secretariat or technical working group, or as an observer;
- d. Preparation or review of draft policies, guidelines, standards, or operating procedures of other offices;
- e. Preparation, review, verification, and certification of financial reports (e.g., liquidation reports, treasury and bank reconciliation statements, and confirmation report as an attachment to management representation letters) before approval by the LCE;
- f. Pre-audit of vouchers and counter-signature of checks;
- g. Conduct of quality control activities, such as inspection of deliveries before acceptance;
- h. Participation in asset management-related activities, such as the conduct of physical inventories, serving as observers during the physical count and disposal activities, inspection of assets for disposal, and maintenance of property records;
- i. Consolidation and submission of agency action plans in response to the external audit findings and recommendations (as contained in the COA Audit Observation Memorandum), as well as the provision of the status of implementation thereof;
- j. Appointment, membership, and involvement in regular management committees and special designations not in line with internal audit functions, such as, but not limited to, the following:
 - i. Committee on Anti-Red Tape
 - ii. Review and Compliance Committee
 - iii. Inventory Committee

- iv. Disposal Committee
 - v. Data Protection Officer
 - vi. Freedom of Information Receiving Officer and Decision Maker
- k. All other activities related to operations and non-internal audit functions.

Internal auditors are not precluded from joining investigation teams or 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 report.

In case the IAU is instructed to undertake non-internal audit tasks, it should communicate in official writing (e.g., memorandum) to the LCE that it is prohibited from performing the same, citing the foregoing provisions of the Manual. Notwithstanding its position on the matter, the IAU must comply with the decision of the LCE, who will act or decide on the matter based on his/her sound discretion.

Please refer to Appendix B Template 1 on the sample of official communication to the LCE as the IAU principal on the conduct of Non-IA Tasks.

1.9 Internal Audit as Distinguished from the Operations and Processes of Other Units

1.9.1 Risk Management and Assessment

Risk management, which 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, is an inherent function of the LGU. Thus, the conduct of the same is the responsibility of the LGU management, not of the internal auditor. Risk management, together with governance, control, and process improvement, is the responsibility of the LCE, shared with different departments and offices, and not by the internal auditor.

Similar to risk management, the responsibility to undertake risk assessment, which is the overall process of risk identification, risk analysis, and risk evaluation, rests with the LCE and the different departments and offices in the LGU. The IAU should not conduct risk assessment, except for purposes of planning and prioritizing potential audit areas. The IAU may encroach on the functions of the LGU if it performs an assessment of the risks affecting the LGU policies and objectives.

1.9.2 Assurance Activity

Assurance activity involves the assessment of governance, risk management and control, and undermines the structural, functional, and procedural principles of governance.

Under the Philippine setting, the IAU in the public sector is not involved in assurance activity or assure/ensure that the LGU's internal controls and operations are 4Es. Internal audit only involves appraisal.

The internal auditor does not 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 determines compliance with the same.

The internal audit does not manage or improve operations. It does not exercise direct supervision and control and is not responsible for procedures that are essentially a part of regular operating activities or operations that are the primary responsibility of another unit in the LGU.

The LCE has the power of supervision, which is operationalized by requiring the submission of reports which are audited or evaluated and inspected to determine compliance with policies, standards, and guidelines. It is the LCE that certifies and not the internal auditors because the LCEs are the ones who have fiscal responsibility; they are responsible for the LGU's operations, to ensure that funds are utilized and operations are 4Es. Thus, it is not the function of the IAU to ensure and even assure that the LGU's internal controls and operations are characterized by 4Es.

1.9.3 Process or System Improvement

The improvement of systems and processes is a mandated responsibility of the LCE to promote integrity, accountability, and good governance in the public service. All delivery units are required to undertake the same.

As previously mentioned, the IAU does not engage itself in undertaking process or systems improvement for or providing assistance to, operating and support service units in the LGU. Instead, it conducts RCA in cases where the controls are weak and recommends courses of action (corrective or preventive measures) for the LCE to take.

Corrective measures refer to the local government's actions to eliminate the causes of noncompliance to policies, rules, and regulations in order to prevent recurrence. On the other hand, preventive measures refer to determined actions of the LGU to eliminate the causes of potential noncompliance to prevent their occurrence.

1.10 Internal Audit as Distinguished from Internal Quality Audit

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

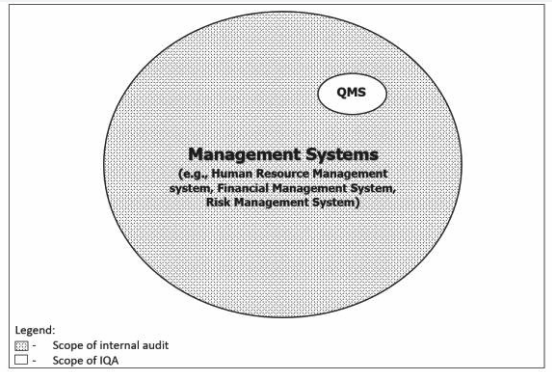
IQA is being undertaken to assess the conformance of the government agency's QMS with the requirements of the International Standards Organization (ISO) 9001:2015 Standard and to provide information on whether or not the QMS is effectively being implemented and maintained. It is usually limited to the implementation of the scope of the QMS. It is conducted after the QMS is established/installed in the agency and ideally before 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 LGU, depending on the scope of the QMS and the sites covered.

The results of the IQA are used in the conduct of MRs for continual improvement of the QMS.

The distinctions between IQA and internal audit are shown in Table 2.

Table 2. Distinction Between IQA and Internal Audit

Particulars	IQA	Internal Audit
Focus/ Purpose	<ul style="list-style-type: none"> Assessment of whether or not the LGU'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 	<ul style="list-style-type: none"> Appraisal of the adequacy of internal controls, conduct of management audit, evaluation of the results of operations, focusing on the effectiveness of controls
Scope	<ul style="list-style-type: none"> Usually limited to the implementation of the scope of the QMS 	<ul style="list-style-type: none"> Covers all matters relating to operations and management control, including the operating systems and support services units/systems (e.g., Human Resource Management system, FMS, QMS, risk management system)
<p align="center">Figure 4. Difference between the Scope of Internal Audit and IQA</p>  <p align="center"> Management Systems (e.g., Human Resource Management system, Financial Management System, Risk Management System) </p> <p align="center">QMS</p> <p>Legend: [Large Circle with Dot] - Scope of internal audit [Small Circle with Dot] - Scope of IQA </p>		
Timing	<ul style="list-style-type: none"> Undertaken as part of the implementation of the QMS; conducted after the QMS is 	<ul style="list-style-type: none"> Takes place "after the fact" and covers a

Particulars	IQA	Internal Audit
	established/installed in the agency and ideally before the conduct of a certification/surveillance audit by the third-party certification body	complete cycle of operations
Responsibility	<ul style="list-style-type: none"> The audit team (including the audit team leader and auditors) conducts the audit of 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. 	<ul style="list-style-type: none"> LCE has the direct responsibility to install, implement and monitor a sound ICS IAU assists the LCE by conducting a separate evaluation of the ICS to determine if controls are well-designed and properly implemented.

PART 2

CONCEPTS AND PRINCIPLES OF INTERNAL CONTROL



The most basic competence that an internal auditor must possess is the knowledge of internal control considering that the IAU is mandated to conduct a separate evaluation or appraisal of the ICS to determine if controls are well-designed and properly implemented.

Indeed, the key to a better appreciation of internal audit is an understanding of internal control. In that sense, it is necessary to make a clear distinction between the two (2).

Internal control is management control to regulate and guide the operations of an organization. In the context of the LGU, as a management control, it requires the participation and involvement of the LCE, officials, and personnel at all levels, including the various organizational units therein.

Internal control is a series of actions that occur throughout an entity's operations on an ongoing basis. It is built in rather than built on, which means that it is embedded with the management processes. Internal controls are not stand-alone or separate specialized systems within the LGU. They consist of control features interwoven into and made an integral part of each system that management uses to regulate and guide its operations.

Taken together, the ICS is the holistic scheme of internal control objectives, components, and structure.

On the other hand, an internal audit is the means by which internal controls are separately evaluated or appraised to determine whether or not they are well-designed and properly implemented.

2.1 Definitions of Internal Control

Internal control refers to the plan of an organization or agency and all the coordinated methods and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies **[Section 123 of PD No. 1445, s. 1978, as amended]**.

This legal definition is supplemented by the policy that "all resources of the government shall be managed, expended or utilized in accordance with laws and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered

to rests directly with the chief or head of the government agency concerned” **[Section 1, Chapter 1, Subtitle B, Book V of the Administrative Code of 1987].**

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

The Philippines’ internal control standards are complemented by prevailing international best practices such as the Guidelines for Internal Control Standards for the Public Sector issued by the International Organization of Supreme Audit Institutions (INTOSAI), an organization of 194 countries (including the Philippines). The INTOSAI Guidelines provide a framework for internal control in the public sector against which internal control can be evaluated. The framework does not limit or interfere with the duly granted authority related to the legislative, rule-making, or other discretionary policy-making powers of an organization.

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

- a. executing orderly, effective, efficient, economical, and ethical operations;
- b. fulfilling accountability obligations;
- c. complying with applicable laws and regulations; and
- d. safeguarding resources against loss, misuse, and damage.

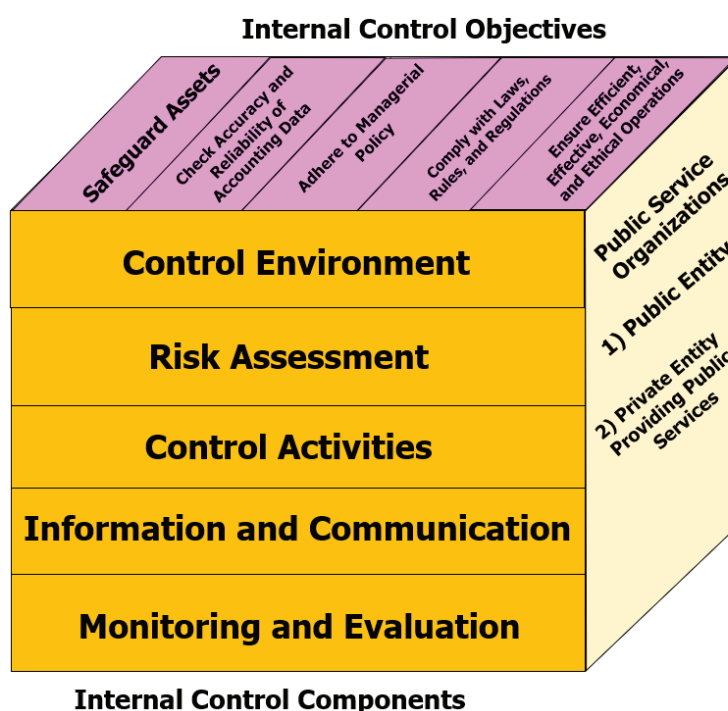
The United States Government Accountability Office (GAO) also defines internal control as “an integral component of an organization's management which provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.”

2.2 Internal Control Framework

Figure 5 shows the Internal Control Framework consisting of three (3) faces. The vertical enumeration represents the internal control objectives, while the internal control components are depicted by the horizontal enumerations, both in the context of the public service organizations, which is represented by the third (3rd) face of the framework. In essence, the framework represents the pictorial or schematic presentation of the overall ICS.

Accordingly, there is a direct relationship between the general control objectives, which represent what an LGU's internal controls strive to achieve, and the internal control components, which represent what are needed by the LGU to achieve the general control objectives.

Figure 5. Internal Control Framework



Each internal control component cuts across all control objectives. One (1) control component could achieve one (1) or more control objectives. For example, the generation of financial and non-financial data from internal and external sources, which falls under the information and communication component, is directly related to the accurate accounting of information. Said data are also needed to adhere to managerial policies, comply with applicable laws, manage operations, and safeguard assets.

Internal control components are considered effective when they satisfactorily achieve the five (5) general objectives discussed in the following section.

2.3 Objectives of Internal Control

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

- a. Safeguard assets;
- b. Check the accuracy and reliability of accounting data;

- c. Adhere to managerial policies;
- d. Comply with laws, rules, and regulations; and
- e. Ensure effective, efficient, ethical, and economical operations.

2.3.1 Safeguard Assets

In general, safeguarding assets in the public sector involves the judicious use of government funds, and facilities, including documents, records, and human resources in the delivery of public services. Thus, proper documentation and recording are appropriate controls that eliminate the vulnerability of assets to misuse, loss, destruction, and other hazards.

For instance, proper procurement and use of the Philippine Government Electronic Procurement System (PhilGEPS) improve the likelihood that quality goods and services are obtained at the least cost and in a timely and transparent manner. Moreover, the policies and procedures of an LGU should also be designed to prevent or detect the loss of assets and records on a timely basis.

2.3.2 Check the Accuracy and Reliability of Accounting Data

This objective entails the generation of correct and credible financial information, which is essential to control and decision-making. This may be achieved through government accounting that aims to produce information concerning past operations and present conditions; provide a basis for guidance for future operations; provide for control of the acts of public bodies and officers in the receipt, disposition and utilization of funds and property; and report on the financial position and results of operations of government agencies for the information of all persons concerned. *[Section 41, Chapter 6, Subtitle B, Book V, Title I, EO 292 or the Administrative Code of 1987].*

2.3.3 Adhere to Managerial Policies

Managerial policies pertain to the directives and courses of action given by the agency head or management committee toward achieving defined objectives. These policies provide guidance to personnel in the proper execution of the work of their unit and individual tasks that collectively contribute to the attainment of organizational goals.

2.3.4 Comply with Laws, Rules, and Regulations

This objective entails compliance of the LGU and its programs, activities, and functions with applicable laws, as well as specific rules and regulations. This is based on the premise that the powers of LGUs depend largely, if not wholly, on the provisions of the statute creating or empowering them, particularly the LGC.

As further amplified in the GAAM, in government, the organizations, programs, activities, and functions are usually created by law and are subject to specific rules and regulations.

2.3.5 Ensure 4Es Operations

Ensuring 4Es operations deals with the requirement of public service that agency outputs and outcomes are measured in terms of how these directly affect the quality of public service delivery.

<u>Definition of 4E's of Operations</u>	
Effective	Doing the right things to achieve the expected results and contribute to LGU goals
Efficient	Doing things right given available inputs and specified timeframe to deliver given quantity and quality of outputs
Ethical	Complying with norms of conduct and conformity with RA No. 6713 (<i>Code of Conduct and Ethical Standards for Public Officials and Employees</i>)
Economical	Perform the least amount of inputs within a specific timeframe

2.4 Components of Internal Control

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

Internal control has five (5) interrelated components, to wit:

- i. Control environment;
- ii. Risk assessment;
- iii. Control activities;
- iv. Information and communication; and
- v. Monitoring and evaluation.

2.4.1 Control environment

The control environment is the general framework serving as basis for the other four (4) components of internal control. It represents the scope and coverage of an LGU's ICS which impacts its structural and operational framework.

This component integrates all the other four (4) internal control components and is taken all together to influence the direction and quality of an LGU's strategies and outcomes.

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

- a. **Plan of organization** (structure, management, and personnel). This consists of the organizational structure, as well as the management and personnel set-up which enable an LGU 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.

It provides the framework within which the activities of an LGU are planned, executed, controlled, and reviewed. It considers key areas of authority and responsibility and the appropriate lines of reporting.

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

Examples of management systems are as follows:

1. Human Resource Management System - encompasses the processes from recruitment, retention, training, supervision, and discipline, until an employee's severance from the service either through retirement, resignation, or separation;
2. FMS - involves the aspects of budgeting, accounting, and financial reporting;
3. QMS - governed by Philippine National Standards ISO 9001 Standards; and
4. Performance Management System - governed by civil service rules and regulations.

2.4.2 Risk assessment

Risk assessment is the overall process of identifying, analyzing, and evaluating relevant risks to the achievement of the LGU goals and objectives as well as control objectives. It should be conducted systematically, iteratively, and collaboratively, drawing on the knowledge and views of stakeholders.

Risk assessment is part of the overall risk management process of the LGU. As a matter of practice, each organizational unit in the LGU (e.g. department or office) performs its own risk assessment. The results of the risk assessment are documented in a risk register, which is then consolidated to keep a record of the overall LGU risks. The risk register contains the name or title of the risk, the risk description, and the risk owner (unit or the person that is best responsible for managing such risk).

The overall risk management framework of an LGU entails the following core elements:

- a. Communication and consultation;
- b. Establishing the context;
- c. Risk assessment;
- d. Risk treatment;
- e. Monitoring and review; and
- f. Recording and reporting.

Risk assessment consists of three (3) sub-processes: (i) risk identification; (ii) risk analysis; and (iii) risk evaluation.

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, as well as 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.

Risk can arise from internal or external sources, and might include exposure to such things as financial loss, physical damage, failure of a project to reach its objectives, taxpayer dissatisfaction, unfavorable publicity, or mismanagement.

For example, risks that LGUs might confront can be categorized into the following:

- a. **Strategic risks** (risks to the achievement of development goals, such as policymaking and planning being weakly linked to budgeting);
- b. **Commercial risks** (risks to stable commercial relationships, such as failure to meet contractual obligations);
- c. **Operational risks** (risks to the operationalization of the organizational objectives of the LGU, i.e., to ensure 4Es governance in the delivery of basic services and provision of adequate facilities to the constituents performed by the LCEs and sanggunian);
- d. **Technical risks** (security, and fraud risks such that LGUs may suffer financial loss due to engagement with individuals claiming fast-track government transactions, or the risks of hacking financial information and identity stolen for online payment transactions; or events where the LGU can experience data breaches);
- e. **Administrative risks** (risks arising from the management of assets, such as equipment failure or lack of qualified personnel);
- f. **Financial systems risks** (risks to maintaining financial controls and systems, such as human error or incompetence);
- g. **Financial/fiduciary risks** (risks that funds are not used for intended purposes, do not achieve value for money, and/or are improperly accounted for);
- h. **Compliance risks** (risks to meeting regulatory obligations such as weak understanding of laws, regulations, managerial policies, and operating processes);
- i. **Technology risks** (risks associated with data availability, data integrity, data/privacy breach, and technology infrastructure; these also include risks on digitalization);
- j. **Environment risks** (risks associated with environmental damage which impacts the biological or physical environment and ecosystem impairment; the occurrence of natural disasters/events such as flood, volcanic eruptions, forest fires, and pollution [land, air, and water] that may disrupt the operations of the LGU, including the provision of essential services and accomplishment of goals and objectives);
- k. **Economic risks** (changes within the economy, e.g., interest rates, exchange rates, recession, inflation, taxes, and changes in demand and supply, that lead to losses in revenues and income that the LGU may be disadvantaged);
- l. **Geopolitical risks** (those that arise from tensions between parties which may affect the LGU's plans and actions. An example is the 2013

armed-conflict in Zamboanga City crisis between the government forces and rebels); and

- m. **Reputation risks** (risks threatening the LGU's image as an organization resulting from unsatisfied customers, lawsuits, and the like).

Risk analysis is the systematic use of information to identify the sources, events, and scenarios relative to the risk. The purpose of risk analysis is to comprehend the nature and characteristics of a particular risk, including, where appropriate, the level of the risk. It involves a detailed consideration of the uncertainties, risks sources, consequences, likelihood, events, scenarios, controls, and their effectiveness that matter to the achievement of the goals and objectives of the LGU. Understandably, risk analysis provides input to risk evaluation and decisions on whether or not risks need to be responded to, and identifies the most appropriate response strategies and methods.

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

It involves comparing the results of the risk analysis with the established risk criteria to determine where additional action is required.

Thus, risk evaluation can lead to a decision for the LGU to:

- a. do nothing further;
- b. consider risk treatment options;
- c. undertake further analysis to better understand the risk;
- d. maintain existing controls; and/or
- e. reconsider objectives.

It has to be made clear that undertaking an assessment of control risks and risks related to the operations of the Departments/Offices, is not the primary responsibility of the internal auditors, but of the LCE and the units concerned of the LGU as part of their regular functions.

Figures 6 and 7 illustrate the conduct of LGU risk assessment and control risk assessment, respectively.

Figure 6. LGU Risk Assessment

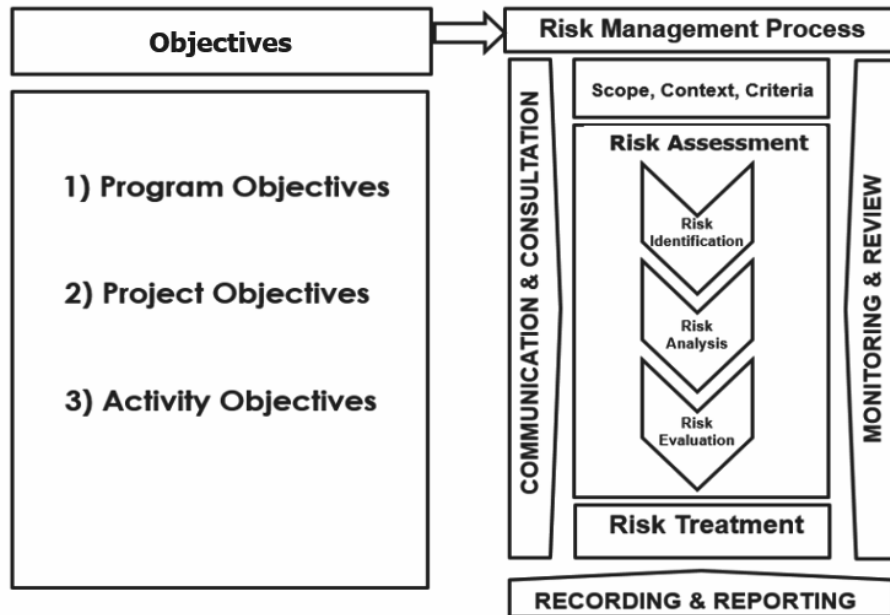
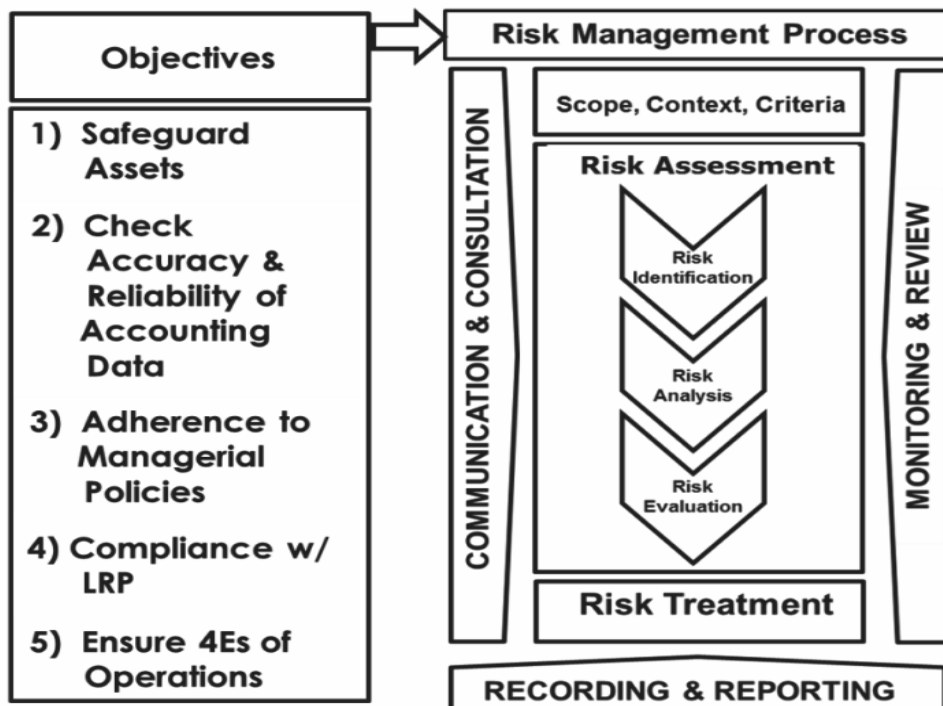


Figure 7. Control Risk Assessment



Except for planning and prioritizing audit areas, the internal auditor should not conduct a control risk assessment. The LCE and other LGU officials who exercise supervision and control over delivery units must assess their own control risks.

2.4.3 Control Activities

Control activities are the policies and procedures established to address (i.e., maintain and/or modify risks) and achieve the LGU's mandate and objectives.

Controls include, but are not limited to, any process, policy, device, practice, or other conditions and/or actions to address risks.

Control activities occur at all levels and in all functions throughout and across the LGU. Thus, control activities must be appropriate, cost-effective, comprehensive, and reasonable, and must directly relate to the control objectives of the LGU. These should also be doable and should function consistently with the design or plan.

Control activity is appropriate if it is in the right place and commensurate to the risk response, operating performance, and compliance improvements. It is cost-effective if the cost of implementing the control activity does not outweigh its benefits. Finally, it is comprehensive and reasonable if the control activity directly relates to the control objectives.

Once the risk assessment is complete, the LGU should determine the type of response for each specific risk. Generally, there are four (4) risk responses as follows:

- i. **Transfer the risk.** 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.
- ii. **Tolerate the risk.** 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.
- iii. **Terminate the risk.** 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. For instance, the LGU may dismiss the proposal to borrow money from a lending institution if the source of revenue to pay such borrowing is highly uncertain.
- iv. **Treat the risk.** Risk treatment involves one or more of the following options and implementing those options:
 - 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.

The most common control policies and procedures that are part of the coordinated measures and procedures include, but are not limited to, the following:

- a. **Delegation of authority and supervision.** This requires a written policy that must be well understood by the employees concerned. The authority has to be clear in terms of the particular transactions which could be acted upon by a delegate, the limitations of the authority, and the particular purposes for which said authority may be used.

Delegation of authority is followed by supervision. Competent supervision helps ensure that internal control objectives are achieved. Assigning, reviewing, and approving an employee's work encompasses:

- i. clearly communicating the duties, responsibilities, and accountabilities assigned to each staff member;
- ii. systematically reviewing each personnel or staff member's work to the extent necessary; and
- iii. approving work at critical points to ensure that it flows as intended.

Delegation of work should not diminish the supervisor's accountability for the unit's mission and outputs. Supervisors should also provide their employees with the necessary guidance and training to help ensure that errors, wastage, and wrongful acts are minimized or eliminated and those management directives are understood and undertaken.

- b. **Segregation of duties.** Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This includes separating the assignment of responsibilities for processing, reviewing, recording, custody, and approval/authorization of certain transactions.
- c. **Access over resources, assets, and facilities.** Office policies on physical controls over vulnerable resources or assets are needed to secure and safeguard them from theft, loss, and misuse. These include

security for and limited access to such assets as cash, inventories of facilities, supplies and equipment, data or records, and information. Office policies must be clear on the responsible staff or employees authorized to have access to these resources or assets and the processes for safeguarding and maintaining such resources or assets. Periodic inspection should be made and physical count of assets and facilities should be compared with the records to address the risk of error, fraud, misuse, or unauthorized alteration.

- d. **Checking completeness of transaction documents and reports.** Transaction documentation has to be complete in order to substantiate the transaction. Operational and financial reports are tools for monitoring performance, subsequent planning, and decision-making. These reports are checked at the source by the management of the operating unit concerned. These reports have to be certified as to their accuracy by the management of the office concerned before they are submitted to their users.
- e. **Verification.** This refers to the review of transactions to check the propriety and reliability of documentation, costing, or mathematical computation. It also involves checking the conformity of acquired goods and services with agreed quantity and quality specifications. The verification procedures should be built-in in every transaction. This is an internal checking procedure to avoid errors or fraud.
- f. **Reconciliation of financial and non-financial data.** Operating procedures of every office require that the cash records of the Accounting and the Cash units are regularly reconciled. The records of the depository banks pertaining to the cash accounts of an agency should be reconciled with the records of the Accounting and Cash units. This process will detect errors or fraud either by the bank, the accounting unit, or the cash unit.

A physical count of inventories, equipment, and documents of custodians should be done periodically and reconciled with the records of the accounting unit and the General Services unit. This process will address the risk of theft, pilferage, or misuse of resources.

In the LGU, control activities in the Office of the Local Accountant include the strict implementation of the policy on "No liquidation, no cash advance". This is to ensure that additional cash advances are only granted upon proper liquidation or settlement of previous cash advances.

In the Office of the Local Treasurer, the control activities include the implementation of the policy on collection, that is, all collections within the day are remitted within the day or the following day and all collections should be issued with the corresponding official receipts. Different offices in the LGU file their reports intact, together with their corresponding attachments as a form of control activities.

Once implemented, control activities are absorbed and ingrained into the control environment of the LGU.

All units in the LGU have to conduct performance review of their respective operations. If based on performance review, it was determined that accomplishments do not meet established objectives or standards, the processes established to achieve the objectives should be reviewed to determine the needed improvements.

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

2.4.4 Information and communication

Information and communication include the records system which ensures the transfer of the required information to the LCE and employees, the public it serves, other public service organizations, and its network of organizations and sectors that need the 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 to do their jobs and understand their roles and responsibilities. Information includes both internally generated data (operational, management, and compliance-related information) and information about external events, activities, and conditions necessary for informed decision-making.

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

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

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

have a highly significant impact on the extent to which an LGU achieves its goals.

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

2.4.5 Monitoring and evaluation

Monitoring and evaluation, as a component of internal control, is aimed at assessing the quality of the ICS' performance over time. It considers the collective effectiveness of the five (5) components of internal control. It ensures that other components of internal control continue to function over time to achieve the control objectives, and are modified appropriately to remain attuned to changes in objectives, environment, resources, and risks.

Monitoring is done in various degrees and circumstances to ensure that internal controls are continually applied at all levels and delivery units across the LGU. There are three (3) ways through which monitoring is accomplished, to wit:

a. Ongoing monitoring

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

Ongoing monitoring of internal controls is a function of the LCE and all delivery units. The operating units and the support services (e.g., planning, financial, and administrative units) monitor their respective performances. The LCE shall ensure proper check and balance in the monitoring by operating units and support services.

Monitoring the internal control activities shall be clearly distinguished from reviewing the operations of a unit.

b. Separate evaluation of the controls' effectiveness (Internal Audit as discussed in Part 1: Concepts and Principles of Internal Audit)

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

In the LGU structure, the IAU is mandated to conduct a separate evaluation or appraisal of the ICS to determine whether or not controls are well-designed and properly implemented. In the conduct of a separate evaluation, the IAU shall determine the extent of compliance and assess the adequacy of controls embedded in the operating and support systems of the Departments/Office, as well as evaluate the performance of their programs, projects, and activities.

c. **Combination of ongoing monitoring and separate evaluation**

In the assessment of the quality of the ICS' performance, a combination of ongoing monitoring by all units and management of the LGU, and separate evaluation by the IAU will help ensure that internal controls maintain their effectiveness over time.

2.5 Roles and Responsibilities on Internal Controls

As a management control, internal control requires the participation and involvement of the LCE, other LGU officials, and personnel at all levels, including the various organizational units therein, to ensure that the LGU's mandate and goals are achieved efficiently, effectively and economically.

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. **LCE** - has the direct responsibility to install, implement and monitor a sound system of internal control. The LCE ensures proper check and balance in the monitoring of internal controls over delivery units, instills control consciousness in the LGU, and utilizes internal controls to regulate and guide its operations.
- b. **Delivery units** (e.g., departments, divisions, sections, and other offices) – conduct performance and compliance reviews, and improvement of operations and processes.
- c. **Management division/unit, or its equivalent unit** (if applicable in LGU) – reviews and monitors whether internal controls are applied at all levels within and across the LGU, and recommends measures for management improvement of systems and processes.

- d. **IAU** – appraises the ICS to determine whether controls are well-designed and properly implemented, and determines the adequacy of internal controls or whether it is achieving the objectives.

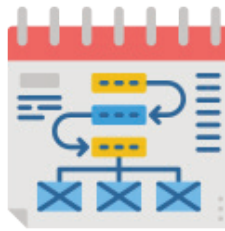
Table 3. Functions Related to Internal Control Among the LCE, Local Government Offices, and the IAU

LCE	Heads of Local Government Offices	IAU
<u>Nature and Purpose of Monitoring and Evaluation</u>		
<ul style="list-style-type: none"> Monitoring internal control, whether Offices are conducting performance review and compliance review 	<ul style="list-style-type: none"> Conduct performance review within the Office Conduct compliance review within the Office 	<ul style="list-style-type: none"> 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 Conduct operations audit or evaluate whether or not the results of operations are achieved
<u>Scope, Coverage, and Frequency of Review and Evaluation</u>		
<ul style="list-style-type: none"> Require the submission of reports and conduct performance evaluation and inspection of outputs and outcomes Ensure that internal control is built into the day-to-day processes and operations of the Offices Ensure that all required reports are submitted regularly and on a real-time basis 	<ul style="list-style-type: none"> Conduct a performance review 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 Periodically review the operations and processes to ensure that they are in compliance with laws, rules, policies, regulations, and other requirements 	<ul style="list-style-type: none"> Determine the degree of compliance of supervision or control with laws, rules, policies, and contractual obligation Evaluate the supervision or control effectiveness in the implementation of the LGU Offices of its mandated responsibilities for a specific date or period Evaluate whether or not LGU operations/implementation of mandated functions of the offices are 4Es Takes place “after the fact” and after a complete cycle of operations

LCE	Heads of Local Government Offices	IAU
Actions To Be Taken		
<ul style="list-style-type: none"> • Take such actions as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration 	<ul style="list-style-type: none"> • Process improvements to meet the objectives of the Department/Office • Process improvements to achieve compliance with laws, regulations, policies, and other requirements 	<ul style="list-style-type: none"> • Report to the LCE on all matters relating to management control and operations audit • 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

PART 3

ORGANIZING THE INTERNAL AUDIT UNIT



3.1 Authority to Organize Internal Audit Unit in Local Government Units

Section 3 (b) of the LGC states that “[t]here shall be established in every [LGU] an accountable, efficient, and dynamic organizational structure and operating mechanisms that will meet the priority needs and service requirements of its communities.”

Similarly, Section 76 (Organizational Structure and Staffing Pattern) thereof provides that “[e]very [LGU] shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability, subject to the minimum standards and guidelines prescribed by the [CSC].”

Meanwhile, paragraph 2 of CSC MC No. 12, s. 2022, otherwise known as “2022 Guidelines and Standards in the Establishment of Organizational Structures and Staffing Patterns in Local Government Units,” provides that it is the responsibility of every LGU to design, approve, and implement its organizational structure and staffing pattern (OSSP) in accordance with the guidelines and standards in the establishment of OSSP in LGUs. Specifically, Sections 3 and 4 of MC No. 12, s. 2022 identify, among others, the Office of the Internal Audit Services which may be created by the LGUs, subject to the provisions of Sections 1, 2, and 9 therein.

LGUs are given the authority to organize the IAU as directed in various issuances of the OP and the DBM, specifically the following:

- a. **OP AO No. 119** dated March 29, 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*) - This AO stipulates that the responsibility for the fiscal operations of offices and agencies of government is hereby declared to reside primarily in the respective Heads of each office, agency, GOCC, and LGU. For this purpose, every office, agency, corporation, and LGU is mandated to strengthen its ICS and/or organize systems and procedures to that effect in coordination with the DBM.
- b. **OP AO No. 278** dated April 28, 1992 (*Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, including Government Financial Institutions and Local Government Units, in their Operations*) - This AO provides

that all government offices, including LGUs, shall organize IAU in their respective office, which shall be an integral part of the office/organization and provided with sufficient support from the top management to gain the cooperation/confidence of the auditee. Accordingly, those without an IAU shall constitute one to be staffed by assigning or deploying personnel from other units therein.

- c. **OP AO No. 70** dated April 14, 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*) - This AO specifies that all heads of government agencies, including LGUs, shall organize an IAU in their respective offices. The IAS shall be an integral part of the office and shall assist in the management and effective discharge of responsibilities of the office, without intruding into the authority and mandate of the COA granted under the Constitution. It shall function in accordance with the policies established under the provisions of RA No. 3456⁷ and RA No. 4177⁸. The IAS shall be provided with sufficient support from the top management to gain the cooperation/confidence of the auditee.
- d. **BC No. 2004-4** dated March 22, 2004 (*Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs)*) - This circular applies to all national government agencies, including LGUs. The organizational structure and head of the IAUs for LGUs are categorized for provincial government, city government, and municipal government.
- e. **OP MC No. 89** dated August 18, 2005 (*Reiterating Compliance with AO No. 70, s. 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" and its Implementing Guidelines under DBM Budget Circular No. 2004-4*) - This MC enjoins all heads of agencies, including LGUs, to (a) create an Internal Audit Service in their respective offices in compliance with AO 70, s. 2003; (b) observe guidelines set forth under DBM BC No. 2004-4; and (c) submit a report of compliance with AO 70, s. 2003 and DBM BC No. 2004-4 to the Office of the Executive Secretary.

3.2 Reporting Line

To be able to provide the services expected of the IAU, it is important that it has an appropriate organizational structure, and is positioned well within the organization.

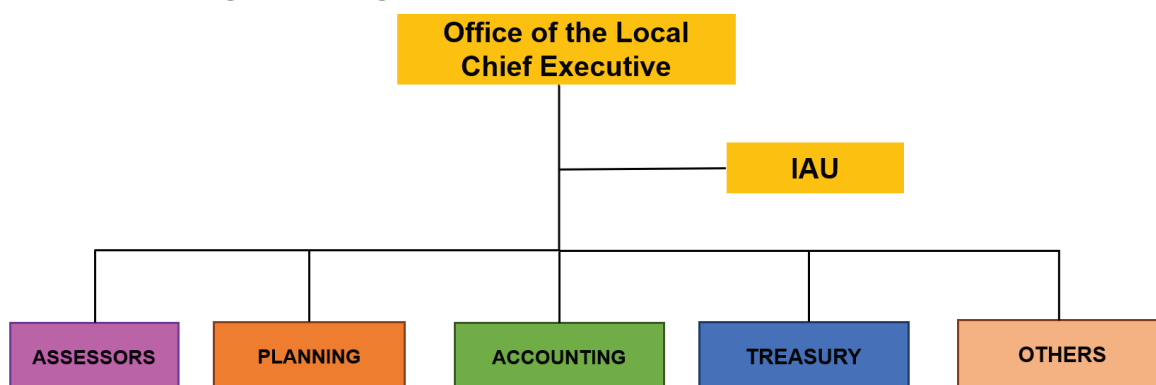
⁷ An Act Providing for the Creation, Organization and Operation of Internal Audit Services in All Departments, Bureaus and Offices of the National Government

⁸ 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"

The IAU directly reports to the LCE for matters relating to the separate evaluation of the ICS in the Executive Branch. Meanwhile, the IAU directly reports to the Presiding Officer of the Sanggunian for related matters of the Legislative Branch.

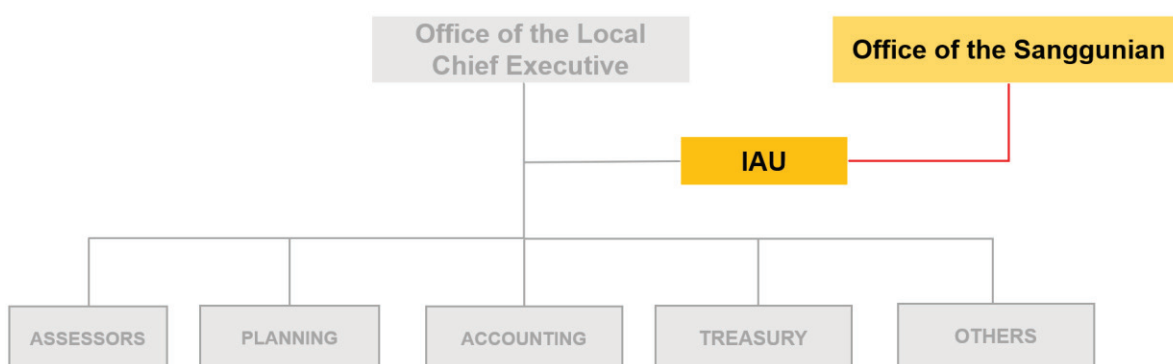
This distinction is important to preserve the integrity of the IAU findings. Thus, if the IAU will audit the units/programs/projects of the Executive Branch, it will have to functionally/operationally report its findings to the LCE. The IAU, which administratively reports to the LCE, is organizationally placed under the Office of the LCE and not under other offices, such as the Office of the Administrator or Office of the Accountant.

Figure 8.1 Organizational Placement of the IAU in the LGUs



If the IAU will audit the Sanggunian, it will have to functionally/operationally report to the Presiding Officer of the Sanggunian concerned.

Figure 8.2 Organizational Placement of the IAU in the LGUs



3.3 Level, Nomenclature, and Head of the Internal Audit Unit

Subject to the approval of the Sanggunian concerned through the enactment of an ordinance for the purpose, consistent with its powers and duties as stipulated under Sections 447 (a) (1) (vii), 458 (a) (1) (vii), and 468 (a) (1) (vii) of the LGC; Personal Services (PS) Limitation prescribed under Section 325 (a) of the LGC; and other applicable provisions of the same law, CSC MC No. 12 s. 2022, Local Budget Circular (LBC) No. 145 dated March 2, 2022 and LBC No. 137 dated July 13, 2021, LGUs may organize its IAU, as follows:

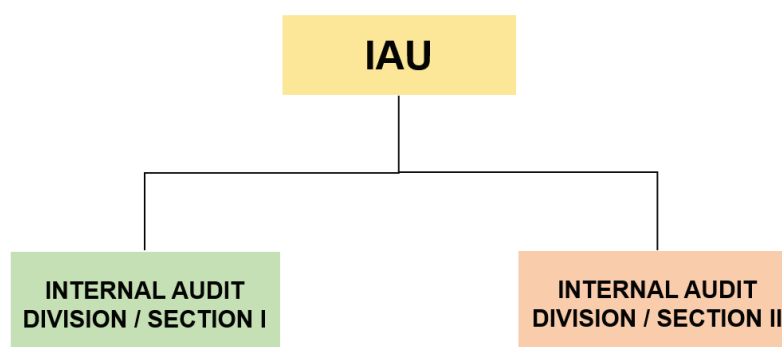
- a. **Provincial Government** - The IAU in a provincial government may be a department, namely Internal Audit Department, to be headed by a Provincial Government Department Head/SG-26.
- b. **Special City** - The IAU in a special city may be a department, namely Internal Audit Department, to be headed by a City Government Department Head III/SG-27.
- c. **Highly Urbanized City** - The IAU in a highly urbanized city may be a department, namely Internal Audit Department, to be headed by a City Government Department Head II/SG-26.
- d. **Component City** - The IAU in a component city may be a department, namely Internal Audit Department, to be headed by a City Government Department Head I/SG-25.
- e. **Municipality within Metro Manila** - The IAU in a municipal government within Metro Manila may be a department, namely Internal Audit Department, to be headed by a Municipal Government Department Head II/SG-25.
- f. **Municipality outside Metro Manila** - The IAU in a municipal government outside Metro Manila may be a department, namely Internal Audit Department, to be headed by a Municipal Government Department Head I/SG-24.

Notwithstanding the foregoing which provides for the highest level of IAU that may be created, the LGU may alternatively pursue the establishment of an IAU that could be a division or section level, namely Internal Audit Division/Section. Depending on the level, to be headed by an Internal Auditor V/SG-24 or Internal Auditors III/SG-18.

3.4 Organizational Structure

As applicable, the IAU in LGU shall consist of two (2) sub-units, namely, the Internal Audit Division/Section I and Internal Audit Division/Section II.

Figure 9. Organizational Chart of the IAU



Each sub-unit shall conduct compliance, management, and/or operations audit, depending on the priority audit areas of the LGU as identified in its audit plans.

The conduct of special audit engagements instructed by the LCE or Presiding Officer of the Sanggunian may be assigned to either or both the two (2) sub-units.

Accordingly, hereunder are the functional statements of the sub-units:

- a. Conduct management and operations performance audits of activities of the LGU and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations;
- b. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports, and performance standards of the LGU and the departments covered;
- c. Verify and analyze financial, management, and 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 financial, management, and operations 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 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;
- g. Review and evaluate the soundness, adequacy, and application of accounting, financial and management controls and promote the most effective control at a reasonable cost;
- h. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities;
- i. Recommend courses of action on operational deficiencies observed;
- j. 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
- k. Perform miscellaneous services, including special investigations and assistance to outside contacts, subject to authority from the LCE or the Presiding Officer of the Sanggunian.

3.5 Staffing the Internal Audit Unit

3.5.1 Internal Audit Unit Staffing Guidelines

DBM BC No. 2004-4, otherwise known as "Guidelines on the Organization and Staffing of IAUs," provides that the LGUs shall determine their own staffing modifications that the establishment of IAU will require.

Moreover, to staff the IAU, AO No. 70 provides, among others:

- a. That the present organizational structure and personnel complement of LGUs shall be reviewed by their head, and that the existing vacant and/or parallel positions of incumbents in the LGU shall be converted as necessary for the creation/strengthening of the IAU; and
- b. That if there is an existing IAU in the organization, all incumbent internal auditors and those performing internal audit functions under AO. No. 278, s. 1992 shall continue to perform internal audit functions and their positions shall be classified as internal auditor positions.

Hence, the internal audit-related positions may be created or sourced within the LGU, through the transfer and conversion of vacant positions. The position titles and the corresponding SG in the IAU, consistent with LBC No. 137, s. 2021, are as follows:

Position Title	Salary Grade
Internal Auditor V	24
Internal Auditor IV	22
Internal Auditor III	18
Internal Auditor II	15
Internal Auditor I	11
Internal Auditing Assistant	8

Any staffing modifications shall also be subject to the approval of the Sanggunian concerned through the enactment of an ordinance for the purpose consistent with its powers and duties as stipulated under Sections 447 (a) (1) (vii), 458 (a) (1) (vii), and 468 (a) (1) (vii) of the LGC; PS Limitation prescribed under Section 325 (a) of the LGC; and applicable provisions of the same law, CSC MC No. 12 s. 2022, and LBC No. 145 dated March 2, 2022 and LBC No. 137 dated July 13, 2021.

Further, positions therein should be consistent with Chapter IX (Position Classification and Compensation Scheme in LGUs) of the Manual on Position Classification and Compensation. Relatively, the highest position below the rank of an assistant department head may be allocated in accordance with the following standard leveling of positions:

Table 4. Highest Internal Audit-Related Position in the IAU Below the Assistant Department Heads

LGU	Highest Salary Grade Below the Assistant Department Heads	Highest Internal Audit-Related Position in the Internal Audit Unit Below the Assistant Department Heads
Provinces	22	Internal Auditor IV/SG-22
Special Cities	24	Internal Auditor V/SG-24
Highly Urbanized Cities	22	Internal Auditor IV/SG-22
Component Cities	22	Internal Auditor IV/SG-22
1 st to 3 rd Class Municipalities	18-19	Internal Auditor III/SG-18
4 th to 6 th Class Municipalities	14-16	Internal Auditor II/SG-15

3.5.2 Internal Audit Unit Head and Staff Functions and Qualifications

a. Functions

Highest Applicable Position	Functions
Provincial Government - Provincial Government Department Head/SG-26 Special City - City Government Department Head III, SG-27 Highly Urbanized City - City Government Department Head II/SG-26 Component City - City Government Department Head I/SG-25 Municipality within Metro Manila - Municipal Government Department Head II/SG-25 Municipality outside Metro Manila - Municipal Government Department Head I/SG-24	a. Ensures the efficient and effective operation of the internal audit function b. Develops strong professional relationships with the LCE and key stakeholders c. Leads the development of the internal audit strategic plan and annual work plan that outlines the objectives, priorities, and proposed internal audit plan d. Liaises with other policy and regulatory bodies in developing internal audit plans for review and approval by the LCE
Provincial Government - Provincial Government Assistant Department Head/ SG-24 Special City - City Government Office Head, SG-26; City Government Assistant Department Head III/SG-25 Highly Urbanized City - City Government Assistant Department Head II/SG-24 Component City - City Government Assistant Department Head I/SG-23	a. Assists the department head in ensuring the efficient and effective operation and implementation of the internal audit function b. Does related work

Highest Applicable Position	Functions
Municipality within Metro Manila - Municipal Government Assistant Department Head II/SG-23 Municipality outside Metro Manila – Municipal Government Assistant Department Head I/SG-22	
Provincial Government, Highly Urbanized City, Component City – Internal Auditor IV/SG-22 Special City - Internal Auditor V/SG-24 1st to 3rd Class Municipalities - Internal Auditor III/SG-18 4th to 6th Class Municipalities - Internal Auditor II/SG-15	a. Under direction, supervises a division tasked with internal audit functions b. Establishes the annual goals, objectives, and performance targets c. Establishes guidelines, and procedures for the guidance of the internal audit staff d. Does the final review of internal audit plans e. Recommends approval of internal audit plans f. Reviews internal audit report; g. Determines training needs of internal audit staff h. Responsible for work performance and discipline of audit staff i. Does related work
Special City - Internal Auditor IV/SG-22	a. Under direct supervision, assists in supervising a division tasked with internal audit functions b. Reviews internal audit plans c. Discusses internal audit plans with the concerned staff d. Reviews written internal audit reports e. Trains new internal auditors f. Rates performance of audit staff g. Does related work
Provincial Government, Highly Urbanized City, Component City –Internal Auditor III/SG-18 Special City - Internal Auditor IV/SG-22	a. Under general supervision, reviews agency organizational structure, staffing, administrative systems, and procedures, or conducts research to obtain background information on the activities to be audited

Highest Applicable Position	Functions
1st to 3rd Class Municipalities - Internal Auditor II/SG-15 4th to 6th Class Municipalities - Internal Auditor I/SG-11	b. Drafts audit plans and reports for the review of the immediate supervisor c. Discusses research findings with the audit team leader d. Follows-up actions to determine if audit recommendations have been carried out e. Performs comprehensive auditing work f. Does related work
Internal Auditing Assistant/SG-8	a. Under immediate supervision, assists internal auditors in the conduct of internal audit b. Does related work

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

- a. Comply with the Code of Conduct and Ethical Standards for Public Officials and Employees;
- b. Possess the knowledge, skills, technical and functional expertise;
- c. Acquire the skills in dealing with people and communicating audit findings and recommendations and related issues effectively;
- d. Regularly improve their technical competence through a program of professional development;
- e. Exercise due professional diligence in performing their duties;
- f. Keep the confidentiality of information;
- g. Provide support to the LGUs anti-fraud program;
- h. Maintain internal audit records; and
- i. Foster teamwork in performing the internal audit function.

The internal auditor must be direct and truthful in performing audit tasks; objective, credible, and just; knowledgeable on internal audit standards, procedures, and techniques; competent and diligent in the evaluation of internal controls; expert in internal control in areas of local governance; skilled and effective in dealing with people; proficient in both oral and written communication; and analytical in key audit issues and areas.

b. Qualification Standards

Position	Qualification Standards (Per CSC MC No. 12 dated June 22, 2006)
Internal Auditor V/ SG-24	<p>Education: Master's Degree</p> <p>Experience: Four (4) years in position(s) involving management and supervision</p> <p>Training: 24 hours of training in management and supervision</p> <p>Eligibility: Career Service (Professional)/ Secondary Level Eligibility</p>
Internal Auditor IV/ SG-22	<p>Education: Bachelor's degree relevant to the job</p> <p>Experience: Three (3) years of relevant experience</p> <p>Training: 16 hours of relevant training</p> <p>Eligibility: Career Service (Professional)/- Second Level Eligibility</p>
Internal Auditor III/ SG-18	<p>Education: Bachelor's degree relevant to the job</p> <p>Experience: Two (2) years of relevant experience</p> <p>Training: Eight (8) hours of relevant training</p> <p>Eligibility: Career Service (Professional)/Second Level Eligibility</p>
Internal Auditor II/ SG-15	<p>Education: Bachelor's degree relevant to the job</p> <p>Experience: One (1) year of relevant experience</p> <p>Training: Four (4) hours of relevant training</p> <p>Eligibility: Career Service (Professional)/- Second Level Eligibility</p>

Position	Qualification Standards (Per CSC MC No. 12 dated June 22, 2006)
Internal Auditor I/ SG-11	<p>Education: Bachelor's degree relevant to the job</p> <p>Experience: One (1) year of relevant experience</p> <p>Training: Four (4) hours of relevant training</p> <p>Eligibility: Career Service (Professional)/Second Level Eligibility</p>
Internal Auditing Assistant/SG-8	<p>Education: Completion of two (2) years of study in college</p> <p>Experience: One (1) year of relevant experience</p> <p>Training: Four (4) hours of relevant training</p> <p>Eligibility: Career Service (Sub-professional)/First level eligibility</p>

Notwithstanding the foregoing qualification standards, LGUs are encouraged to set specific or higher standards for their positions. These standards shall be submitted to the CSC for approval, and once approved, they shall be adopted by the CSC as qualification standards in the attestation of appointments by the LGU concerned.

LGUs may also consider the following specific area:

Position	Suggested field/area
Internal Auditor I, II, III, IV, and V	<p>Education: Accounting, Public Administration, Information Technology/Computer Science, Criminology, and other disciplines related to the abovementioned, preferably Bachelor's degree in Law</p> <p>Experience: Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, and other related disciplines); Management and Supervisory experience</p>

Position	Suggested field/area
	Training: Internal Auditing, Administrative or Criminal Investigation, and/or Forensics (e.g., Accounting, Information Technology, and other related disciplines); Management and Supervision Career Service (Professional)
Internal Auditing Assistant	Experience: Internal Auditing, Administrative or Criminal Investigation, and/or Forensics (e.g., Accounting, Information Technology, and other related disciplines) Training: Internal Auditing, Administrative, or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, and other related disciplines)

3.5.3 Temporary Human Resource Movements to Supplement Internal Audit Resources

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

Temporary human resource movements can be a useful way of gaining training and experience for the IAU staff. The following arrangements are supported by CSC MC No. 14 dated August 30, 2018 [2017 Omnibus Rules on Appointments and Other Human Resource Actions (ORA-OHRA), Revised July 2018] and Resolution No. 06-1165 dated July 5, 2006.

- a. **Reassignment.** This is a temporary movement of an employee across the organizational structure within the same LGU, which does not involve a reduction in rank, status, or salary.
- b. **Detail.** This is a temporary movement of an employee from one Department or agency to another which does not involve a reduction in rank, status or salary.

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

- c. Designation.** This refers to the temporary movement that involves additional and/or higher duties to be performed by a public official/employee and can be terminated anytime at the pleasure of the appointing officer/authority. A designation may involve the performance of the duties of another on a concurrent capacity or full-time basis.

Consistent with the concepts and principles of internal auditing, specifically on objectivity and impartiality, and avoidance of conflict of interest, designees to IAU shall act in a full-time capacity. They shall be detached from all functions of routine operating character and no longer perform other regular functions. Pursuant to Section 13 (c) (5) of the ORA-OHRA, these foregoing conditions shall be explicitly specified in the Office Order to be signed and issued by the LCE for the purpose.

- d. Secondment.** This is a movement of an employee from one department or agency to another which is temporary and which may or may not require the issuance of an appointment that 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 July 5, 2006 for the guidelines on secondment).

This involves the temporary movement (secondment) of the 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.

- e. Other Arrangements.** In addition, the following may also be explored:

- i. Temporary detail of experts on functional areas from other public service sector organizations to the 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.

- ii. Temporary detail of staff to the IAU from other public service sector organizations.

This entails the movement of the IAU staff to the 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.

- iii. Temporary detail of internal experts to the IAU. Internal experts or subject matter experts from within the organization can provide additional resources to the IAU for a specified period and help train the 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 IAU staff, a confidentiality agreement will have to be drawn and signed by said staff to ensure the non-disclosure of confidential information.

3.6 Relationship of Internal Audit Unit with Key Stakeholders

To be effective, the IAU must have the trust and confidence of the key stakeholders it works with. This can only be established and maintained by fostering effective working relationships and timely internal audit services.

3.6.1 Local Chief Executive

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

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

With respect to the abovementioned arrangement, it is understood that the relationship between the LCE and the IAU should still be in place. Such

arrangement should not in any way impair the reportorial line of the IAU to the LCE.

The LCE is not among the auditees of the IAU. As provided in Section 124 of PD No. 1445, s. 1978, as amended, the direct responsibility to install, implement and monitor a sound ICS rests with the agency head, that is, LCE in the case of LGUs. However, the latter may ask the IAU to undertake the appraisal of the ICS within the LGU.

Nonetheless, the units under the Office of the LCE may be subject to internal audit, pursuant to the LCE's instruction/approval.

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

3.6.2 Sanggunian

The IAU must report directly to the Presiding Officer of the sanggunian for all matters in the Legislative Branch.

Similar to the LCE, the IAU also has direct access to the Presiding Officer of the Sanggunian. This means that the IAU functionally/operationally reports to the Presiding Officer of the sanggunian, as often as necessary. They meet regularly, at least quarterly if possible or as the need arises, to provide the Presiding Officer of the sanggunian the opportunity to seek the comments of the IAU head on management control and audit function, quality of the audit and internal controls, and other areas of concern of the Legislative Branch, as deemed appropriate. As necessary, the Presiding Officer of the sanggunian should be given an orientation/briefing on the purpose and mandate of IAU, and the former's responsibility in the operationalization of the internal audit function in the organization to harness the value of and be able to provide appropriate direction to IAU in the LGU.

3.6.3 Commission on Audit

The COA has the constitutional authority and duty to examine, audit, and settle accounts in accordance with law and regulations. The Constitution, as well as the Administrative Code of 1987, also provides that, "where the [ICS] 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 IAU.

The IAU is an integral part of the LGU and in the management and effective discharge of the responsibilities of the LGU without intruding on the authority and mandate of the COA granted under the Constitution and without encroaching or taking on a stance that is in conflict with that of COA auditors.

3.6.4 Department of Budget and Management

The DBM, as part of its mandate to promulgate rules and regulations for the strengthening of ICS in government, pursuant to AO No. 119, s. 1989, as amended by AO No. 278, s. 1992 and AO No. 70, s. 2003; Memorandum Order No. 277, s. 1990; and MC No. 89, s. 2005, shall perform oversight functions on internal audit. In particular, it shall formulate and issue guidelines and standards on the organization and staffing of an IAU, and the practice of internal audit in government, including LGUs.

The DBM also reviews the organizational and operational performance of the IAU by focusing on the evaluation of their effectiveness and efficiency as part of the ICS. As necessary, it may request the IAU, through the LCE, relevant documents for policy improvement in the practice of internal audit, subject to the principle of authority and confidentiality per item 1.5.4 of this Manual.

- a. **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.
- b. **Request for DBM Opinions/Rulings/Interpretations.** Audit findings and recommendations resulting from the audit conducted by the IAU shall be submitted to the LCE or Presiding Officer of the sanggunian for approval, pursuant to its authority and responsibility to exercise supervision and control of the LGU. Once approved, the same shall be subject to implementation.

Approved audit findings and recommendations for implementation may be appealed to the LCE or Presiding Officer of the sanggunian by the auditee who has been adversely affected.

In the conduct of a compliance audit, the IAU may find some violations by the auditee in the compliance with rules and regulations and/or DBM circulars and other issuances. In case there are issues concerning these issuances, the same may be elevated to the DBM. Vested with the power to promulgate its own rules and regulations, the DBM is in the best position to interpret its rules and regulations.

In the SC decision on the Eastern Telecommunications Philippines, Inc. and Telecommunications Technologies, Inc., vs. International Communication Corporation (G.R. No. 135992, January 31, 2006), "[t]he 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. x x x." 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." (Emphasis supplied)

As recognized by the SC in Gutierrez vs. DBM, (G.R. No. 153266, March 18, 2010), "[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 given legislation and effectuate its policies.**" (Emphasis supplied)

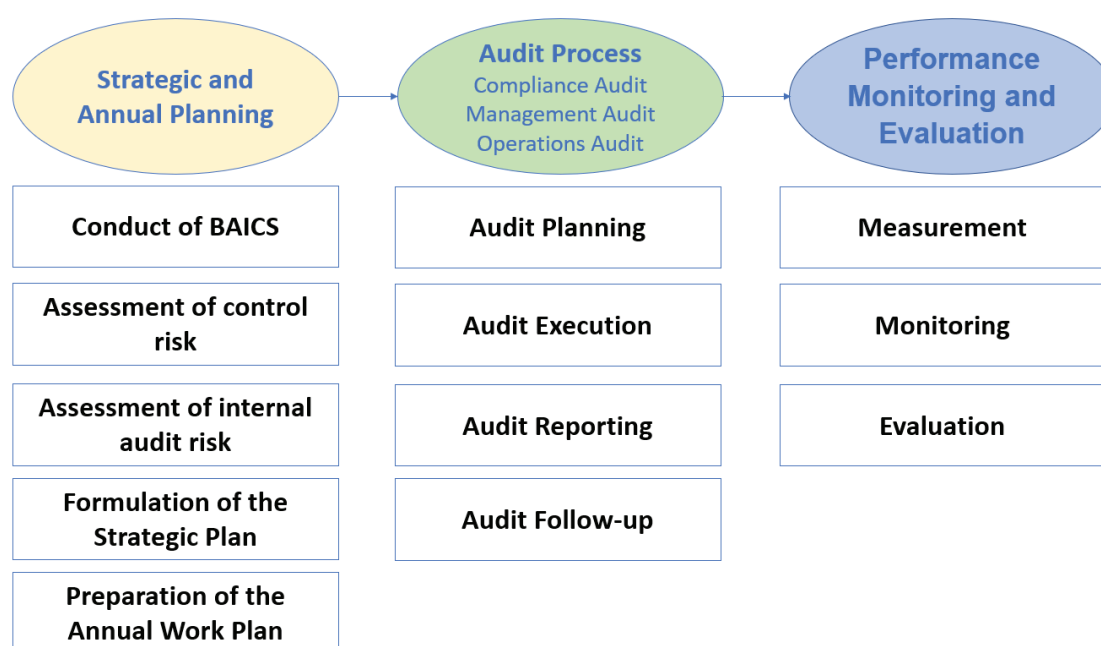
PART 4

ANNUAL WORK PLAN AND STRATEGIC PLANNING



The conduct of an internal audit consists of three (3) major steps: (1) strategic and annual planning, (2) audit process, and (c) performance monitoring and evaluation.

Figure 10. Major Steps in the Conduct of Internal Audit



Audit requires good planning. Hence, the first step in the conduct of an internal audit is the strategic and annual planning that the IAU should undertake.

Strategic planning begins with a BAICS that establishes the manner on which the IAU shall: (a) review the LGU's internal control components and key strategic challenges and advantages, and (b) leverage this knowledge to plan for the work to be undertaken. In that way, the IAU can assist the LGU in achieving its organizational objectives.

After the BAICS, the IAU assesses the control risks and internal audit risks, formulates the Strategic Plan for a three-year period, and prepares the Annual Work Plan based on the prioritized audit areas in the Strategic Plan. The first step should result in the Interim Report(s), Baseline Assessment Report, Strategic Plan, and Annual Work Plan.

The second step which is the audit process is basically at the engagement level. It involves four (4) stages, namely: (a) audit engagement planning; (b) audit execution; (c) audit

reporting; and (d) audit follow-up. This is where the three (3) types of audit are performed.

The third step, performance monitoring and evaluation, entails the periodic assessment of the performance of the IAU through the adoption of appropriate indicators.

In the course of the audit, there are three (3) levels of planning that the IAU shall undertake:

- a. **Strategic planning** - identifies the key and pivotal direction of the IAU for a three-year period
- b. **Annual work planning** - spells out the priority audit areas for a one-year period based on the three-year Strategic Plan
- c. **Audit engagement planning** - sets the activities to be conducted during the audit of a specific area, as identified in the Annual Work Plan

Figure 11. Three (3) Stages of Audit Planning



Part 4 covers strategic and annual planning. The details of strategic planning are shown in 4.1, while the development of the annual work plan is discussed in 4.2.

4.1 Strategic Planning

In the context of internal audit, planning entails familiarization with the objectives, processes, risks, and controls of the operating and delivery units. It entails identifying the areas to be audited and developing an 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.

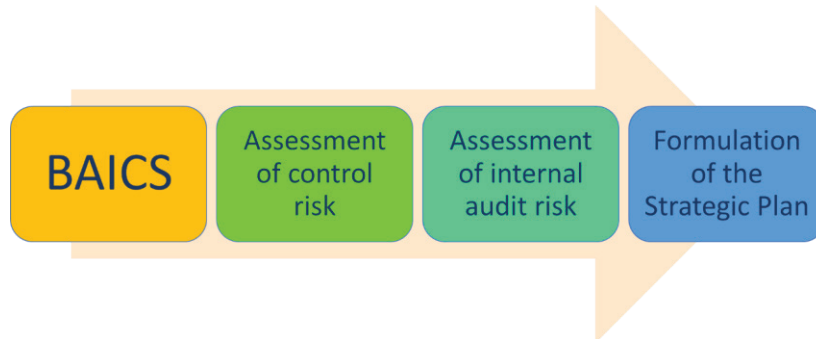
Strategic planning seeks to identify the key audit strategic direction of the IAU for a three-year period. While the suggested format and content are indicated in this Manual, the same shall be agreed upon between the LCE and the IAU head.

Strategic planning consists of four (4) sub-steps, namely:

- a. BAICS;

- b. Assessment of control risk;
- c. Assessment of internal audit risk; and
- d. Formulation of the Strategic Plan.

Figure 12. Four (4) Sub-Steps of Strategic Planning



4.1.1 Baseline Assessment of Internal Control System

The first activity in strategic planning is the conduct of a BAICS, which aims to:

- a. Get familiar with and develop the internal auditor's understanding of the LGU operations;
- b. Identify and document the five (5) components of the ICS of all programs and projects of the LGU;
- c. Review key processes of the LGU;
- d. Review controls on key processes of the LGU; and
- e. Gather sufficient information on potential audit areas to be included in the Strategic Plan.

As being practiced in the LGUs, the BAICS may be conducted in two (2) levels: entity-level and delivery unit-level. Entity-level shall cover the whole LGU, while the delivery unit level shall cover specific departments, programs, projects, and the like.

The conduct of BAICS entails the following activities or tasks:

- a. Creation of a Planning Team;
- b. Gathering of relevant documents aligned with the five (5) components of internal control;

- c. Documentation of internal control components;
- d. Development of an internal control questionnaire (ICQ);
- e. Administration of the ICQ;
- f. Review of key processes and controls of the LGU;
- g. Conduct of test of controls;
- h. Conduct of interim analysis and preparation of Interim Report(s);
- i. Determination of the control universe;
- j. Review of Oversight Bodies and Local/International Development Partners; and
- k. Preparation of the Baseline Assessment Report.

Creation of a Planning Team

To undertake the BAICS, the IAU has to create a Planning Team to be composed of selected personnel from the IAU. The creation of a Planning Team is best formalized through the issuance by the head of the IAU of an Office Order or its equivalent. The Office Order or its equivalent may also be approved by the LCE, depending on the IAU arrangement with the latter.

BAICS seeks to provide internal auditors with a deep understanding of the LGU. As part of this, the Planning Team gathers information/documents on the LGU's mandates, objectives, strategies, operations, PPAs, relevant laws, rules and regulations, organizational and sectoral performance for further evaluation and analysis.

Thus, the Planning Team may undertake two (2) approaches in conducting the BAICS:

1. If the IAU has no developed ICQ covering the five (5) components of internal control, the Planning Team should first gather the necessary documents relative to each component. Once the documents are gathered, these will be used as the basis in developing the ICQ.
2. If the IAU has a developed ICQ covering the five (5) components of internal control, the Planning Team should gather the necessary documents for updating the ICQ to take into consideration the current context or state of the LGU.

Gathering of Relevant Documents

The Planning Team is responsible for gathering the documents relevant to the five (5) components of internal control.

The documents may be obtained from an open source like the website of the LGU or requested from the specific departments, offices, and/or delivery units in the LGU. Open sources may provide information or an overview of the LGU—the plans, objectives, thrusts and priorities, strategies, and the like. It may be used to gather the pertinent laws and ordinances, manual of operations, performance reports, rules and regulations, and reviews of oversight bodies and international development organizations.

Sample documents are shown in Table 5. The list of documents/criteria that may be considered in the documentation of the five (5) control components is not all-inclusive and not every document/criterion will apply to every LGU. The IAU should come up with its own list of documents/criteria to document the internal control components in the local government.

Table 5. Sample Documents/Criteria in Documenting the Components of the ICS

Internal Control Component/Element	Documents/Criteria
CONTROL ENVIRONMENT	
Plan of Organization	<p>Structural Principles of Governance (Organizational Structure and Staffing)</p> <ul style="list-style-type: none"> • RA No. 7160 or the LGC • DBM Manual on Position Classification and Compensation • LBC No. 137, s. 2021 • CSC MC No. 12, s. 2022 • LGU Approved Organizational Structure and Staffing Pattern / Personnel Services Itemization and Plantilla of Personnel/Plantilla of LGU Personnel • Approved organizational chart and functional chart/statements • Organizational linkages/workflows • Approved staffing pattern • Position description forms/statement of duties and responsibilities • LGU Citizen's Charter • Office Orders on, the following, among others: <ul style="list-style-type: none"> ○ Functional statements of departments, services, offices, delivery units ○ Delineation of functions and authority of senior officials <p>Functional Principles of Governance (Management and Personnel)</p> <ul style="list-style-type: none"> • LGU's code of conduct and other policies/issuances relating to integrity and

Internal Control Component/Element	Documents/Criteria
	<p>ethical standards following the minimum standards of RA No. 6713</p> <ul style="list-style-type: none"> • LGU's performance measurement and evaluation system
Coordinated Methods and Measures	<p>Planning</p> <ul style="list-style-type: none"> • Development planning manual • Provincial Development and Physical Framework Plan and Provincial Development Investment Program for provinces and highly-urbanized cities • Comprehensive Development Plan and Local Development Investment Program for component cities and municipalities • Sectoral plans (e.g., Local Youth Development Plan, Local Nutrition Action Plan, Peace and Order Plan, and Local Climate Change Action Plan) • LGU's documents reflecting its thrusts and strategies in achieving its mission, vision and objectives • Relevant Department of the Interior and Local Government (DILG), DBM, National Economic and Development Authority (NEDA) and Department of Human Settlements and Urban Development guidelines and/or issuances <p>Budget</p> <ul style="list-style-type: none"> • Budget Operations Manual for LGUs • Annual Investment Program for all LGU levels, with a corresponding approval by the Sanggunian through a Resolution • LGU Annual and Supplemental Budgets/ Appropriation Ordinances • Relevant DBM guidelines and/or issuances <p>Accounting</p> <ul style="list-style-type: none"> • Government Accounting Manual for LGUs • Revised Chart of Accounts for LGUs • Description of Accounts • Books of Accounts • Registries and Records • Accounting Forms and Reports • Trial Balances • Financial Reports and Statements • Relevant COA and DBM accounting guidelines

Internal Control Component/Element	Documents/Criteria
	<p>Administrative</p> <ul style="list-style-type: none"> • RA No. 9184 and its revised IRR • Operating Manuals or Service Guides • LGU procurement and bidding documents (Annual Procurement Plan, Project Procurement Management Plan, Approved Budget for the Contract, Bidding Documents and Terms of Reference, Contracts) • Accomplished LGU procurement compliance and performance indicator self-assessment form • Philippine Government Electronic Procurement System guidelines • Relevant Government Procurement Policy Board (GPPB) guidelines and resolutions on procurement • Relevant National Archives of the Philippines guidelines on records disposal <p>Human Resource</p> <ul style="list-style-type: none"> • CSC's Revised ORA-OHRA • 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.) • Rules on Administrative Cases in the Civil Service • Rules on Qualification Standards • Relevant CSC guidelines on human resource management and development • LGU Strategic Performance Management System (SPMS) <p>Quality Management</p> <ul style="list-style-type: none"> • Applicable ISO 9001 Standard on the implementation of a QMS • LGU QMS-related documents (quality manual and quality procedures on the control of documented Information, control of nonconforming products/services, internal quality audit, and corrective action) • Process approach • Client perception monitoring

Internal Control Component/Element	Documents/Criteria
RISK ASSESSMENT	
Risk Assessment	<p data-bbox="735 286 1375 394">Risk management manual which contains the risk management framework and risk management process.</p> <p data-bbox="735 434 1198 465">Risk assessment techniques used:</p> <ul data-bbox="735 470 1375 1608" style="list-style-type: none"> <li data-bbox="735 470 1375 689">• Risk identification (risk register/risk log, risk profile), risk analysis (risk matrix), and risk evaluation (risk evaluation results) which may be contained in the LGU's operating manuals, risk management manual, or separate manuals/ documents by reference <li data-bbox="735 730 1375 1608">• Documentation of the risk assessment which includes: <ul data-bbox="783 801 1375 1608" style="list-style-type: none"> <li data-bbox="783 801 1123 833">• Objectives and scope <li data-bbox="783 837 1375 909">• Description of relevant parts of the system and their functions <li data-bbox="783 913 1375 1057">• Summary of the external and internal context of the organization and how it relates to the situation, system or circumstances being assessed <li data-bbox="783 1061 1375 1133">• Risk criteria applied and their justifications <li data-bbox="783 1137 1375 1209">• Limitations, assumptions and justifications of hypotheses <li data-bbox="783 1214 1171 1245">• Risk identification results <li data-bbox="783 1249 1375 1321">• Data, assumptions and their sources, and validation <li data-bbox="783 1326 1375 1397">• Risk analysis results and their evaluation <li data-bbox="783 1402 1310 1433">• Sensitivity and uncertainty analysis <li data-bbox="783 1438 1375 1509">• Critical assumptions and other factors which need to be monitored <li data-bbox="783 1514 1110 1545">• Discussion of results <li data-bbox="783 1550 1289 1581">• Conclusions and recommendation <li data-bbox="783 1585 986 1617">• References <p data-bbox="735 1653 1375 1796">Risk management plan which specifies the approaches, management components and resources to be applied to the management of the risk</p> <ul data-bbox="735 1800 1375 1975" style="list-style-type: none"> <li data-bbox="735 1800 1375 1975">• 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,

Internal Control Component/Element	Documents/Criteria
	laws, policies and other requirements); 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.
CONTROL ACTIVITIES	
Control Activities	<ul style="list-style-type: none"> • Implementation of the risk management plan through policies and procedures on the risk response (tolerated, transferred, terminated or treated) such as insurance contracts (risk sharing), and risk financing (risk treatment) • Risk monitoring and review reports • Results of the operating performance review and operating compliance review by management
INFORMATION AND COMMUNICATION	
Information	<ul style="list-style-type: none"> • LGU's Charter • Information systems as part of knowledge management - Government Information Systems Plan also known as Philippine Government Online; Data Privacy Manual • 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)
Communication	<ul style="list-style-type: none"> • Report Card Survey and feedback mechanism of Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (RA No. 11032) • 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 • Consultation with internal and external stakeholders
MONITORING AND EVALUATION	
Ongoing Monitoring	<ul style="list-style-type: none"> • NGICS • Monitoring of compliance by various offices to the performance measurement

Internal Control Component/Element	Documents/Criteria
	reports by the Planning Service, FMS, Administrative Service, and other support service units <ul style="list-style-type: none"> • Attendance and leave monitoring system
Separate Evaluation	<ul style="list-style-type: none"> • Internal Audit • Applicable provisions of the RPGIAM • IAM for LGUs, 2023 Edition
Combined Ongoing Monitoring and Separate Evaluation	Consultation and coordination between and among operating units, support services units and the IAU

Documentation of Internal Control Components

To obtain an understanding of the LGU's internal controls, the Planning Team should document the five (5) internal control components: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring and evaluation.

The documentation of the internal control components should be done first before coming up with the ICQ. This is the case since the information and documents to be gathered and processed will serve as inputs in the preparation of the ICQ.

As part of the documentation, the information and documents gathered should be analyzed or processed to be familiar with the LGU's operations.

The procedures for documenting the ICS include a combination of workshops, observations, documentary reviews, and focus group discussions to obtain the primary source documents from the operating and support units.

Development of an ICQ

The ICQ provides a detailed guide both in documenting the components of internal control, as well as in assessing the same. 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 and gather more information about the auditee's responses.

A sample ICQ is shown in **Appendix A**.

Target respondents who will accomplish the ICQ should be process owners who perform and review tasks/outputs. This is the way to determine the knowledge and appreciation of their existing internal control and how it is being implemented.

Administration of the ICQ

The internal auditor identifies the target respondents within the strategic requirements of the information gathering. In addition, the conduct of orientation with the target respondents is recommended to set a common understanding and language.

Thereafter, the Planning Team administers the ICQ to the target respondents within the LGU.

The ICQ has to be accomplished using the following answers/responses:

- a. "YES" answers with appropriate information/documents;
- b. "YES" answers without or lacking appropriate information/documents;
or
- c. "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 an 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.

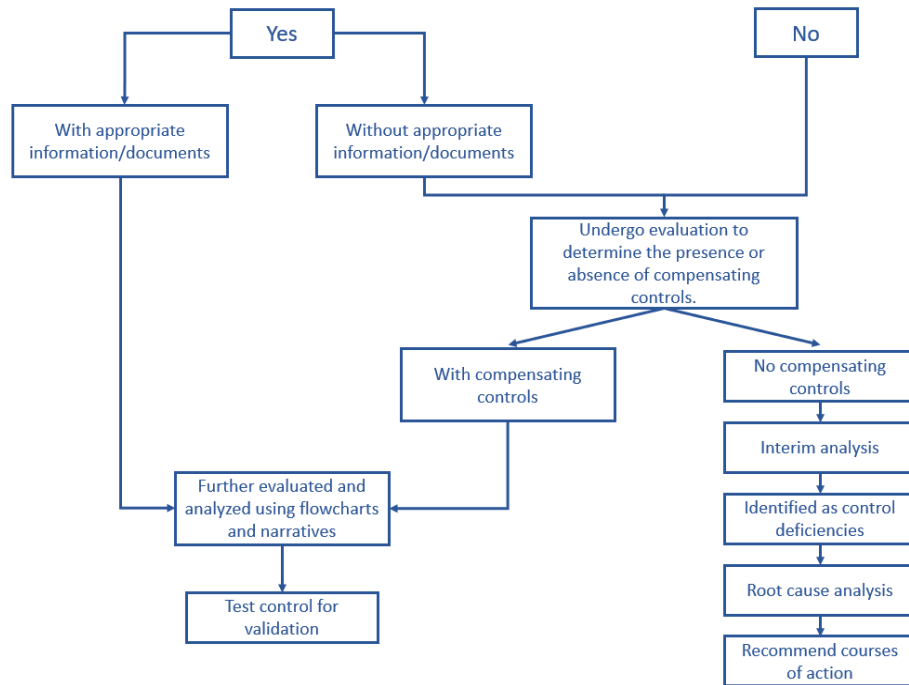
Compensating controls refer to alternative mechanisms that are in place to satisfy the requirement of the control.

"YES" answers and "NO" answers with compensating controls will be subjected 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 IAU can be done by triangulation, a three (3)-tier approach that may include solicitation, elicitation, and analysis of data. No one type of evidence gathering would suffice. To raise the level of confidence, at least three (3) sources of evidence should be obtained or three (3) methods of verification should be applied.

Figure 13. Treatment of ICQ Responses



Review of Key Processes and Controls

The objective of this review is to document controls in key processes of the LGU that are critical to the achievement of the control objectives. This is to determine the adequacy of internal control and identify gaps, deficiencies, or breakdowns for potential inputs to the Baseline Assessment Report. The review includes operating processes for programs and projects, administrative, finance, budget, planning, and technical support system.

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

- a. A process with an output that is an input to a program output and outcome;
- b. A process that makes up significant control procedures; and
- c. A process where the financial value of inputs is high.

The review also includes the key operational processes used to manage and monitor the LGU's operational strategy (plans and programs) to attain the expected outputs/outcomes, including the manner they support and reinforce the overall LGU goals. The objective is to understand the operational control components necessary to achieve the target outputs and outcomes, as well as the identified key performance measures.

The subject of the review includes existing flowcharts, operating manuals, and periodic accomplishment reports. This part also includes a review of

the performance of the support systems such as procurement, human resource, 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. The review is expected to identify strengths and weaknesses, source(s) 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 the 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 or variance. Said cost will be made as a reference in determining irregular, unnecessary, excessive, extravagant, or unconscionable expenditures.

The Planning Team identifies the critical key processes in the LGU, analyzes them, and subsequently evaluates them. In doing so, the Team may use flowcharts and narrative notes, among the array of methods and techniques to identify and understand their key activities. If flowcharts are available, the Planning Team should make use of them. The narrative notes need to be added to be more descriptive of the process.

The Team evaluates the system and process flowcharts and narratives which should be subjected to validation and walkthrough to determine their appropriateness and sufficiency based on relevant laws, rules and regulations, as well as managerial policies.

If submitted flowcharts and narrative notes are inappropriate and insufficient, the Planning Team is expected to prepare flowcharts and narrative notes based on rules, regulations, and managerial policies.

The Planning Team should also evaluate the answers in the accomplished ICQ. Identified controls on key processes of critical operating and support systems supported with appropriate information/documents may be documented by analyzing the manual of operations, including the flowcharts and narrative notes or procedures.

Evaluation of Controls Using Flowcharts and Narrative Notes in the Manual of Operations. The controls subject to flowchart and narrative procedures evaluation are the following:

- a. Identified controls in the "YES" answers with appropriate information/documents;
- b. Identified controls in the "YES" answers without or lacking appropriate information/documents but with compensating controls; and

- c. "NO" answers but with compensating controls.

In the event that controls are present in the flowcharts and narrative notes reflected in the input-process-output as part of the LGU manual of operations, the presence of the same control will be evaluated in a 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 the same requires immediate action.

Evaluation of Controls Using Narrative Notes. The Planning Team may also evaluate controls by using narrative notes.

These 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 flowchart. A narrative statement may be made regarding the existing internal controls of the LGU. 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.

Conduct of Walkthrough. The Planning Team must conduct a walkthrough test after documenting the auditee's processes. This involves establishing a paper trail of one (1) or two (2) 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 LGU'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 documentation.

The conduct of a walkthrough of a system/process with the following conditions should be established or determined:

- a. Identified controls;
- b. If identified controls are designed based on design criteria provided in the rules and regulations and/or managerial policies;

- c. If identified controls can be implemented as designed through simulation; and
- d. 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 case all of the above-mentioned conditions are present, the identified controls will be subjected to a test of control. On the other hand, the absence of the abovementioned conditions entails the conduct of an interim analysis to determine if such absence requires immediate action.

Test of Controls. An understanding of the ICS is obtained during strategic planning. To gather initial evidence on the presence of key controls in place, a test of controls is performed in one (1) or two (2) transactions to determine if identified controls are actually present and being implemented as designed, and 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. The Planning Team gathers 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 any of the following:

- a. 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;
- b. Evaluation of evidence that the control procedures were performed (and performed at the appropriate time); and
- c. 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, and 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 Planning Team prepares an interim analysis to determine if the control gap/absence/deficiency/breakdown requires immediate action. Results of the test of controls go to the control universe and will eventually be included in the Baseline Assessment Report.

The Planning Team evaluates identified controls based on their design and implementation and their operating effectiveness. Internal control cannot be effectively implemented if it was not effectively designed. The Planning Team determines whether identified controls are effectively designed, implemented, and operating effectively by undertaking the following:

- a. Determining how identified controls function to ensure conformity to laws, rules and regulations, and managerial policies;
- b. Determining whether or not these controls have been implemented (placed in operation); and
- c. 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 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, 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 following:

- 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.

The Planning Team determines if an inquiry/interview is needed to verify responses to the ICQ. 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.

Conduct of Interim Analysis and Preparation of Interim Report(s)

The Planning Team should subject the gaps or control deficiencies/breakdowns 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. If such gaps or control deficiencies/breakdowns are significant, material and 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 the interim report(s), the Planning Team should evaluate the identified internal controls.

For guidance on how to determine if (i) a deficiency is significant, (ii) a weakness is material, or (iii) when a combination of significant deficiencies becomes 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 ICS.

A significant deficiency is a control deficiency (or a combination of control deficiencies) that adversely affects the LGU's ability to initiate, process, authorize, record, or report data accurately and timely such that there is a likelihood that an error will not be prevented or detected.

The Planning Team should evaluate 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 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 the 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 ICS and the key processes of the LGU;
- b. Gaps or control deficiencies/breakdowns found 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.

Determination of Control Universe

Before defining the control universe, the Planning Team should verify and validate its understanding of the control components and key processes of the unit concerned. In defining the control universe, the 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, including control gaps/deficiencies/breakdowns which shall be 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.

Review of Oversight Bodies and Local/International Development Partners

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. This includes evaluation reports of various monitoring and oversight bodies, such as DBM, Department of Finance, DILG, NEDA, COA, and CSC.

This also includes the review made by international development partners working with the LGU, if the LGU is assisted by such partners. 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.

Preparation of the Baseline Assessment Report

The Baseline Assessment Report summarizes the following:

- a. Interim analyses and interim report(s), which contain a rapid assessment of the control gaps/deficiencies/breakdowns, and preliminary recommendations;
- b. Control universe document; and
- c. Control gaps/deficiencies/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 (5) 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 for said report is in **Appendix B**.

4.1.2 Consideration of the Control Risk of Key Processes and Assessment of Risks

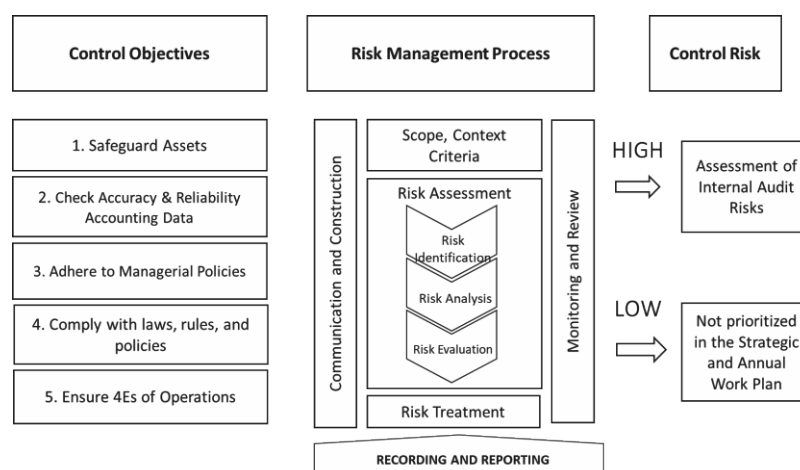
After the BAICS, the Planning Team also considers the control risk of key processes to achieve the control objectives. An illustration of the same is found in Figure 14.

Generally, the units responsible for addressing risks must conduct an assessment of their own risks. 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 Planning Team should take into consideration the control risk assessment undertaken by the delivery units. However, in case there is no such assessment conducted in the LGU, which should be included in the interim report, the Planning Team may undertake a risk assessment on the identified controls where there may be a high risk of impact on key processes. Said control risk assessment by the Planning Team should only be used for planning and prioritizing potential audit areas, hence, should not be construed as the control risk assessment that should be regularly conducted by the LGU. Thereafter, there is a need to determine those controls that are vulnerable to being omitted, improperly implemented or bypassed.

A more detailed discussion on the assessment of risks is found in 2.4.2 Risk Assessment, Part 2 Concepts and Principles of Internal Control of this Manual.

Figure 14. Consideration of the Assessment of Control Risks Diagram



4.1.3 Assessment of Internal Audit Risks

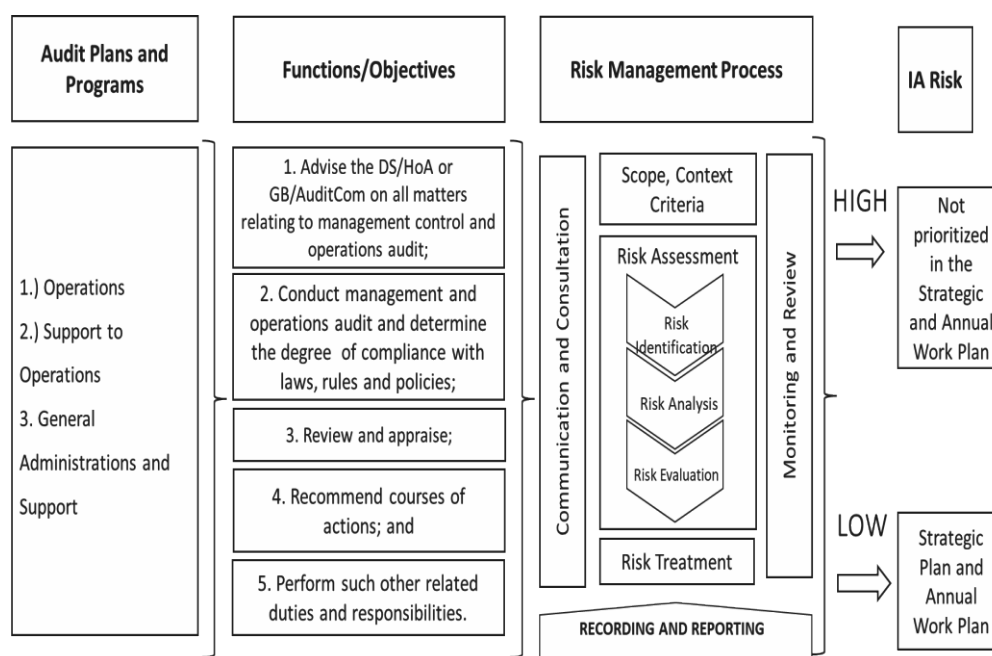
The auditorial functions of the IAU require the Planning Team to conduct an assessment of their audit risks (not risks of management and delivery units) vis-à-vis their functional objectives, as illustrated in Figure 15.

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 despite the exercise of due diligence, e.g., sudden change in political

leadership/administration, replacement of the LCE, natural calamities, and judicial findings and decisions which may affect the audit objectives.

In essence, internal auditors assess risks to address those with high significance and high likelihood of occurrence and which will impact the attainment of the audit objectives. Based on the said assessment, internal auditors will be able to determine where to focus their internal auditing efforts.

Figure 15. Internal Audit Risk Assessment



4.1.4 Formulation of the Strategic Plan

The Strategic Plan consists of the three-year direction of the IAU considering the results of the BAICS of the LGU, and the assessment of control and internal audit risks. The IAU prepares the proposed three-year direction of the internal audit activities for approval by the LCE.

The potential audit areas are prioritized based on the following:

- Those controls with the highest impact shall be covered in the first year;
- Those controls with moderate impact shall be covered in the second year; and
- Those controls with low impact shall be covered in the third year.

The Strategic Plan has the following components: (a) objectives; (b) methodology; (c) organizational strategic environment; (d) risks and

opportunities associated with the Strategic Plan; (e) IAU strategies; (f) work strategies and audit coverage; (g) allocation of audit resources; (h) performance measures; and (i) review of the Strategic Plan.

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 LGU policies and guidelines. The IAU functions (audit objectives) found in this manual may be cited in this section.

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 LCE, departments, and other key stakeholders.

Organizational Strategic Environment

This section identifies issues and trends relevant to the LGU which may have an impact on the achievement of its objectives. Such issues could come from a number of sources, including the following:

- a. Governance, organizational structure, roles and accountabilities;
- b. Policies, objectives and strategies that are in place to achieve the LGU objectives;
- c. Capabilities understood in terms of resources and knowledge;
- d. Information systems, information flows, and decision-making processes;
- e. Relationships with, and perceptions and values of, stakeholders;
- f. Organization's culture;
- g. Standards, guidelines, and models adopted by the organization;
- h. Form and extent of contractual relationships;
- i. Social and cultural, political, legal, regulatory, financial, technological, economic, natural, and competitive environment, whether international, national, regional, or local; and
- j. Key drivers and trends with an impact on the objectives of the organization.

This is derived from a review of key strategic and other planning documents, and discussions with the LCE, department heads, and other key stakeholders. This section aims to demonstrate that the IAU has a good understanding of the LGU, what is planned for the future, and how the work undertaken by the IAU will assist the LGU achieve its objectives.

Risks and Opportunities Associated with the Strategic Plan

This section identifies the risks and opportunities, both internal and external to the IAU, considering the organizational strategic environment scanning previously conducted. The IAU should have sufficient knowledge to identify the risks and opportunities associated with the Strategic Plan, such as those that could allow fraud. The IAU evaluates the need for investigation and notifies the appropriate authorities as may be applicable. The IAU has a responsibility to exercise "due professional care."

IAU Strategies

This section describes the three-year strategy of the IAU to achieve its broad audit objectives described in 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 LGU, and (2) describe the capabilities and resources, both dictated by the assessment of internal controls.

Examples of such strategies include:

- a. Changes in work practices and enhancement of audit methodologies to ensure that IAU meets the needs of its stakeholders and delivers value for money;
- b. Review of the internal audit professional development program to address new trends in audit;
- c. Development or introduction of new audit technology;
- d. Benchmarking exercises or external reviews, as may be deemed appropriate;
- e. Introduction of secondment programs aimed at augmenting the capacity of the IAU; and
- f. Skilled and experienced staffing resources to deliver the engagements per the Annual Work Plan.

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:

- a. The focus of the audit prioritized from the BAICS, and assessment of control and internal audit risks;
- b. 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
- c. 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 IAU may further formulate criteria on which offices/units may be included in the 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.

Examples of proposed audit coverage for management and operations audits are shown in Tables 6 and 7, respectively.

Table 6. Example of a Management Audit Coverage

Year 1		Year 2		Year 3	
Audit Area	Site	Audit Area	Site	Audit Area	Site
Controls in the procurement system	Selected department (procuring units)	Controls in the payroll system	Selected departments	Controls in the Performance Evaluation System	Selected departments

Table 7. Example of an Operations Audit Coverage

Year 1		Year 2		Year 3	
Audit Area	Site	Audit Area	Site	Audit Area	Site
Output evaluation of agricultural projects	Local agriculture department	Input-process-output evaluation of social welfare services	Local social welfare and development department	Outcome evaluation in the health services	Local health office

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 audits, organizational units, and/or geographical locations. Details may be provided in tabular or graphic form.

Performance Measures

This section lists the key performance indicators (KPIs) that are used to measure the performance of the IAU and any change in measures or targets over time.

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 IAU and approved by the LCE.

4.2 Development of the Annual Work Plan

An Annual Work Plan, which will also be prepared by the Planning Team as directed by the IAU head, contains the prioritized audit areas from the Strategic Plan approved by the LCE and focuses on a one-year period, the type and approach of the audit, and the timelines of the same.

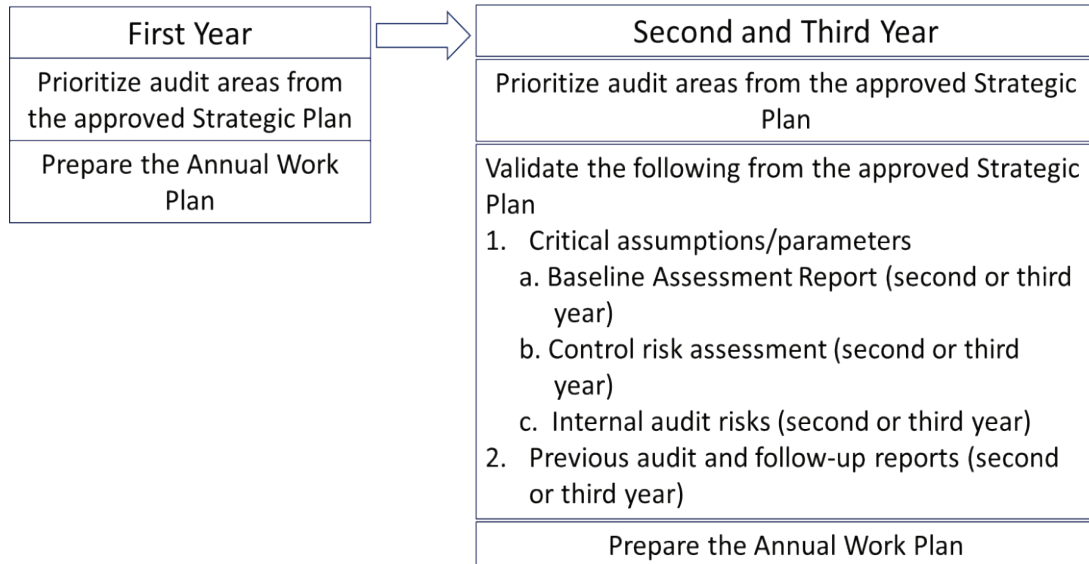
It includes areas for management audit and operations audit, wherein the conduct of a compliance audit is a prerequisite.

The audit area may also come from the LCE. In doing so, the basic frame of reference is the objective established by the LGU 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 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 development of the Annual Work Plan, the IAU may review the control components for any change, new systems and processes, and the results obtained on, for example, the top five (5) key audit issues and the LGU's priorities.

The key activities in the annual audit planning are shown in Figure 16.

Figure 16. Annual Audit Planning



4.2.1 Prioritization of Potential Audit Areas

From the list of controls identified in the Strategic Plan, the 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 (in the second and third years);
- b. Update the control and internal audit risk assessment (in the second and third years); and
- c. Prioritize the potential audit areas.

The IAU schedules the prioritized audit areas of the three-year strategic plan into three (3) Annual Work Plans, subject to approval by the LCE. The IAU then prepares the Audit Engagement Plans which focus on the specific audit areas prioritized based on the Annual Work Plans. An example of an audit focus is shown in Table 8.

Table 8. Example of Audit Focus for One (1) Period

Audit Area	Audit Description	Expected Benefit	Area Responsible	Priority	Working Days	Estimated Start
Audit Type: Management Audit						
Controls in the procurement system	Appraisal of the existing controls in the procurement system	Generate recommendations on the controls to ensure that the procurement system will be observed and satisfy stakeholders' needs and expectations	Department A	1	30	January 15
			Department B	2	30	January 15
			Department C	3	30	April 15
			Department D	4	30	April 15
			Department E	5	30	July 15
			Department F	6	30	July 15
Audit Type: Operations Audit						
Output evaluation of social welfare services	Validation of the effectiveness of social welfare services	Generate recommendations to ensure the effectiveness of the social welfare services	Program A	1	30	August 15
			Program B	2	30	August 15
			Program C	3	30	September 15
			Program D	4	30	September 15
			Program E	5	30	October 15
			Program F	6	30	October 15

In the preparation of the Annual Work Plan, auditors should take into consideration previous audit follow-up reports 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.

4.2.2 Approval of the Strategic and Internal Audit Annual Work Plans

The IAU head should present and discuss the Strategic and Annual Work Plans with the LCE. The objective is to obtain a good understanding of the insights of the LCE on the LGU objectives. It also allows the IAU to focus on important issues throughout the planning and audit processes. Finally, the IAU head should obtain the approval of the Strategic and Annual Work Plan from the LCE.

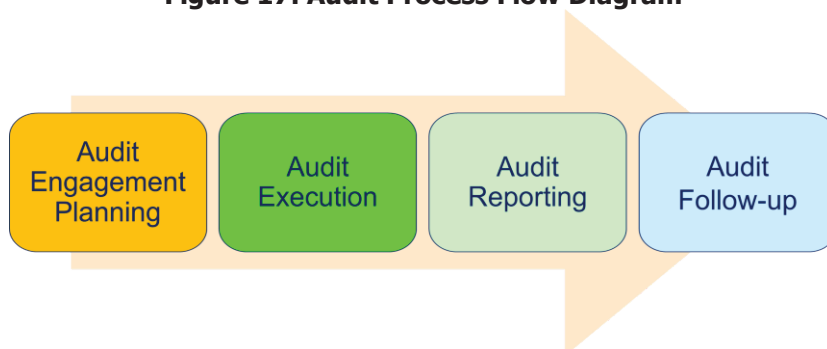
PART 5

AUDIT PROCESS



Upon completion of the strategic and annual planning, the IAU proceeds to 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 shown in Figure 17. This audit process is applicable to both management audit and operations audit. For each phase, there are specific criteria to ensure a successful audit engagement.

Figure 17. Audit Process Flow Diagram



5.1 Audit Engagement Planning

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

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

Audit engagement planning focuses on the specific audit areas prioritized for the year, which involves the listing down of audit activities, timelines, and expected outputs.

It sets the activities per audit engagement identified in the Annual Work Plan. It requires familiarization with the objectives, processes, risks and controls of the auditee, the activity to be audited, and the development of a strategy and approach in conducting the audit.

Audit engagement planning entails the following:

- a. Creation of an audit team;
- b. Documentation of understanding of the program, project, system, or process;
- c. Determination of the audit objectives, scope, criteria, and evidence;
- d. Selection and determination of the audit methodology;
- e. Determination of the required resources and the target milestones or dates;
- f. Development of the Audit Engagement Plan;
- g. Determination of the KPIs of the audit engagement; and
- h. Approval of the Audit Engagement Plan and KPIs

Figure 18. Audit Engagement Planning Diagram

PLANNING	What to Audit
	1. Understand the program and project, system and processes
	2. Determine the audit objective, scope and criteria, and evidence
	3. Develop the audit plan
	4. Determine the Key Performance Indicators (KPIs)
EXECUTION	How to Audit
	5. Determine the resources required for the audit
	What and How to Report
	What to Follow-up
REPORTING	
FOLLOW-UP	

5.1.1 Creation of an Audit Team

Any engagement for a compliance audit, management audit, and/or operations audit starts with the creation of an Audit Team. The IAU Head selects the internal auditors to compose the Audit Team. The creation of the Audit Team could be formalized through the issuance of an Office Order. After this, consultation within the Audit Team must be undertaken to distribute or delineate the responsibilities of each team member.

5.1.2 Documentation of Understanding of the Program, Project, System, and Process

Audit engagement planning requires an understanding of the organizational mandate and the areas that 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 effectively, efficiently, ethically, and economically.

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 a 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 IC, operating and support systems and processes.

For operations audit, engagement planning starts from an understanding of the mandate of the LGU. The IAU should understand the objective of the LGU 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 effectivity, efficiency, ethicality, and economy of operations. The audit plan should be based on a sound understanding of the objectives, accountability, ICS, and operating and support processes.

In operations audit, some drawbacks may often be encountered. The 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 the degree of family support), then the IAU may focus its audit on measurable subject matters;

- d. A purely systematic review may not be adequate (e.g., effectiveness of a vocational training program may be measured by the auditee through the percentage of trainees gaining employment; but the auditor may have to review what percentage of the trainees gained employment related to the training and what percentage retained their employment), then the IAU should identify appropriate audit procedures; and
- e. Time constraints restrict the auditor, then the 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 and indicate which controls can be relied upon and what are absent but should be in place.

5.1.3 Determination of the Audit Objectives, Scope, Criteria, and Evidence

Each audit engagement 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 LGU 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 have a measurement and evaluation system which will be used to review and improve performance and assess compliance with laws, rules, methods, and procedures.

If the IAU verifies that such self-assessment is in place, it evaluates the components of the performance evaluation system (PES) for adequacy, appropriateness of the measures, and reliability of the reporting, as well as the evaluation results.

However, if the IAU verifies that such self-assessment is not in place, then it assesses the ICS built into the operating and support system being audited to determine if there are compensating controls. The IAU makes a report on the matter.

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

For operations audit, the IAU may choose from any of the following objectives, or may formulate more that are appropriate to the results of the audit planning:

- i. To determine if the agency program or project is achieving its target

The IAU compares the identified performance accomplishments with the corresponding targets to determine variances, if any. Variances may be positive/favorable or negative/unfavorable 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 a nutrition program, the audit objective may be: to determine if the target number of underweight children is achieved from the given inputs (such as foods enriched with vitamins, proteins, calcium and iron) using the prescribed nutritional practices to attain the desired level of nutrition among children.

- 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 in the audit to achieve audit objectives. The scope should be able to define what systems/processes or controls are included in the audit, and what are not included if there are relevant areas that have been excluded in the audit scope.

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

For example, for a nutrition program in the LGU, the scope for the given audit objective may be: to validate the LGU feeding program for two

months covering certain geographical areas to determine if the expected level of nutrition was attained. This scope can be reduced or expanded depending on the sampling requirement and the resources allocated for the audit.

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 management, records and reporting practices, and performance standards of the units covered.

An appraisal of the operating and support systems is conducted to determine whether or not the five (5) different control components 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:

- i. The existence of a BAC, BAC secretariat, procurement unit(s) and technical working group(s);
- ii. The separation of duties of the above entities in procurement;
- iii. Participation of observers in all stages of the procurement process;
- iv. 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 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 LGU.

Thus, the IAU should look for the answers to these questions:

- i. Are the control components sufficient to safeguard the assets?
- ii. Do they provide accurate and reliable accounting data?
- iii. Do they adhere to managerial policies?
- iv. Are they in compliance with laws, rules, and regulations?
- v. Do they ensure the effectiveness, efficiency, economy, and ethicality of operations?

The IAU can conclude the effectiveness of the controls only when the internal control components achieve 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.

These may include 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 or regulatory policies) for 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.

5.1.4 Selection and Determination of the Audit Methodology

Audit methodology depends on the defined audit objectives, scope, criteria, and audit evidence, as well as the 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 and remote audit methods which take into account the extent of involvement between the auditor and the auditee.

Table 9. Examples of Audit Activities under the Two (2) 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	<ul style="list-style-type: none"> ▪ Conducting interviews ▪ Completing checklists and questionnaires with auditee participation ▪ Conducting document review with auditee participation ▪ Sampling 	<p>Via interactive communication means:</p> <ul style="list-style-type: none"> ▪ Conducting interviews; ▪ Observing work performed/test of controls with a remote guide; ▪ Completing checklists and questionnaires; and ▪ 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. 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, to form audit findings. 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;
- 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.

When undertaking a 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 techniques. 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 for the auditor to draw conclusions about the population from which the sample is selected. However, a sampling error may arise if the samples selected are not a good representative of the population. Even if the sample is randomly selected, some samples will be better representative of the population than 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.

Statistical sampling

It 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. A statistical sampling approach must be used if the auditor wishes to extrapolate sample results to draw conclusion about the entire population.

In statistical sampling, auditors deal with a certain level of sampling error or sampling risk which reflects the acceptable confidence level. It is noted that different sets of samples or sample sizes randomly selected from the same population generate different confidence levels. 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.

Non-Statistical Sampling/Judgment-Based Sampling

This 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 on the findings of the audit and the conclusions reached.

Please refer to **Appendix C** for a detailed discussion on statistical and non-statistical sampling.

- b. Substantive Tests on Samples.** Performing substantive tests on the samples selected is a comprehensive analysis 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. When 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 the audit.

The IAU may use these concepts or procedures in determining the degree of compliance and in performing management or operations audits of a sample population.

5.1.5 Determination of the Resources Required 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.

5.1.6 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 LGU's mandate, objectives, strategies, operating and support systems, manual of operations, flowcharts, narrative notes, and relevant laws, rules, and regulations, together with the 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 10.

Table 10. 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 the LGU 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. The audit objective must be consistent with the objectives of the LGU/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,

	rules and regulations. Criteria are standards against which the 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.

5.1.7 Determination of the Key Performance Indicators 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 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 and substantial evidence, and in compliance with relevant laws, rules and regulations;
- c. There is compliance with NGICS, IAM for LGUs, 2023 Edition, 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 the Office of the Ombudsman and CSC rules and regulations.

It is important that the KPIs for internal audit are aligned with the Strategic and Annual Work Plans, and help drive the performance that the LGU expects from the IAU. These are incorporated in the audit plan to guide the auditors during the execution of the audit engagement.

5.1.8 Approval of the Audit Engagement Plan and Key Performance Indicators

The Audit Engagement Plan and KPIs are submitted by the internal audit team leader to the IAU Head for review and approval before the commencement of the audit execution. The 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, the management and local officials should be informed about the approved Audit Engagement Plan and the KPIs.

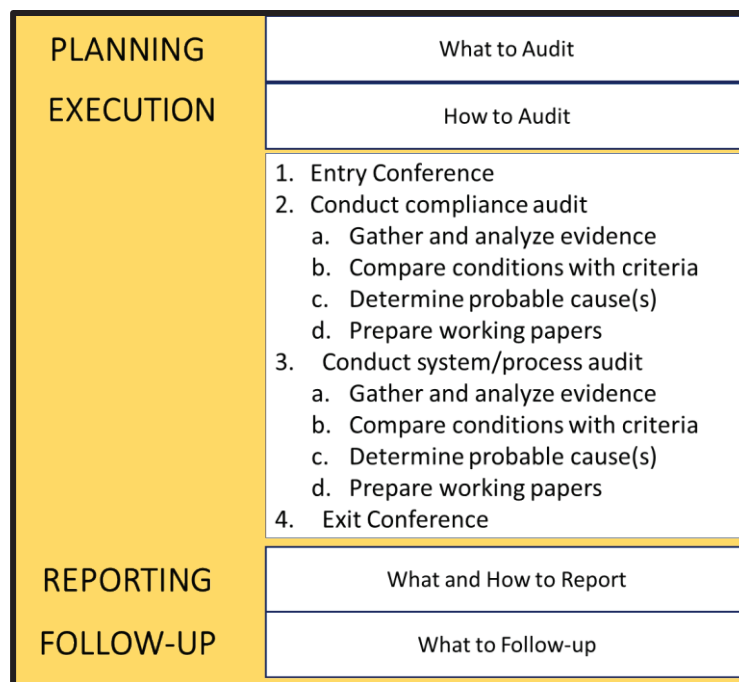
5.2 Audit Execution

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 IAU head for approval. The 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 IAU will prepare an interim report to the LCE to communicate findings, issues, and problems that may affect the conduct of the audit and expose the LGU to considerable risks. A summary of the interim report will be included in the audit report.

Audit execution entails the following: entry conference; conduct of compliance audit; conduct of system/process audit; gathering and analysis of evidence; and exit conference.

Figure 19. Audit Execution Flow Diagram



5.2.1 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.

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 in the 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 the conference. The main content of the briefing paper includes a background of the selection of the audit area, preliminary audit objectives and scope, audit methodology and criteria, planned timing, previous audit recommendations, and milestones and deliverables of different audit phases.

5.2.2 Conduct of Compliance Audit

A compliance audit is the evaluation of the degree of compliance of control with laws, regulations, and 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 a compliance audit. Only when there is compliance that control effectiveness is determined. If there is non-compliance, the probable cause(s) 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 LGU's mandate and explicit objectives. The IAU identifies the standards as specified in the LGU'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 if the BAC has a mechanism in the selection of observers in conformity with RA No. 9184 and its IRR and relevant resolutions of the GPPB.

The steps in the conduct of a 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 a conclusion. This refers to the conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.
- c. Determine the 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, could have caused the non-compliance with laws, regulations, 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 IAU must be able to establish, not only the facts and circumstances but also the whys, the whats and the hows of the non-compliance.
- d. Prepare the working papers. The 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.

5.2.3 Conduct of System/Process Audit

An operations audit is designed to evaluate the effectiveness, efficiency, ethicality, and economy of operating systems selected for audit. On the other hand, a 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 of whether or not such control procedures are complied with and are working effectively.

The steps in the conduct of a system/process audit are as follows:

- a. Gather and analyze evidence to establish the condition. This refers to the finding of facts which is defined as a fact supported by substantial evidence.

- b. Compare conditions with criteria to draw conclusion. This refers to the conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.
- c. Determine the root cause(s). RCA is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it. The determination of root causes through varying techniques is an essential audit methodology that will assist auditors in analyzing pieces of audit evidence to come up with appropriate recommendations.
- d. Prepare the working papers. The 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.

Refer to the discussion on the development of audit findings under audit reporting for the definition of 4Cs.

5.2.4 Gathering and Analysis of Evidence

During 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:

- a. Interviews with employees and other individuals;
- b. Observations of activities and the surrounding work environment and conditions;
- c. Documented information such as policies, objectives, plans, procedures, standards, instructions, licenses and permits, specifications, drawings, contracts, and orders;
- d. Records, such as inspection of records, minutes of meetings, audit reports, records of monitoring programs, and the results of measurements;
- e. Data summaries, analyses, and performance indicators;
- f. Information on the auditee's sampling plans, and any procedures for the control of the sampling and measurement process;

- g. Reports from other sources, e.g., other relevant information from external parties;
- h. Databases and websites; and
- i. Simulation and modeling.

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 Plan 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.

In gathering and analyzing evidence, the IAU should consider the (a) sufficiency and appropriateness of audit evidence, (b) types of audit evidence, and (c) audit approaches and techniques in gathering audit evidence.

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 the 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 LCE or Presiding Officer of the Sanggunian to implement the recommended courses of action. Substantial evidence is the amount of relevant evidence that a reasonable mind might accept as adequate to justify a conclusion.

Evidence could be any of the following four (4) types:

- a. **Relevant evidence** - having value in reason as tending to prove any matter provable in an action.
- b. **Direct evidence** - proves the fact in dispute without the aid of any inference or presumption.
- c. **Circumstantial evidence** - 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.
- d. **Corroborative evidence** - additional evidence of a different character to the same point.

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 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 (2) or more sources. This may be the case when, for example, responses to inquiries from 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 to establish or bolster a point. For a piece of evidence to be admissible, it must be relevant, without being prejudicial, and it must have some signs of reliability. Evidence whose probative value is outweighed by the risk of confusing the issues to be decided may be excluded as it may be inadmissible.

Types of Audit Evidence

Overreliance on any one (1) form of evidence may impact the validity of the findings. Internal auditors 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 crosschecks 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 (3) 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.

Five (5) types of evidence are described below.

- a. Physical evidence is obtained by direct observation. 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 other evidence, thus, documentary or photographic evidence can become handy in this situation.
- b. Testimonial evidence is obtained from others through oral or written statements in response to inquiries or through interviews. 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 who know the issue at hand.
- c. 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, and motion pictures or videos. 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 the 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.

- d. 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.
- e. Electronic evidence includes any electronically stored information such as 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.”

Audit Approaches and Techniques in Gathering Audit Evidence

In selecting the audit techniques to be used, the 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 approach 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 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.

Four (4) audit approaches and techniques are described below: inquiries and interviews sampling, techniques in the analysis of evidence, and RCA.

- a. Inquiries and interviews are question-and-answer sessions 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:

- i. Preparatory interviews;
- ii. Interviews to collect or validate material information; and
- iii. 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, internal auditors cannot rely solely on interviews.

The results of the interviews must be compiled and documented to facilitate 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.

- b. Sampling is a scientific method of selecting the transactions to be subjected to audit.

Please refer to **Appendix C** on the topic on audit sampling.

- c. 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, RCA, Fault Tree Analysis, 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.

- d. RCA. This 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 the 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, the implementation of appropriate actions based on the conduct of RCA is more effective in preventing the same or similar events with negative outcomes occurring or increasing the probability of repeating events with positive outcomes when compared with just addressing the immediately obvious symptoms.

RCA may identify the following:

- i. Single root cause;
- ii. Multiple root causes in which the elimination of any cause will prevent the focus event from occurring;
- iii. Root causes are contributory factors where elimination will change the likelihood of the focus event from occurring but may not directly prevent it; and
- iv. Root causes of successes.

The basic steps in conducting the RCA relating to noncompliance with management controls are:

- i. Initiation. Establish the need, purpose and scope of the RCA.
- ii. Establishing Facts. Collect data and establish the facts of what happened, where, when and by whom.
- iii. Analysis. The use of RCA tools and techniques to ascertain how and why the focus event/deficiency occurred.
- iv. Validation. Distinguish and resolve the different possibilities as to how and why the focus event/deficiency was caused.

Figure 20. RCA Process

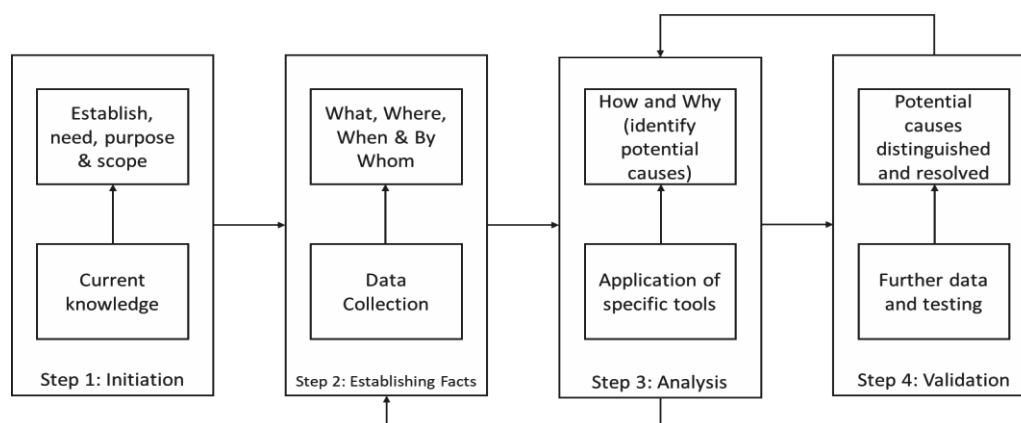
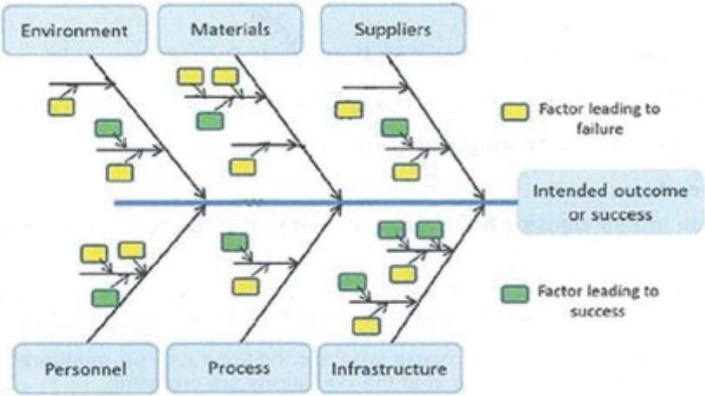


Table 11. Commonly Used RCA Techniques

Technique	Description
Events and causal factors (ECF) charting	ECF charting identifies the time sequence of a series of tasks and/or actions and the surrounding conditions leading to a focus event or 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 or deficiencies. The results are displayed as a time-actor matrix of events.
The “why” method	This 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 or 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 counterfactual test. The network of factors is displayed in a “why-because” graph
Fault tree and success tree method	This 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.

Technique	Description
Fishbone or Ishikawa diagram	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>Figure 21. Example of Ishikawa (Fishbone) Diagram</p> 
Management oversight and risk tree (MORT)	<p>MORT is a pre-populated fault tree with events, usually faults of oversights, expressed in generic terms. It contains two (2) 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.</p>

Technique	Description
AcciMaps	AcciMaps is a technique primarily 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 (CAST) accident model and process	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 sociotechnical control structure as well as the constraints that were violated at each level of the control structure.

5.2.5 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 to arrive at workable recommendations and obtain the auditee's commitment towards performing remedial actions – as a manifestation of a progressive attitude toward the audit findings. The auditee's comments/responses are recorded in the audit findings sheet and integrated into the draft report.

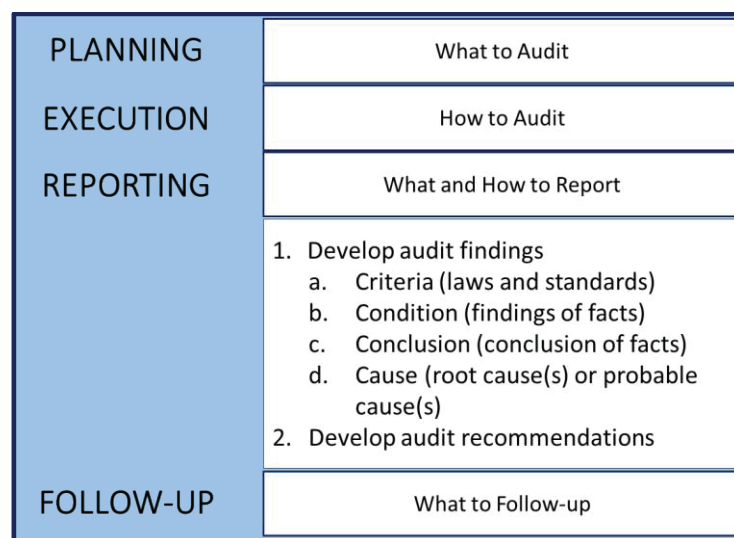
During the exit conference, it is highly recommended that only the highlights of the audit findings, i.e., 2Cs or criteria and conditions are presented to the auditees. The conclusion is yet to be inferred since the auditees have yet to provide their comments and insights about the significant audit issues.

The purpose of the exit conference is to discuss what has transpired during the audit and/or the highlights of the audit findings.

5.3 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.

Figure 22. Audit Reporting Flow Diagram



Audit reporting entails the following: development of audit findings; development of audit recommendations; preparation of the draft audit report; updating of the LCE; and preparation of the final audit report.

5.3.1 Development of Audit Findings

The audit findings can be developed by analyzing the pieces of evidence gathered for each of the audit elements. As previously discussed, evidence, which may be categorized as physical, documentary, testimonial, analytical, or electronic, 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 (2) complementary forms of assessment take place: (1) assessment of the significance of the findings, and (2) determination of the probable cause(s) and the root cause(s). 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 an agricultural program, the actual cost of seeds and other farm inputs is more than the estimated cost; the ratio of production per hectare of farm was achieved despite the sufficiency of budget for such farm inputs; the actual productivity growth rate went down from the expected or acceptable rate.

Thus, 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 the: (1) degree of compliance or non-compliance of control with laws, regulations, and policies; (2) control effectiveness or ineffectiveness; and (3) efficiency, effectiveness, ethicality, and economy of operations.
- d. Cause – the immediate and proximate reason(s) for the condition for which substantial evidence will be used as the 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.

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.

5.3.2 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 the science of facts, conditions, and evidence, and on practicable, incontestable, and workable solutions that can stand alone and address the issue(s) at hand.

Audit recommendations are management/legal remedies to avoid the 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 LCE or the Presiding Officer of the Sanggunian, depending on what is being audited. The recommendations should identify the probable/root cause of the gaps or deficiencies/breakdowns. The IAU should not address the probable/root cause; instead, it should recommend courses of action wherein the responsible delivery units will take preventive (avoid occurrence) and corrective (avoid recurrence) measures.
- 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 LGU 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).

5.3.3 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.

5.3.4 Updating of the Local Chief Executive or Presiding Officer of the Sanggunian

The LCE or the Presiding Officer of the Sanggunian, depending on the audit coverage, should be updated on the results of the audit engagement.

5.3.5 Preparation of the Final Audit Report

The draft report may then be finalized by 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 for said report is in **Appendix B**.

The final audit report should be presented to the LCE or Presiding Officer of the Sanggunian who decides on the distribution of the audit report based on the recommendation of the IAU Head.

In case the LCE or the Presiding Officer of the Sanggunian decides not to act on the findings of the 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 IAU opts to notify authorities outside the LGU of its findings which may involve fraud, dishonesty, or misuse of LGU resources, the doctrine of exhaustion of administrative remedies must be adopted.

In particular, a 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.

Relative to the exhaustion of administrative remedies in the case of LGUs, the IAU should report to the OP given the President's general supervision over LGUs or DILG having administrative supervision over the same.

5.4 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 the 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.

Follow-up audit entails the following:

- a. Monitoring of the implementation of approved audit findings and recommendations;
- b. Resolution of the non-implementation or inadequate implementation of audit recommendations; and
- c. Preparation of the audit follow-up report

5.4.1 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 LCE or the Presiding Officer of the Sanggunian, depending on the audit coverage.

5.4.2 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 IAU recommends appropriate legal and/or management remedies for non-implementation of recommendations and inadequate preventive/corrective actions.

5.4.3 Preparation of the Audit Follow-Up Report

Results of the audit follow-up should be recorded and reported to apprise the LCE or the Presiding Officer of the Sanggunian 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 has been particularly inadequate; and
- d. Describe the actions, if any, that the auditor intends to take in relation to the inadequate auditee's actions.

The 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:

- i. Increase the effectiveness of audits – the prime reason for following up on audit reports is to increase the probability that recommendations will be implemented;
- ii. Assist the LGU – following up may be valuable in proposing some necessary actions to the LCE and other officials;
- iii. Evaluate the IAU performance – follow-up activity provides a basis for assessing and evaluating the IAU performance; and
- iv. Create incentives for learning and development – follow-up activities may contribute to better knowledge and improved practice.

PART 6

INTERNAL AUDIT 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 the 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, an internal audit can demonstrate that it "practices what it preaches," thus, encouraging acceptance of its role within the local government.

The LCE is responsible for periodically reviewing the performance of the internal audit. The performance indicators must be mutually agreed upon between the LCE and the IAU Head. The LCE would normally approve the performance indicators used.

The performance monitoring and evaluation applicable to internal audit has two (2) levels: (a) monitoring undertaken by the IAU Head, and (b) evaluation undertaken by the LCE, as shown in Table 12.

Table 12. Performance Monitoring and Evaluation

Particulars	Monitoring	Evaluation
Undertaken by the LCE	Review of Internal Audit Report	Review of IAU Performance Report
Undertaken by the IAU Head	Review of Progress Assessment Report	Review of Completion Assessment Report

6.1 Internal Audit Performance Measurement

6.1.1 Elements of Performance Assessment

Performance monitoring and evaluation entails an assessment process, assessment of performance has three (3) interrelated elements: performance measurement, rating, and KPIs.

- a. Performance measurement - refers to the systematic analysis of performance against targets taking into account the reasons behind the performance and the influencing factors;
- b. Rating - refers to the judgment of progress—good or bad—based on indicators; can also include rating another performance dimension; and

- c. KPIs - used to verify if progress towards results has taken place.

The KPIs should focus on matters that receive the highest priority. It is important, therefore, that the KPIs for internal audit are aligned with the Strategic and Annual Work Plans, and help drive the performance that the LCE expects from internal audit.

It is also important that performance is measured over time 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 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 LCE;
- 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 LCE and the Presiding Officer of the Sanggunian as principal 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 IAU should be consistent with the performance indicators indicated in the accomplished Program Expenditure Classification (PREXC) Form A. Moreover, the KPIs should be incorporated into the

performance management system being utilized by the agency, such as the SPMS of the CSC for the division and individual levels.

6.1.2 Measurement Techniques

Management information systems and processes should be established to record and report the required performance data cost-effectively.

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. The efficiency of the process;
- e. Level of collaboration with management, the public they serve, and the LGU's stakeholders; and
- f. The overall value of the report to management, the public they serve, and the LGU's stakeholders.

The LCE 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 LCE will be sought periodically, and at least once annually.

6.1.3 Internal Audit Annual Performance Report

To assist the LCE in reviewing the performance of internal audit, it is good practice for the IAU head to prepare a report for them, at least annually or upon request, on progress in implementing the Strategic 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 Strategic and Annual Work Plan;
- c. Highlights and challenges during the period;

- d. Overall contribution of internal audit in managing the LGU'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 local government's annual report.

6.2 Performance Monitoring

The 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.

The **Progress Assessment Report** focuses on whether or not:

- a. Audit objectives are met as reflected in the audit findings and recommendations;
- b. Findings and recommendations are based on facts and substantial evidence and in compliance with relevant laws, rules, and regulations;
- c. Internal auditing standards (NGICS, RPGIAM, IAM for LGUs, 2023 Edition) pursuant to DBM rules and regulations are applied;
- d. Findings and recommendations 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 Progress Assessment Report shall be subject to approval by the IAU head. Audit team leaders shall ensure that audit engagements are assessed at the stage before the exit conference.

The **Completion Assessment Report** focuses on the:

- a. Overall effectiveness and efficiency of the IAU in accordance with DBM rules and regulations and the LGU's policies and standards;
- b. Findings and recommendations which are based on facts and substantial evidence and in compliance with relevant laws, rules, and regulations;
- c. Application of internal auditing standards (NGICS, RPGIAM, IAM for LGUs, 2023 Edition) 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 IAU Head. Audit team leaders shall ensure that audit engagements are assessed at the conclusion of the activity.

6.3 Performance Evaluation

Performance evaluation has three (3) steps: (a) determination of KPIs, (b) design of the performance monitoring report, and (c) preparation of the evaluation report.

- a. *Determination of KPIs.* It is important that the KPIs for internal audit are aligned with the Strategic and Annual Work Plan, and help drive the performance that the LGU expects from the IAU.
- b. *Design of the Performance Monitoring Reports.* The 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 the relevant information regarding the IAU performance outputs on a per engagement basis and be summarized periodically.
- c. *Preparation of the Evaluation Report.* It is good for the IAU to prepare an evaluation report on its performance after an audit engagement for the information and advice of the LCE.

6.4 Performance Evaluation by the Local Chief Executive

The work performance of the IAU is evaluated by the LCE as part of supervision and control. The LCE shall monitor and evaluate the performance of the IAU either through: (1) review and approval of the Internal Audit Report, or (2) review and approval of the IAU Performance Report.

6.4.1 Review of the Internal Audit Report

At the conclusion of each audit engagement, the IAU submits to the LCE an Internal Audit Memorandum and the Internal Audit Report, which are prepared in conformity with the IAM for LGUs, 2023 Edition, RPGIAM, NGICS, and relevant issuances of the DBM. In the review of the Internal Audit Report, the LCE shall also consider adherence of the IAU on the following:

- a. The hierarchy of applicable internal auditing standards and practices as discussed in this Manual are adhered to.

- 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 a sufficient basis in law, are evidence-based, and classified according to the following:
 - i. Preventive actions – refer to determined actions of the local government to eliminate the causes of potential noncompliance in order to avoid their occurrence; and
 - ii. Corrective actions – refer to a local government’s actions to eliminate the causes of noncompliance in order to avoid recurrence.
- e. At any point during the audit, when significant risks/issues arise, the IAU will prepare an Interim Report to the LCE to communicate findings, issues, and problems that may affect the conduct of the audit and may expose the LGU to considerable risks. The Interim Report contains the following:
 - i. Gaps or control deficiencies/breakdowns noted during the documentation of the components of the ICS and the key processes in the operating and support 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.

6.4.2 Review of the Internal Audit Unit Performance Report

At the close of every fiscal year, the LCE shall review the performance of the 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.

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

APPENDICES

Appendix A	Internal Control Questionnaire
Appendix B	Suggested Templates
Appendix C	Types of Sampling
Appendix D	Frequently Asked Questions
Appendix E	Glossary of Terms

Appendix A: Internal Control Questionnaire (ICQ)

The ICQ provided is meant to serve as a guide. It may be revised and/or customized to suit the conditions of the local government unit (LGU).

Instructions for Completion

1. For the Internal Auditor

- a. Select the appropriate group of respondents and invite them to read each statement carefully and assess the conditions pertaining to the questions. Ask the respondents to answer the questions following the instructions given.
- b. Prepare a tally sheet for the answers and analyze their impact on the control objectives. For "YES" answers, select the central or key controls for the validation/test of controls.
- c. Evaluate all "NO" answers if a compensating control is present. If there is a compensating control, perform a validation/test of controls. If there is none, gather pieces of evidence by triangulation and develop an interim report and recommend courses of action for inclusion in the interim report.
- d. For questions/control statements with "YES" and "NO" answers, perform a validation/test of controls to firm up the existing condition.
- e. Prepare a Summary of Gaps for reporting or further audit.

2. For the Respondents

The following questionnaire is designed to evaluate the LGU's internal control components. This has a pervasive effect on the overall system of Internal Control because they represent the LGU's nature and overall attitude towards internal control.

This questionnaire is divided into five (5) interrelated components that make up the LGU's internal control system (ICS):

- Section I - Control Environment
- Section II - Risk Assessment
- Section III - Control Activities
- Section IV - Information and Communication
- Section V - Monitoring

Complete the matrix by performing the following:

- a. Please read each statement carefully and assess the conditions pertaining to the questions.
- b. Answer with "YES" or "NO" in the space provided. Answers to questions would require submission of evidence, such as a flowchart and other reference documents, by the personnel concerned.

- c. A space for reference documents has been provided next to each question.
- d. For questions that require reference documents, cite the same in the space provided.
- e. The internal auditors shall review the ICQ responses as part of the baseline assessment of internal control and may contact the personnel concerned to follow- up on some of the questions.

Please add comments for any statement where you think additional information will assist in validating and understanding the results you have provided (additional pages may be attached, as necessary).

Section I – Control Environment

OBJECTIVE: To obtain sufficient knowledge of the control environment in the public sector context and understand the LGU's approach, attitude, and perspectives.

These questions involve ways on how the LGU can inform public officers and employees of their roles, responsibilities, accountabilities, and authorities. They also include ways by which the LGU can create an environment to better ensure that integrity and ethical values are not compromised and that officers and employees receive and understand that thrust.

Questions	Yes	No	Cite Reference Documents
1. a. Does the Local Chief Executive (LCE) ensure adherence to the principle of public office is a public trust?			
b. Do the public officers and employees: <ul style="list-style-type: none"> i. hold themselves accountable to the people at all times? ii. serve the people with utmost responsibility, integrity, loyalty and efficiency, act with patriotism and justice and lead modest lives? (<i>Section 32, Chapter 9, Book I, EO 292, "Administrative Code of 1987"</i>) 			
2. Does the LCE: <ul style="list-style-type: none"> a. Establish the policies and standards for the operation of the LGU pursuant to the approved programs of government? b. Promulgate rules and regulations necessary to carry out the LGUs policies, objectives, functions, plans, programs, and projects? c. Promulgate administrative issuances necessary for the efficient administration of the offices under them and for the proper execution of the laws relative thereto? d. Exercise disciplinary powers over officers and employees under them in accordance with the law? e. Appoint all officers and employees in the executive branch of the LGU (except the local treasurers)? 			

Questions	Yes	No	Cite Reference Documents
<p>f. Delegate authority to officers and employees in accordance with EO 292 or the law creating the LGU?</p> <p><i>(Section 7, Chapter 2, Book IV, EO 292, "Administrative Code of 1987"; RA No. 7160)</i></p>			
<p>3. a. Does the LGU comply with the policies, standards and guidelines promulgated by the Civil Service Commission (CSC) to promote economical, efficient and effective personnel administration in the government?</p> <p>b. Are there plans and programs adopted to promote economical, efficient and effective personnel administration in the government?</p> <p><i>(Section 12 (3), Chapter 3, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987")</i></p>			
<p>4. Does the LGU institute a Performance Evaluation System (PES) based on objectively measured output and performance of personnel and units, such as the SPMS developed by the CSC? <i>(CSC MC No. 6, s. 2012, "Guidelines in the Establishment and Implementation of Agency Strategic Performance Management System")</i></p>			
<p>5. Are the LGU's operating units able to achieve the expected results and contribute to the achievement of its sectoral or societal goals? <i>(DBM CL No. 2008-8, s. 2008, "NGICS," pp. 11- 12)</i></p>			
<p>6. Does the LGU include the necessary networking within and outside government to attain better coordination or convergence of efforts in the execution of their responsibilities? <i>(Item 3.1, DBM CL 2008-8, s. 2008, "NGICS")</i></p>			
<p>7. Does the LGU perform functions and tasks using the least amount of resources within a specific timeframe? <i>(DBM CL No. 2008-8, s. 2008, "NGICS," pp. 11- 12)</i></p>			
<p>8. a. Are all government resources managed, expended or utilized in accordance with laws, rules, and regulations?</p> <p>b. Is it safeguarded against loss or wastage through illegal or improper disposition to ensure economy, effectiveness and efficiency in the operations of the LGU?</p> <p>c. Does the LCE ensure that the principles and policies on fiscal responsibility are faithfully adhered to in all the financial affairs, transactions and operations of the LGU?</p> <p><i>(Section I, Chapter 1, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987"; RA No. 7160)</i></p>			
<p>9. a. Does the LGU take appropriate measures to promote transparency and accountability in the management of public finances?</p> <p>b. Do said measures encompass effective and efficient systems of internal control?</p> <p><i>(Article 9 Public Procurement and Management of Public Finances, Chapter II, Preventive Measures, United Nations Convention Against Corruption (UNCAC) dated October 31, 2003)</i></p>			

Questions	Yes	No	Cite Reference Documents
<p>10. a. Does the LCE prepare and submit to the Sanggunian the executive budget for the ensuing fiscal year not later than the sixteenth (16th) of October of the current fiscal year?</p> <p>b. Are these budget estimates based on the reports and estimates submitted by the departments or offices and units under the LCE?</p> <p><i>(Chapter III, Article I, Section 318, RA No. 7160)</i></p>			
<p>11. a. Is the LGU's budget supportive of and consistent with the national government's socioeconomic development plan?</p> <p>b. Is it oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically, and efficiently?</p> <p><i>(Section 3, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</i></p>			
<p>12. Does the LGU design and implement the following?</p> <p>a. Management information systems yielding both performance and financial information that will adequately monitor and control budget implementation</p> <p>b. Improvements in operating systems, procedures, and practices, to ensure that the targets approved in the budget authorization are attained at minimum cost.</p> <p><i>(Section 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</i></p>			
<p>13. Are all the government funds or property under the administration or control of the assigned public officer or employee used in accordance with the purpose for which it was appropriated by law? <i>(Section 80, Chapter 7, Book VI, EO No. 292, "Administrative Code of 1987"; Manhit vs. Office of the Ombudsman, G.R. No. 159349, September 7, 2007)</i></p>			
<p>14. Is the LGU's control environment understood within the framework of public service accountability where government, its partners, and agents assume fiduciary responsibilities towards the public they serve? <i>(Item 3.1.1, DBM CL No. 2008-8, s. 2008, "NGICS")</i></p>			
<p>15. Are control features interwoven into and made an integral part of each system in the LGU that management can use to regulate and guide its operations? <i>(Section 33, Title II - Internal Control System, Vol. III, COA Circular No. 91-368, GAAM, December 19, 1991, p. 64; DBM CL 2008-8, Item 2.2.1, "NGICS")</i></p>			
<p>16. Does the LGU adopt and implement control policies and measures on the following:</p> <p>a. Delegation of authority and supervision?</p> <p>b. Segregation of functions for processing, reviewing, recording, custody, and approval?</p>			

Questions	Yes	No	Cite Reference Documents
<p>c. Access to resources and records;</p> <p>d. Completeness and integrity of transaction documents and reports?</p> <p>e. Verification of transactions and reconciliation of records and data?</p> <p><i>(DBM CL No. 2008-8, s. 2008, the "NGICS," pp. 27-28)</i></p>			
<p>17. Are there plans of the organization and coordinated methods and measures adopted within the LGU to:</p> <p>a. Safeguard its assets?</p> <p>b. Check the accuracy and reliability of its accounting data?</p> <p>c. Encourage adherence to prescribed managerial policies?</p> <p>d. Comply with applicable laws and regulations?</p> <p>e. Ensure ethical, economical, effective and efficient operations? <i>(PD No. 1445, June 11, 1978, the "Government Auditing Code of the Philippines," as amended, DBM CL No. 2008-8, s. 2008, "NGICS")</i></p>			
<p>18. Does the LGU's accounting system:</p> <p>a. Certify the availability of budgetary allotment to which expenditures and obligations may be properly charged?</p> <p>b. Produce information concerning operations in the last three (3) years and present conditions?</p> <p>c. Provide a basis for guidance for future operations?</p> <p>d. Provide for control of the acts of public bodies and officers in the receipt, disposition, and utilization of funds or property?</p> <p>e. Report on the financial position and results of operations of the LGU (i.e., cash advances, liquidation, salaries, allowances, reimbursements, and remittances) for the information of all persons concerned?</p> <p>f. Appraise the Sangguniang and other local government officials on the financial condition and operations of the LGU concerned?</p> <p><i>(Section 41, Chapter 6, EO 292, "Administrative Code of 1987"; Title V, Article IV, Section 474 of RA No. 7160)</i></p>			
<p>19. a. Does the LGU establish, administer and maintain qualification standards?</p> <p>b. Is the establishment, administration and maintenance of qualification standards with the assistance and approval of the CSC?</p>			

Questions	Yes	No	Cite Reference Documents
<i>(Section 22, Chapter 5, Subtitle A, Title 1, Book IV, EO 292, "Administrative Code of 1987")</i>			
20. a. Is the degree of qualifications of an officer or employee determined based on the qualification standards for the particular position? b. Do the qualification standards express the minimum requirements for a position in terms of education, training and experience, civil service eligibility, physical fitness, and other qualities required for successful performance? <i>(Section 22, Chapter 5, Subtitle A, Title I, Book IV, EO 292, "Administrative Code of 1987")</i>			
21. Does the LGU promote the primacy of public interest and welfare over personal interest in the performance of duties? <i>(Section 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>			
22. Do the public officials and employees perform and discharge their duties with the highest degree of excellence, professionalism, intelligence, and skill? <i>(Section 4(A) Norms of Conduct of Public Officials and Employees, RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>			
23. a. Does the LGU have an established PO? b. Is the PES administered following standards, rules and regulations promulgated by the CSC? c. Is the PES administered in such a manner as to continually foster the improvement of individual employee efficiency and organizational effectiveness? <i>(Section 33, Chapter 5, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987")</i>			
24. Does the LGU undertake, continuingly, programs to promote constituents/public satisfaction and improve service delivery, and other similar activities for officers and employees in frontline services? <i>(RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR)</i>			
25. Does the LGU conduct an analysis of its operating performance, evaluation of performance relative to costs incurred and the review of agency operating systems and procedures as inherent parts of the budget process? <i>(Section 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</i>			
26. Does the LGU identify other public service organizations (e.g., public entities and private entities providing public services), the public they serve, and stakeholders as well as their requirements, needs and expectations, to define the organization's intended outputs? <i>(Clause 5.1.1. ISO 9000, the "Introduction and Support Package: Guidance on the Concept and Use of the Process Approach for Management Systems," ISO/TC 176/SC 2/N 544R3, October 15, 2008; EO No. 605 s. 2007; and RA No. 9013)</i>			

Questions	Yes	No	Cite Reference Documents
27. Does the LGU monitor information relating to constituents/public perception as to whether the LGU has met constituents/public requirements? (<i>Clause 8.2.1 ISO 9001:2008, November 15, 2008; EO No. 605 s. 2007; and RA No. 9013</i>)			

Section II – Risk Assessment

OBJECTIVES:

- a. To obtain sufficient knowledge/information of the LGU's overall process in identifying, analyzing, and evaluating relevant risks to the achievement of the control objectives, and determining the appropriate response.
- b. To identify and document the LGU's risk assessment procedure as a component of the ICS.

These questions are used to identify and assess the external and internal factors that could impact the achievement of control objectives and provide a basis for certain management controls.

Questions	Yes	No	Cite Reference Documents
1. Does the LGU identify, analyze and evaluate relevant risks to the achievement of the control objectives and determine the appropriate response? (<i>DBM CL No. 2008-8, s. 2008, "NGICS" p. 29; INTOSAI, "Guidelines for Internal Control Standards for the Public Sector" October 16, 2004, p. 22.; and Clause 4, 4.3.4, EC/ISO 31010:2009, "Risk Management — Risk Assessment Techniques," December 1, 2009</i>)			
2. Is the LGU's risk assessment fully integrated into the other components in the risk management process which include the following: a. Communication and consultation? b. Establishing the context? c. Risk assessment (comprising risk identification, risk analysis, and risk evaluation)? d. Risk treatment? e. Monitoring and review? (<i>Clause 4, 4.3.1, IEC/ISO 31010:2009, the "Risk Management — Risk Assessment Techniques," December 1, 2009</i>)			
3. In establishing the external context, does the LGU consider familiarization with the environment it belongs and the system operations, including the following: a. Cultural, political, legal, regulatory, financial, economic, and competitive environment factors, whether international, national, regional or local?			

Questions	Yes	No	Cite Reference Documents
<p>b. Key development drivers and trends (i.e., population growth and tourism, among others, and its impact on the natural environment and infrastructure demand) having an impact on the objectives of the LGU?</p> <p>c. Perceptions and values of external stakeholders?</p> <p><i>(DBM Circular Letter No. 2008-8, "NGICS" p.30 and Clause 4, 4.3.3a, IEC/ISO 31010:2009, the "Risk Management — Risk Assessment Techniques, December 1, 2009)</i></p>			
<p>4. In establishing the internal context, does the LGU consider an understanding of the following:</p> <p>a. Capabilities of the LGU in terms of resources and knowledge (e.g., capital, time, people, processes, systems and technologies)?</p> <p>b. Information flows and decision-making processes?</p> <p>c. Internal stakeholders?</p> <p>d. Objectives and the strategies that are in place to achieve them?</p> <p>e. Perceptions, values, and culture?</p> <p>f. Policies and processes?</p> <p>g. Standards and reference models adopted by the LGU?</p> <p>h. Structures (e.g. governance, roles, and accountabilities)?</p> <p><i>(DBM CL No. 2008-8, s. 2008, "NGICS" p.30 and Clause 4, 4.33b, IEC/ISO 31010:2009, the "Risk Management — Risk Assessment Techniques, December 1, 2009)</i></p>			
Risk Identification			
<p>5. Does the LGU make an identification of the following:</p> <p>a. Opportunities and threats to the achievement of the control objectives?</p> <p>b. The most important areas to which resources in risk assessment should be channeled?</p> <p>c. Determine responsibility for the management of the risk?</p> <p><i>(DBM CL No. 2008-8, s. 2008, "NGICS" p. 30 and 2.2 Risk Assessment, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," pp. 23-24)</i></p>			
<p>6. Does the LGU identify the causes and sources of the risk (the hazard in the context of physical harm), events, situations or circumstances, such as man-made and natural disasters and calamities, which could have a material impact on objectives and the nature of that impact? <i>(Clause 5, 5.2, IEC/ISO 31010:2009,</i></p>			

Questions	Yes	No	Cite Reference Documents
<i>the "Risk Management — Risk Assessment Techniques," December 1, 2009)</i>			
Risk Analysis			
7. Does the LGU systematically use the information to identify sources and estimate the risk? <i>(DBM CL No. 2008-8, s. 2008, "NGICS", p. 30-31)</i>			
8. Does the LGU identify the factors that affect the consequences and likelihood of the risk? <i>(DBM CL No. 2008-8, s. 2008, "NGICS", p. 30-31)</i>			
9. Does the LGU determine the consequences and their probabilities for identified risk events?			
10. In determining said consequences and their probabilities, does the LGU take into account the presence (or not) and the effectiveness of any existing controls? <i>(Clause 5, 5.3.1, IEC/ISO 31010:2009, the "Risk Management — Risk Assessment Techniques,")</i>			
Risk Evaluation			
10. Does the LGU evaluate the significance of the risk and assess the likelihood of its occurrence? <i>(DBM CL No. 2008-8, s. 2008, "NGICS," p.31 and 2.2 Risk Assessment, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector" pp. 22-23)</i>			
11. In evaluating the risk, does the LGU compare estimated levels of risk with risk criteria defined when the context was established, to determine the significance of the level and type of risk? <i>(Clause 5, 5.4, IEC/ISO 31010:2009, the "Risk Management — Risk Assessment Techniques")</i>			

Section III – Control Objectives

OBJECTIVES:

- a. To obtain sufficient knowledge/information about the policies and procedures established by the LGU to address risks (tolerated, transferred, terminated or treated) and to achieve its objectives;
- b. To obtain sufficient knowledge/information about the LGU's performance review and compliance review; and
- c. To identify and document the LGU's control activities: risk response, performance review and compliance review process.

These questions involve policies or procedures that help ensure that the LGU's objectives are achieved and directives are completed.

Questions	Yes	No	Cite Reference Documents
Risk Response			
1. Does the LGU establish policies and procedures to address risks and achieve the LGU's objectives? <i>(DBM CL No. 2008-8, s. 2008, the "NGICS", pp. 31-32 and 2.3 Control Activities, INTOSAI,</i>			

Questions	Yes	No	Cite Reference Documents
<i>"Guidelines for Internal Control Standards for the Public Sector" p. 28)</i>			
2. a. Are all the money and properties officially received by a public officer, in any capacity or upon any occasion, accounted for as government funds and government properties? b. Are government properties taken up in the books of the LGU concerned? (<i>Section 42, Chapter 7, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987"</i>)			
3. Are the LGU's officers whose duties permit or require the possession or custody of government funds properly bonded in accordance with law? (<i>Section 50, Chapter 9, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987"</i>)			
4. Does the LGU include the results expected for each budgetary program and project, the nature of work to be performed, estimated costs per unit of work measurement, including the various objects of expenditures for each project in its budget estimates? (<i>Section 14(7), Chapter 3, Book VI, EO 292, "Administrative Code of 1987"</i>)			
5. Are the frontline services complemented with adequate staff by adopting mechanisms such as rotation system among office personnel, sliding flexible time, reliever system especially in peak times of transactions or providing skeletal personnel during lunch and snack times? (<i>Section 3, Rule VI, IRR of RA 9485, "Anti-Red Tape Act of 2007" as amended by RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR)</i>			
6. Is the disbursement of government funds made in pursuance of an appropriation law or other specific statutory authority? (<i>Section 45 (I), Chapter 8, Subtitle B, Title I, Book V, EO 292, Administrative Code of 1987"</i>)			
Performance Review			
7. If accomplishments do not meet established objectives or standards, are the processes and activities reviewed to determine if improvements are needed? (<i>DBM CL No. 2008-8, s. 2008, "NGICS," p. 33 and 2.3 Control Activities; No. 6. Reviews of Operating Performance, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," p. 30)</i>			
Compliance Review			
8. Does the LGU periodically review operations, processes, and activities to ensure that they are in compliance with current regulations, policies, procedures, or other requirements? (<i>DBM CL No. 2008-8, s. 2008, "NGICS," p. 33 and 2.3 Control Activities; No. 7. Reviews of operations, processes and activities, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," p. 30-31)</i>			

Section IV – Information and Communication

OBJECTIVES:

- a. To obtain sufficient knowledge/information about the LGU's information and communication systems;

- b. To determine if relevant information is communicated throughout the LGU, as well as to its network of organizations and sectors; and
- c. To identify and document the LGU's information and communication process.

These questions involve how the LGU identifies, captures, processes and reports information needed to achieve its objectives.

Questions	Yes	No	Cite Reference Documents
1. Does the LCE establish measures and standards that will ensure transparency and openness in public transactions, e.g., biddings, purchases, and other internal transactions, including contracts, the status of projects, and other matters involving public interest? (<i>Section 2, Rule IV, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees"</i>)			
2. Does the LCE establish an information system that will inform the public of the following: <ol style="list-style-type: none"> a. Policies, laws, rules and regulations, and procedures? b. Work programs, projects and performance targets? c. Performance reports? d. All other documents classified as public information? <i>Section 2, Rule IV, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees"</i>			
3. a. Does the LGU have a workflow chart showing procedures of services and/or transactions or flow of documents? b. Is the chart posted in conspicuous places in the LGU for the information and guidance of all concerned? <i>(Section 4, Rule III, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>			
4. Are the LGU's transactions and events promptly recorded and properly classified? (<i>DBM CL No. 2008-8, s. 2008, "NGICS," p. 34 and 2.4 Information and Communication; INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," p. 36.</i>)			
5. Is relevant information communicated throughout the LGU, as well as to its network of organizations, sectors, and stakeholders? (<i>DBM CL No. 2008-8, s. 2008, the "NGICS," p.33 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," pp. 36-39</i>)			
6. Is relevant information identified, captured and communicated in a form and timeframe that enables personnel to carry out internal controls and other responsibilities? (<i>DBM CL No. 2008-8, s. 2008, the "NGICS," p. 34 and 2.4 Information and Communication, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," p. 36</i>)			

Questions	Yes	No	Cite Reference Documents
<p>7. a. Does communication flow down, across, and up the organization, throughout all components and the entire structure?</p> <p>b. Does the LGU have effective communication with external individuals and organizations?</p> <p><i>(DBM CL No. 2008-8, s. 2008, the "NGICS", p. 36 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," p. 38)</i></p>			
<p>8. a. Does the LGU consult the public they serve for the purpose of gathering feedback and suggestions on the efficiency, effectiveness and economy of frontline services?</p> <p>b. Do they establish mechanisms to ensure the conduct of public consultations and hearings?</p> <p><i>(Rule III, Rules Implementing RA No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p>			
<p>9. Does the LGU communicate frequently with the constituents or the public they serve and stakeholders to ensure continual understanding of their requirements, needs and expectations?</p> <p><i>(Clause 5.1.1. ISO 9000, the "Introduction and Support Package: Guidance on the Concept and Use of the Process Approach for Management Systems," ISO/TC 176/SC 2/N 544R3; EO No. 605 s. 2007; and RA No. 9013)</i></p>			
<p>10. Are written requests, petitions or motions sent/transmitted to the LGU acted upon by the official or employee in charge within the prescribed timeline under the following issuances:</p> <p>a. Within fifteen (15) days from receipt thereof? <i>(Section 3, Rule VI, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p> <p>b. Within the appropriate timeline? (For Simple, Complex, and Highly Technical transactions) <i>(Section 9 and 10 of RA 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018")</i></p>			
<p>11. In the evaluation of official forms for departments/offices/delivery units rendering frontline services, are the number of signatories limited to a maximum of three (3) signatures of officers or employees directly supervising the evaluation, approval or disapproval of the request, application, or transaction? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR; DILG-Anti-Red Tape Authority JMC No. 2019-01, "Guidelines on the Regulatory Reform for LGUs Pursuant to the Ease of Doing Business and Efficient Government Service Delivery (EODB-EGSD) Act of 2018")</i></p>			
<p>12. Does the LGU prescribe rules, through appropriate office order, on the proper authority to sign in the absence of the regular signatory? <i>(Section 5, Rule VI, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees"); Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act</i></p>			

Questions	Yes	No	Cite Reference Documents
<i>of 2018", and its IRR; DILG-Anti-Red Tape Authority JMC No. 2019-01, "Guidelines on the Regulatory Reform for LGUs Pursuant to the Ease of Doing Business and Efficient Government Service Delivery (EODB-EGSD) Act of 2018")</i>			
13. Do all heads or other responsible officers of the LGU prepare and submit to the CSC a report of compliance with the provisions of RA 6713 and its IRR? <i>(Section 7, Rule VI, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>			
14. a. Do the public officers and employees file under oath their SALN and a DBIFC and Identification and Disclosure of Relatives (IDR) in the government? <i>(Section I & 2, Rule VII, Rules Implementing RA No. 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i> b. Does it contain a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of the public officer or employee income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year? <i>(Section 7, RA No. 3019, the "Anti-Graft and Corrupt Practices Act," as amended, and Pleyto vs. PNP-CIDG, G.R. No.169982, November 23, 2007)</i>			
15. Does the LGU have compliance procedures for the review of the SALN, to determine whether said statements have been properly accomplished? <i>(Section 1, Rule VIII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>			
16. a. Does the LGU determine which processes or transactions constitute frontline service(s)? b. Does the LGU undertake reengineering of its transaction systems and procedures, including time and motion studies, if necessary? c. Does the LGU set up their respective service standards to be known as the Citizens' Charter? <i>(Section 6 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR)</i>			
17. Does the LGU 's reengineering process include a review for purposes of streamlining the following: a. Steps in providing the service? b. Forms used? c. Requirements? d. Processing time? and e. Fees and charges? <i>(Section 4 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR)</i>			
18. Does the LGU review the location of the offices providing frontline services and put in place directional signs to facilitate			

Questions	Yes	No	Cite Reference Documents
transactions? (<i>Section 4 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
19. Are the stakeholders, users, and beneficiaries of the frontline services taken into consideration in the preparation of the Citizens' Charter? (<i>Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
20. Is the LGU's Citizens' Charter in the form of information billboards and published materials written in English, Filipino, or in the local language and/or dialect? (<i>Section 6 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
21. Is the Citizens' Charter posted at the office's main entrance or at the most conspicuous place? (<i>Section 6 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
22. Does the Citizens' Charter include the following information: <ul style="list-style-type: none"> a. Vision and mission of the LGU? b. Identification of the frontline services offered, and the clientele? c. The step-by-step procedure to obtain a particular service? d. The officer or employee responsible for each step? e. The maximum time to conclude the process? f. Document(s) to be presented by the client, with a clear indication of the relevance of said document(s)? g. The amount of fees, if necessary? h. The procedure for filing complaints concerning requests and applications, including the names and contact details of the officials/channels to approach for redress? i. Allowable period for an extension due to unusual circumstances; e.g. unforeseen events beyond the control of government office or agency concerned? j. Feedback mechanisms, contact numbers to call, and/or persons to approach for recommendations, inquiries, suggestions, as well as complaints? (<i>RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
23. Is the implementation of the LGU's Citizens' Charter continually monitored and periodically reviewed? (<i>Section 11 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR</i>)			
24. Are all the transactions and processes made with permission or clearance from the LCE? (<i>Section 8 of RA No. 11032, "Ease of</i>			

Questions	Yes	No	Cite Reference Documents
<i>Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
25. Does the LGU adopt working schedules to ensure that all clients who are within the premises before the end of official working hours are attended to and served even during lunch breaks and after regular working hours? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
26. Does the LCE adopt appropriate mechanisms to ensure the uninterrupted delivery of frontline services? <i>(RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
27. Are all officers and employees transacting with the public provided with an official identification card which should be worn during office hours? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
28. a. Does the LGU have a public assistance/complaints desk in all their offices? b. Is there an officer or employee knowledgeable on frontline services who is at all times available for consultation and advice? c. Is the desk attended to even during break time? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
29. Does the LGU institute mechanisms by which clients may adequately express their complaints, comments or suggestions such as hotline numbers, short message service or information and communication technology? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
30. Does the responsible officer or employee acknowledge receipt of written and/or electronically transmitted applications, requests, and/or documents being submitted by clients? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
31. Does the acknowledgment indicate, by writing or printing clearly thereon, the name of the receiving officer or employee, the unit where he/she is connected, and the time and date of receipt? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
32. Is the prescribed period to act upon all applications and/or requests not longer than three (3) working days (in the case of simple transactions) and seven (7) working days (in the case of complex transactions) from the time the same was received? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			
33. Does the LGU act upon applications or requests involving activities that pose danger to public health, public safety, public morals, public policy, and highly technical applications not longer than 20 working days? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018”, and its IRR)</i>			

Questions	Yes	No	Cite Reference Documents
34. Are all applications and/or requests in frontline services acted upon within the period prescribed under the Citizens' Charter? <i>(Section 9 of RA No. 11032, "Ease of Doing Business and Efficient Government Service Delivery Act of 2018", and its IRR)</i>			
35. Does the LGU keep and preserve a logbook that shall be recorded in chronological order, all final official acts, decisions, transactions or contracts, and communications, pertaining to the agency/organization? <i>(Section 52, Chapter II, Book IV, EO 292, "Administrative Code of 1987")</i>			

Section V – Monitoring

OBJECTIVES:

- a. To obtain sufficient knowledge/information on how management ensures that controls are operating as intended and that they are modified appropriately for changes in conditions through ongoing monitoring activities, separate evaluations, or a combination of both; and
- b. To identify and document the LGU's monitoring process.

These questions involve the LGU's activities taken to assess the achievement of control objectives and the quality of internal control system performance.

Questions	Yes	No	Cite Reference Documents
1. a. Does the LGU ensure that controls are operating as intended and that they are modified appropriately for changes in conditions? b. If yes, is it accomplished through ongoing monitoring activities, separate evaluations or a combination of both? <i>(DBM CL No. 2008-8, s. 2008, "NGICS," p. 37 and 2.5 Monitoring, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," p.41)</i>			
2. a. Does the ongoing monitoring of internal control occur in the course of the normal, recurring operations of the LGU? b. Is the ongoing monitoring: i. performed continually and on a real-time basis? ii. ingrained in the LGU's operations? <i>(DBM CL No. 2008-8, s. 2008, "NGICS," p. 37 and 2.5 Monitoring, INTOSAI, "Guidelines for Internal Control Standards for the Public Sector," p. 41)</i>			

Appendix B: Suggested Templates

The templates provided are meant to serve as a guide. These are generic and may be modified or customized by the IAU of any LGU based on its current needs and conditions.

Template 1 – Official Communication to the LCE as the IAU Principal on the Conduct of Non-Internal Audit Tasks

[Official LGU Letterhead]

[Date]

MEMORANDUM

For : [LCE]
From : [Head of Internal Audit]
Subject : **CONDUCT OF NON-INTERNAL AUDIT TASKS**

Pursuant to item 1.5, Chapter 1, of the Internal Audit Manual for Local Government Units, 2023 Edition which was issued by the Department of Budget and Management (DBM) through Local Budget Circular No. 2023-__, an internal audit unit of a local government 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 internal audit unit is not responsible for or required to participate in activities that are essentially part of the regular operating functions or the primary responsibility of another unit in the local government.

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 should the local chief executive has further 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 LGU 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 INTERNAL CONTROL SYSTEM (BAICS), [YEAR]**

As part of the strategic planning activities of the Internal Audit Unit (IAU) for [indicate the three-year period], a Planning Team is hereby created to lead in the conduct of the BAICS of the [LGU].

Relative thereto, the following IAU 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 ICQ on key processes of critical operating and support systems of all the Departments/Offices of the LGU, including processes of programs and projects;
- c. Review of key processes and controls in various Departments and/or Offices in [LGU];
- 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, and Strategic and Annual Work Plan.

For compliance.

Head of Internal Audit

Template 3 – Baseline Assessment Report

[Official LGU Letterhead]

BASELINE ASSESSMENT REPORT **As of [Date]**

- a. Executive Summary
- b. Objectives, Scope, and Methodology
- c. Findings and Recommendations

Provide 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 the Department/Office 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:

Name(s) of Planning Team Member(s)
Date

Reviewed by:

Name of Planning Team Leader
Date

Approved by:

Head of Internal Audit
Date

Template 4 – Audit Engagement Plan

[Official LGU Letterhead]

AUDIT ENGAGEMENT PLAN As of [Date]

LGU Program/Project/System/Process:
Type of Audit:

I. Introduction

Contains a brief description of the management controls, i.e., the plan of the LGU and all the methods and measures adopted within the local government concerned to ensure that resources are used consistent with laws, rules and 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 and regulations, methods and procedures
- Management audit – to ascertain if the operations have its measurement and evaluation system which will be used to review and improve performance
- Operations audit – to determine if the LGU 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, rules 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:

Name(s) of Planning Team Member(s)
Date

Reviewed by:

Name of Planning Team Leader
Date

Approved by:

Head of Internal Audit
Date

Template 5 – Audit Report

[Official LGU Letterhead]

AUDIT REPORT

- I. Table of Contents
- II. Executive Summary
- III. Audit Findings

- a. Criteria

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 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, rules, 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 the 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:

Name(s) of Planning Team Member(s)
Date

Reviewed by:

Name of Planning Team Leader
Date

Approved by:

Head of Internal Audit
Date

Appendix C: Types of Sampling

Sampling

Sampling is a scientific method of selecting the transactions to be subjected to audit. It promotes efficiency and economy in the audit process. Sampling allows the auditor to test less than 100% of the population to form audit findings. The assumption is that the sample selected is representative of the population. 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 conclusions about the population. A statistical sampling approach must be used if the auditor wishes to infer or extrapolate sample results to draw conclusions 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.

Statistical Sampling

In statistical sampling, the sampling plan should be based on the audit objectives and what is known about the characteristics of the 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 (2) 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.

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 of security breaches, a variable-based approach would likely be more appropriate.

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.

There are several things that the IAU should be aware of when using statistical sampling. Some of them are indicated hereunder.

- a. Use statistical sampling only when necessary to satisfy an objective.
- b. The IAU must be able to define and know the characteristics of the population in order to effectively use statistical sampling in testing.
- c. The IAU must ensure that every item in the population has an equal chance of being selected as part of the sample.
- d. The IAU must ensure that the population does not have manipulated patterns in it that would affect the randomness of selection.
- e. Use a reasonable error rate.
- f. If there are defined striations of data within the population, stratify it and sample from within the striations.

In general, some basic steps are common in the statistical testing process. They are as follows:

- i. Determine the objectives of the test;
- ii. Define the population;
- iii. Define acceptable levels of sampling risk (i.e., 5%, 10%, etc.);
- iv. Calculate the sample size using tables, formulae, or software applications;
- v. Select the sampling approach (i.e., random, stratification, etc.);
- vi. Pull the actual sample and evaluate; and
- vii. 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).

a. Random Sampling

This is a selection procedure whereby each item in the population has a known and equal chance of being selected. Random number tables or certain computer software(s) 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 is available about the units in the population.

Its advantages include its being free of classification error, and it requires minimum advanced knowledge of the population other than the frame. Its simplicity also makes the interpretation of data collected relatively easy. For these reasons, simple random sampling best suits situations where not much information is available about the population and data collection can be efficiently conducted on randomly distributed items, or where the cost of sampling is small enough to make efficiency less important than simplicity. If these conditions are not true, stratified sampling or cluster sampling may be a better choice.

c. Stratified Sampling

In statistics, stratified sampling is a method of sampling from a population. When subpopulations vary considerably, it is advantageous to sample each subpopulation (stratum) independently. Stratification is the process of grouping members of the population into relatively homogeneous subgroups before sampling. The strata should be mutually exclusive: every element in the population must be assigned to only one stratum. The strata should also be collectively exhaustive: no population element can be excluded. After which, random or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

Stratified sampling strategies involve:

- i. Proportionate allocation 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 (2) samples (e.g., three [3] males, two [2] 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 various groups such as tribe, religion, gender and income level, based on their proportionality to the total population as mentioned above. A stratified survey could thus claim to be more representative of the population than a survey of simple random sampling or systematic sampling.

Similarly, if population density varies greatly within a region, stratified sampling will ensure that estimates can be made with equal accuracy in different parts of the region, and those comparisons of sub-regions can be made with equal statistical power. For example, in the Visayas, a survey taken throughout the island might use a larger sampling fraction in the less populated north, since the disparity in population between the north and the south may be so great that a sampling fraction based on the provincial sample as a whole might result in the collection of only a handful of data from the north.

Randomized stratification can also be used to improve population representativeness in a study.

Advantages Over Other Sampling Methods

- a. Focuses on important subpopulations and ignores irrelevant ones;
- b. Allows use of different sampling techniques for different subpopulations;
- c. Improves the accuracy/efficiency of estimation; and
- d. Permits greater balancing of the statistical power of tests of differences between each stratum by sampling equal numbers from the stratum varying widely in size.

Disadvantages

- a. Requires selection of relevant stratification variables which can be difficult;
- b. Is not useful when there are no homogeneous subgroups;
- c. Can be expensive to implement; and
- d. Requires accurate information about the population or introduces bias as a result of either measurement error(s) (effects of which can be 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 | = | $(90/180) \times 100 =$ | 50% |
| • % male, part time | = | $(18/180) \times 100 =$ | 10% |
| • % female, full time | = | $(9/180) \times 100 =$ | 5% |
| • % female, part time | = | $(63/180) \times 100 =$ | 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;
- 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.

Non-Statistical Sampling Method

Judgment-based sampling

This type of sampling involves the selection by the auditor of items for his/her sample based on some type of methodology in an attempt to select items that exhibit some type of features. This method purposefully biases the sample, thus, the results of the testing cannot be extrapolated to the larger population.

Judgment-based sampling relies on the knowledge, skills and experience of the audit team. For judgment-based sampling, the following can be considered:

- i. previous audit experience within the audit scope;
- ii. complexity of requirements (including legal requirements) to achieve the objectives of the audit;
- iii. complexity and interaction of the organization's processes and management system elements;
- iv. degree of change in technology, human factor or management system;
- v. previously identified key risk areas and areas of improvement; and

vi. output from monitoring of management systems.

A drawback to judgment-based sampling is that there can be no statistical estimate of the effect of uncertainty on the findings of the audit and the conclusions reached.

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.
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 subgroups 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, heterogeneity, or maximum variation sampling	As in stratified purposeful sampling, cases are chosen that have the greatest variation in 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	Does not allow you to know whether factors individually have the same effect as they do when combined

Strategy	Description	Some Strengths	Some Limitations
		information; does not require a complete population list	

The following references on sampling may be used:

- a. Philippine Standard on Auditing 530 on "Audit Sampling and Other Selective Testing and other Procedures" – It established standards and guides the use of audit sampling procedures and other means of selecting items for testing to gather audit evidence;
- b. United States Government Accountability Office (GAO)/PEMD-10.1.6, "Using Statistical Sampling" – The purpose of the series is to provide GAO evaluators with guides on various aspects of audit and evaluation methodology, to illustrate applications, and to indicate where more detailed information is available; and
- c. United Nations Internal Audit Division Audit Manual – In the choice of sampling method and technique, if the auditor is seeking to determine how many cases or how much (the amount) of something exists, the IAU should use a statistical sampling method. If on the other hand, the auditor wants to determine whether a problem exists, the IAU should use non-statistical sampling.

Appendix D: Frequently-Asked Questions

1. *Is it necessary to follow the Manual step by step, for instance, prepare the strategic plan, annual work plan, and audit engagement plan before executing an internal audit of the auditable area?*

ANSWER: The Manual provides a comprehensive step-by-step guide to establishing, maintaining, and operating the IAU in completing a full internal audit cycle. LGUs are directed to make use of the same as their guide in executing the internal audit function.

Before the conduct of the actual audit, it is essential for the IAU to understand first the internal control system of the LGU before it can develop its strategic and annual work plans. The BAICS provides a starting point for more effective and more efficient conduct of internal audit. Without these, the prioritization of audit areas will not be strategic.

However, it is recognized that in cases when the LCE instructs the conduct of an audit on priority audit areas, the IAU may proceed with the audit engagement. This special audit does not require the conduct of BAICS and may not be necessarily contained in the strategic and annual audit plans.

For instance, should the LCE instruct the IAU to conduct an audit on the procurement process, the latter may already prepare an audit engagement plan and thereafter proceed to the actual audit.

2. *Can the LGU be compelled to organize IAU?*

ANSWER: AO No. 70 dated April 14 2003 mandates all heads of government agencies, including LGUs, to immediately organize an IAU in their respective offices, which shall function in accordance with the policies established by the provisions of AO No. 278.

Please refer to Part 1: Concepts and Principles of Internal Audit relative to the complete list of legal bases for the organization of an IAU in LGUs.

3. *Is the IAU in the LGU directly under the Accountant or the LCE and can it be integrated into the existing Accounting Office?*

ANSWER: The IAU is organizationally placed under the LCE. Moreover, the IAU cannot be under any other office such as the Office of the Local Accountant because the latter functions as part of regular operations, while the IAU should be detached from the regular operations.

Section 474 of RA No. 7160 states that the accountant shall take charge of both accounting and internal audit services of the LGU and shall install and maintain an internal audit system in the LGU concerned. On the other hand, Section 76 of the same law provides that every LGU shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability, subject to the minimum standards and guidelines prescribed by the CSC.

However, AO No. 278 s. 1992 provides that the IAU shall be detached from all functions of routine operating character. The nature of the functions of the accountant is of a routine and operating character, therefore, IAU should not be under the Accountant. Corollary, BC No. 2004-4 dated 22 March 2004 on the "*Guidelines on the Organization of Internal Auditing Units (IAUs)*" provides that the LGUs shall determine their own staffing modifications that the establishment of IAU will require, subject to the approval of the Sanggunian.

Please refer to Part 1: Concepts and Principles of Internal Audit Relative to the Role of the Local Accountant in Relation to Internal Audit.

4. ***If the IAU will be created in the LGU, will it be separate and distinct from the COA Resident Auditor?***

ANSWER: Yes. IAU is created by the LGU with functions that are inherent to be internal. It is organizationally placed under the LCE. On the other hand, the Resident Auditor is an employee of the COA who does the external audit and is not administratively under the LCE.

5. ***Can the LCE assign policy formulation to the IAU and can the Sanggunian of the LGU ask for a copy of the Internal Audit Report?***

ANSWER: No. Policy formulation is a function of the Sanggunian and LCE. It is one of the non-internal audit tasks that should not be undertaken by the IAU as this is in conflict with its post-audit function. If the IAU is involved in policy formulation, it can no longer audit the subject policy.

However, the results of the internal audit may point out findings that may serve as a basis/guide for formulating policy by the LCE and Sanggunian. If the Sanggunian is the subject of the internal audit, then it may ask for a copy of the internal audit report as a reference in the exit conference, provided, the same pertains only to the result of the internal audit in the Sanggunian. In cases of Internal Audit Reports that pertain to other offices, they can be provided with the said reports, subject to the approval of the LCE.

6. ***Can the IAU conduct the IQA?***

ANSWER: No. IQA is among the non-internal audit functions that should not be undertaken by the IAU. It cannot conduct IQA as part of the ongoing implementation of the QMS as this is in conflict with the post-audit function of the IAU. In particular, since the QMS could be subjected to the future audit engagements of the IAU, internal auditors should not be involved in undertaking the same or implementing improvements therefor as they would be put at risk of conflict of interest or may cause undue prejudice in the conduct of the internal audit. Avoidance by the IAU of engaging in non-internal audit functions/activities is therefore advised in line with the internal audit principles of the RPGIAM that internal auditors should be objective and impartial and should avoid conflict of interest from the function being audited. Moreover, they must not audit their own work.

7. *Can the LCE direct the IAU to pre-audit financial transactions to minimize errors?*

ANSWER: Pre-audit of government financial transactions is inherent to the accounting and fiscal control processes of the agency. Similar to policy formulation and conduct of IQA, pre-audit activity is considered a non-internal audit task that should not be undertaken by the IAU as this is in conflict with its post-audit function.

Moreover, monitoring, and liquidation of cash advances, and other finance-related items (i.e., reimbursements of travel expenses, among others) is considered a pre-audit activity integral to the accounting and fiscal control processes of the LGU to ensure that disbursements are in compliance with laws, rules, and regulations, and that they are properly documented. Hence, this is not under the intended functions of the IAU, but that of the Finance Section/Unit, or its equivalent in the LGU.

Please refer to Part 1: Concepts and Principles of Internal Audit relative to the role of the Local Accountant in relation to internal audit.

8. *Can the IAU conduct a financial audit?*

ANSWER: No. A financial audit should not be undertaken by the IAU as this is not within its functional jurisdiction and scope. A financial audit is instead being undertaken by the COA as part of its Constitutional mandate. The IAU is not intended to duplicate the functions of the COA. On the other hand, the internal auditor's role is to conduct the audit of the organization's financial management system.

9. *Can the IAU participate in BAC meetings/proceedings or procurement activities?*

ANSWER: No. The participation of the IAU in BAC meetings/proceedings or any procurement activities is in conflict with its post-audit (ex post facto or after the fact/transaction) functions. Nevertheless, internal auditors may act as observers for the conduct of its audit of the procurement process.

Please refer to Part 1: Concepts and Principles of Internal Audit relative to the enumeration and the discussion of non-internal audit functions.

10. *Is it the job of the IAU to consolidate and submit to COA the periodic updating of the Agency Action Plan Status of Implementation on their audit findings and recommendations?*

ANSWER: No. The consolidation and submission to the COA of such report is not among the intended functions of the IAU but is under the primary responsibility of the finance and administrative offices of the LGU, which are the intended auditees of the COA.

11. ***Can the IAU of the province perform oversight function over the IAU of its component cities and municipalities, and can the IAU of the higher level LGUs conduct internal audit over lower level LGUs, i.e., provinces with respect to their component cities and municipalities, and the cities and municipalities with respect to their component barangays?***

ANSWER: No. The IAU of the province cannot perform oversight function over the IAU of its component cities and municipalities. In the same manner, the IAU of the higher level LGUs cannot conduct internal audit over lower level LGUs since the same are beyond the former's audit jurisdiction. It must be noted that LGUs are autonomous and not under the direct administrative control of any LGU. The local autonomy of each LGU has been very well recognized in the 1987 Philippine Constitution, as reiterated in RA No. 7160.⁹

12. ***Is the creation of IAU positions subject to PS Limitations?***

ANSWER: Yes, unless the IAU positions are among the waived positions in the computation of PS Limitations as prescribed under the pertinent general provisions of the annual General Appropriations Act.

13. ***For LGUs that already exceeded the PS Limitation, what are the options available for the creation of IAU?***

ANSWER: The general policy is that the creation of positions shall abide by the cap on PS prescribed under Section 325 of RA No. 7160. Hence, LGUs that have already exceeded said budgetary ceiling shall not create the mandatory and optional positions until such time that their financial capability could allow the creation of such positions (CSC MC No. 12, s. 2022).

As an option, the LGUs may explore the reassignment or designation of existing employees. However, they shall be detached from all functions of routine operating character and no longer perform other regular functions. The LGUs may also explore the reclassification of vacant positions to appropriate positions for the IAU.

Please refer to Part 1. Concepts and Principles of Internal Audit and Part 3. Organizing the IAU.

14. ***What will be the status of employment of the Head of IAU?***

ANSWER: Internal audit function is a continuing activity, hence, the Head of IAU must have a permanent appointment, subject to CSC rules and regulations.

⁹ Article X Section 4 of the 1987 Constitution, as emphasized in Sections 3(e) and 29 of RA No. 7160 clarifies the scope of restrictions imposable by higher level LGUs to component LGUs, among others, to wit, "(e) Provinces with respect to component cities and municipalities, and cities and municipalities with respect to component barangays, shall ensure that the acts of their component units are within the scope of their prescribed powers and functions; x x x", and " The province, through the governor, shall ensure that every component city and municipality within its territorial jurisdiction acts within the scope of its prescribed powers and functions. Highly urbanized cities and independent component cities shall be independent of the province", respectively.

15. *What is the minimum qualification for an Internal Auditor?*

ANSWER: CSC MC No. 12 s. 2006 provides the minimum qualifications for an Internal Auditor, however, in selecting the necessary skills, competence and character, the guide as described in Part 3: Organizing the IAU of this Manual must be considered.

16. *How is the performance of an IAU measured?*

ANSWER: Since LGUs are already adopting the use of SPMS as a tool in performance assessment, the Internal Auditor will be rated based on Office/Individual Performance Commitment and Review (O/IPCR).

Performance measurement involves an analysis of performance against targets taking into account the reasons behind the performance and influencing factors. The use of rating and key performance indicators also enables the measurement of the internal auditor's performance.

In addition, performance monitoring and evaluation can be done at the level of the LCE and at the level of the IAU Head. Evaluation on the part of the LCE entails the review of the internal audit report. Monitoring at the level of the IAU Head entails the review of the progress assessment report.

Evaluation on the level of the LCE entails the review of the IAU performance report. On the other hand, evaluation on the level of the IAU Head involves the review of the completion assessment report.

Please refer to Part 6. Internal Audit Performance Monitoring and Evaluation.

17. *Can the IAU be subjected to the client/customer satisfaction survey (CCSS)?*

ANSWER: Although the IAU may administer CCSS to its auditees, their responses thereto should only be used for continual improvement of its audit processes. The same must not be used to gauge or measure the performance of the internal auditors.

The LCE or the Presiding Officer of the Sanggunian as the principal shall evaluate the performance of the IAU.

18. *With the active participation of Civil Society Organizations in the budgeting process of LGUs, should a copy of the Internal Audit Report be made available to them anytime to promote transparency?*

ANSWER: Internal Audit Report is primarily for internal use of the LGU Management only. However, furnishing the report or parts thereof to external stakeholders as part of transparency and to promote citizen participation is subject to the discretion of the LCE.

19. *Given the COA-issued Internal Auditing Standards for the Philippine Public Sector, should the IAU share the internal audit report with the Commission?*

ANSWER: If the audit report will be used by the LCE for the operations of the agency, especially if the same contains confidential information for the consumption of the LCE, it should not be shared with COA. The IAU cannot waive the deliberative process privilege.

While the LCE shall act/decide on the matter based on his/her sound discretion, the IAU should provide advice to the former on the appropriateness of providing these documents and the waiving of deliberative process privilege.

20. *In the prioritization of audit areas, should internal auditors consider the audit findings included in the annual audit reports of the COA?*

ANSWER: While the annual audit reports of the COA may be considered by the internal auditors in the prioritization of audit areas to include the departments/offices/units/systems with the most adverse findings reported, there are numerous factors needed to be considered. These may include the results of the baseline assessment of the ICS, consideration of the assessment of risks, and assessment of internal audit risks by the internal audit unit.

Moreover, other criteria that could be considered are the departments/offices/units/systems with the biggest budget or those with the least achievements.

Audit areas should not be contingent on the recommendations of the COA. External audit being undertaken by the COA as part of its Constitutional mandate is different from internal audit. Internal auditing is not intended to duplicate the functions of the COA.

21. *Is it appropriate for the IAU Head to give a copy of the detailed internal audit report to the auditees?*

ANSWER: The IAU reports containing the audit findings and recommendations should be given to the LCE, who should cause or authorize the dissemination of the report to the auditees. The highlights of the audit (criteria and condition) may be presented to the auditees during the exit conference, but the conclusion, cause and recommendations should not be reported to the auditees, but to the LCE who will approve the same, and eventually authorize or cause its dissemination to the auditees.

22. ***Is it necessary to design, install, implement, and monitor internal control first before an LGU can establish an IAU?***

ANSWER: Yes. From the definition of internal control and internal audit, the latter will assess the adequacy and effectiveness of the implementation of internal controls. Therefore, internal audit comes later.

23. ***The IAM for LGUs, 2023 Edition states that internal audit is a separate component of internal control, yet it also states that it is an integral part of internal control, are these two (2) statements contradictory?***

ANSWER: No. Internal audit is an integral part of internal control because it is instituted to provide separate evaluations on whether internal controls are well-designed and properly implemented. As such, it is separate from the five (5) interrelated components of internal control — (i) control environment; (ii) risk assessment; (iii) control activities; (iv) information and communication; and (v) monitoring and evaluation.

24. ***What are the driving forces and benefits for the establishment of an IAU at the local level?***

ANSWER: The following are the identified driving forces and/or benefits in the establishment of an IAU at the local level:

- Instill good governance and accountability;
- More effective and efficient internal control which would facilitate the delivery of public service;
- More transparent operations in the LGU thereby reinforcing public trust and confidence;
- Safeguard resources;
- Reduction of risk exposures by the LGU functionaries; and
- Compliance with the indicator on IAU in the enhanced Public Financial Management Assessment Tool (PFMAT) thereby improving the PFM assessment result.

GLOSSARY OF TERMS

Accountability

The obligation of an individual or institution to account for its activities accepts responsibility for them and discloses the results in a transparent manner.

Annual Work Plan

It contains the coverage of the audit for a given calendar year as approved by the LCE. The plan should outline the deficiencies in internal control and vulnerability being addressed, audit title, specific audit area, type of audit, summary description of the audit, expected benefit, priority and resources to be used, estimated duration and cost, and proposed timing of the audit, among others.

Auditee

An auditee is the public office responsible for the subject of the audit.

The auditee for each audit is the senior official with the 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.

The auditee may also include the different departments, offices, divisions, sections, or units.

Compliance Audit

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 and 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.

External Stakeholders

The persons, organizations, and other service groups that are outside a specific public service sector but may have an interest and can influence the achievement of the sectoral goals of the agency concerned. External stakeholders must always deal with the principal (LCE) and not directly with the IAU.

Expert

A person who is knowledgeable in a specialized field, that knowledge being obtained from either education or personal experience. He/she is one who

because of education or special experience has knowledge respecting a subject matter about which persons having no particular training are incapable of forming an accurate opinion or making a correct deduction.

Four (4) Cs in Audit Findings. Stands for criteria, condition, conclusion, and cause.

- Criteria are the standards against which a condition is compared; standards can be laws, rules, regulations, policies, orders, guidelines, procedures, plans, targets, best practices, etc.
- Condition is a fact, backed up by 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.
- 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.
- Cause refers to the probable cause, in case of compliance audit; or root cause, in case of management audit or operations audit. Relatedly, a finding of probable cause needs only to rest on evidence showing that more likely than not the act(s) or omission(s) of the person responsible had caused the non-compliance which may warrant the conduct of administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true cause of the control weaknesses or incidences and the actions necessary to eliminate them.

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.
- 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 of an LGU. He/she has overall responsibility for auditing the LGU, managing the entire audit cycle and a team of internal auditors, and ensuring the quality of audit products produced by the team.

Internal Audit

The evaluation of management 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 is the appraisal of the plan of the organization and all the coordinated methods and measures to recommend courses of action on all matters relating to management control and operations audit.

Internal Audit Division/Section I

This is one (1) of the two (2) divisions/sections forming part of the IAU in departments and equivalent agencies. It is responsible for, among other functions, conducting a separate evaluation of the effectiveness of the internal controls adopted 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 RCA in case the controls are weak, and recommends courses of action to address the control weaknesses.

Internal Audit Division/Section II

This is one (1) of the two (2) divisions or sections, whichever is applicable, forming part of the 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.

Internal Audit Strategic Plan

It outlines the broad strategic direction of internal audit over the medium term (i.e., three [3] years) and provides an important basis for managerial policies from the LCE and the detailed Annual Work Plan. It is approved by the LCE.

It should articulate the primary focus and direction of the internal audit function over the period covered by the plan; outline the objectives to be achieved in the period, and identify the key management strategies (i.e., plans and programs) and actions that will be needed to achieve these objectives.

Internal Stakeholders

These are the individuals and groups that can affect and be affected by the LGU's operation within a particular public service sector. In terms of relationship, the IAU basically coordinates with internal stakeholders and collaborates with external stakeholders.

Management Audit

The separate evaluation of the effectiveness of the internal controls adapted in the operating and support services units/systems, whether it achieves the control objective over a specific date or period of time. It is a review and appraisal of systems and processes, organizational structure and staffing, operations and management practices, records, reports and performance standards of the agencies/units covered. It includes the determination of the extent of compliance with laws, rules, regulations, managerial policies, operating procedures, accountability measures and contractual obligations covering specific timeframes. Examples of support services systems are human resource management system, FMS, QMS, risk management system, and their sub-system; while operating systems in the LGUs include aspects such as the rules on vaccination and immunization in the case of health facilities, those related to the provision of agricultural services to farmers and fisherfolks, and those dealing with the delivery of social welfare services.

Management Monitoring

The plethora of measures taken by management to ensure that internal control systems are operating as intended. Ongoing monitoring occurs in the course of operations. It is performed regularly on a real-time basis, responds dynamically to changing conditions and is embedded in an LGU's operations.

Operations Audit

The separate evaluation of the outcome, output, process and input to determine whether government operations, including management and personnel structure in programs/projects, are effective, efficient, ethical and economical. Operations audit of organizations, programs, and projects involves an evaluation of whether or not expected results were achieved and targets were attained.

Performance Indicator

Performance measures reflect the central importance of evidence and information to support performance results. The key performance indicators for internal audit must be aligned with the Strategic and Annual Internal Audit Plans.

Philippine Government Internal Audit Manual

The original version of the documentation of the standards and procedures for conducting compliance, management and operations audits. This is covered in DBM CL No. 2011-5 dated May 19, 2011. The PGIAM is divided into two parts. Part I - Guidelines 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 contains tools, techniques, and approaches that will facilitate the conduct of internal audit activities.

Public Service Organizations

These are classified into (1) Public Entities, and (2) Private Entities Providing Public Services.

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

Qualifications Standards

Minimum and basic requirements for positions in the government 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 the evaluation of appointments to all positions in the government.

Related Audit Services

Related activities such as being a resource person (e.g., attending to functions outside the organization) for external organizations' oversight or regulatory bodies and financing institutions; training of IAU staff, and intervening related activities or tasks that may be assigned to the IAU.

Revised Philippine Government Internal Audit Manual

The revised documentation of the standards and procedures for conducting compliance, management, and operations audits. This is covered by DBM CL No. 2020-8 dated May 26, 2020.

It serves as a friendly tool for internal auditors in appraising the internal control systems of 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.

Similar to the 2011 PGIAM, the RPGIAM is divided into two (2) parts. Part I - Guidelines 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 contains the approaches, tools, and techniques that could be used to facilitate the conduct of internal audit activities, 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, it contains 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 a guide to internal auditors.

Risk Assessment

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 inquiry as necessary.

Risk Management

The coordinated activities to direct and control an organization with regard to risks. It is not a stand-alone activity that is separate from the main activities and processes of the organization. Risk management is part of the responsibilities of management and an integral part of all organizational processes.

Root Cause Analysis

A 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 the deficiency and the courses of action necessary to address it. RCA is continuing to ask why the control deficiency occurred until the fundamental process element that failed is identified.

Separate Evaluation

Covers the periodic evaluation of the effectiveness of the internal control system and ensures 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 evaluations, the 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 or perceive themselves to be affected by a decision or activity. IAU relates with both internal and external stakeholders.

PROJECT TEAM FOR THE UPDATING OF THE INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS (2023 EDITION)

Project Team Leaders	Undersecretary Wilford Will L. Wong (2022 to 2023)
	Assistant Secretary Rolando U. Toledo (2022 to 2023)
	Assistant Secretary Achilles Gerard C. Bravo (2022)

DBM Central Office Technical Team Members and Overall Coordinators	Director Ryan S. Lita (2022 to 2023)
	Director John Aries S. Macaspac (2022)

Technical Team Members and Area Coordinators	Director Ria V. Bansigan DBM Regional Office (RO) I – <i>Northern Luzon</i>
	Director Ricky L. Sanchez DBM RO for the MIMAROPA – <i>Southern Luzon</i>
	Acting Director Maria Liane Gayomali DBM RO VI - <i>Visayas</i>
	Director Gary R. Martel DBM RO XI – <i>Mindanao</i>

Primary Project Resource Persons - Systems and Productivity Improvement Bureau	Director John Aries S. Macaspac (2022 to 2023)
	Sheena Joy T. Casuga
	Odessa L. Babiano
	Manuel S. Niverba
	Nenita T. Taasin
	Isaiah Anthony Mateo

ADB Consultant	Rufo R. Mendoza, PhD, CPA
-----------------------	---------------------------

Technical Support

Local Government and Regional Coordination Bureau	Rowena M. Marte
	Ruby Ann G. Añonuevo
	Amabelle Colleen T. Francisco
	Alvin A. Amil
	Roxanne Cleath A. Gonzaga

RO I	Julius Jose M. Camara
-------------	-----------------------

RO for the MIMAROPA	Jerdy Paul A. Mercene
	Michael P. Gedaca
	Geneva D. Marmeto

RO VI	Mariel Dave M. Gallego
	Cecile C. Lacson

RO XI	Carolina C. Armada
	Zillah Joanne G. Emberga



Republic of the Philippines
DEPARTMENT OF BUDGET AND MANAGEMENT