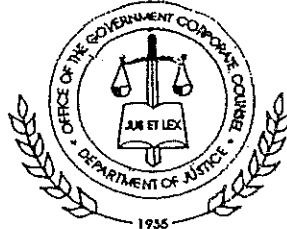


Exhibit 1

06/05/07

G07-06-05-168



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF JUSTICE  
OFFICE OF THE GOVERNMENT CORPORATE COUNSEL  
3<sup>rd</sup> Floor MWSS Administration Building, Katipunan Road  
Balara, Quezon City

OPINION NO. 099  
Series of 2007

May 30, 2007

**MR. NELSON C. BUENAFLORE**

President & CEO  
Quedan & Rural Credit Guarantee Corporation  
QUEDANCOR Center, 34 Panay Avenue  
Quezon City

RE: REQUEST FOR OPINION ON  
INTERNAL AUDIT SERVICES

Dear Mr. Buenaflore:

We reply to your request for an opinion on whether or not Republic Act (RA) No. 3456, as amended by RA No. 4177, continues to be the enabling law on the establishment of an internal audit function in government agencies considering the existence of Presidential Decree (PD) No. 1, which merged the Internal Audit Services with the Management Division under the Financial and Management Service.

According to your letter, the internal audit function in Quedancor has been in existence since December 1996. It is currently undergoing organizational and functional improvement activities, which includes, among others, the development of an Internal Audit Operations Manual to guide QUEDANCOR's internal auditors.



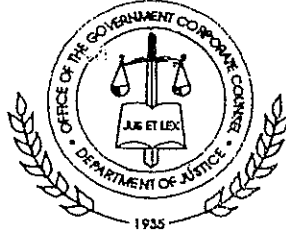
In the draft Quedancor Internal Audit Operations Manual, it is provided that the legal basis of the internal audit function is RA No. 3456, as amended by RA No. 4177. However, during the Mid-Year Conference of the Association of Government Internal Auditors (AGIA), a document purportedly coming from the Department of Budget and Management (DBM) entitled "*Outline on the Organization and Staffing of the Internal Audit Units*" contained the information that RA No. 3456, had been repealed by PD No. 1. For this reason, you are now seeking our legal opinion on whether or not RA No. 3456 continues to be the enabling law on the establishment of an internal audit function in government agencies.

We have gone over the provisions of RA No. 3456 (An Act Providing for the Creation, Organization and Operation of Internal Audit Services in all Departments, Bureaus and Offices of the National Government), RA No. 4177 (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"), as well as PD No. 1 (Reorganizing the Executive Branch of the National Government) and it is our opinion that PD No. 1 does not repeal RA No. 3456. These laws may be reconciled and utilized as legal basis in the establishment of an internal audit function in government agencies.

In particular, the creation, organization and operation in all government agencies of an Internal Audit Service as mandated by RA No. 3456 is still mandated under PD No. 1, except that pursuant to Item 3, Article IV, Chapter I, Part V thereof the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service. Moreover, DBM Budget Circular No. 04-04 which provides for the Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs), DBM specifically states that the legal basis for the establishment of the Internal Auditing Units (IAUs), formerly known as the Internal Audit Service, are RA 3456, as amended by RA No. 4177, and PD No. 1.

In view of the foregoing discussion, it is our well-considered opinion that both RA No. 3456, as amended by RA No. 4177 and PD No. 1 can be considered as legal basis for the establishment of an internal audit function in government agencies. However, reference should also be made on the following pertinent laws on the establishment of an internal audit function in government agencies: (a) the 1987 Philippine Constitution particularly Section 2, Article IX-D thereof;

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(b) Administrative Order No. 119 mandating government entities to strengthen its internal control systems and/or organize systems and procedures to that effect in coordination with the DBM; (c) COA Circular No. 91-368 instituting the Government Accounting and Auditing Manual (GAAM), Section 33 and 55, Volume III of the GAAM; (d) Administrative Order No. 278 dated April 28, 1992; and (e) Administrative Order No. 70 dated April 14, 2003.

For your guidance.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alberto C. Agra", with a stylized flourish at the end.

**ALBERTO C. AGRA**  
Government Corporate Counsel