

**CIRCULAR LETTER****No. 2008-5**

April 14, 2008

- FOR :** HEADS OF DEPARTMENTS AND AGENCIES OF THE EXECUTIVE BRANCH, INCLUDING GOVERNMENT-OWNED AND/OR -CONTROLLED CORPORATIONS (GOCCs), GOVERNMENT FINANCIAL INSTITUTIONS (GFIs), AND ALL OTHERS CONCERNED
- SUBJECT :** GUIDELINES IN THE ORGANIZATION AND STAFFING OF AN INTERNAL AUDIT SERVICE/UNIT AND MANAGEMENT DIVISION/UNIT IN DEPARTMENTS/AGENCIES/GOCCs/GFIs CONCERNED

**1.0 Purpose**

This Circular Letter is being issued to provide the guidelines to be followed by the different Departments/Agencies/GOCCs/GFIs of the Executive Branch in the organization of an Internal Audit Service/Unit (IAS/IAU) and Management Division/Unit (MD/MU) for purposes of strengthening their internal control systems, improving existing systems and procedures, and promoting transparency and accountability in various aspects of the operations of government.

**2.0 Guidelines**

Departments/Agencies/GOCCs/GFIs concerned belonging to the Executive Branch are hereby authorized to organize their respective IAS/IAU and MD/MU immediately, consistent with the guidelines indicated hereunder and with the Rationalization Program's *Organization and Staffing Standards and Guidelines*.

**Guidelines in the Organization of the IAS/IAU*****Coverage***

- 2.1 Each Department of the Executive Branch is authorized to establish its own IAS to cover audit areas in the Office of the Secretary, bureaus, offices and agencies, including regional/field offices, regulatory agencies, and other agencies under the supervision and control or administrative supervision of a Department consistent with the provisions of the Administrative Code of 1987 on administrative relationships.
- 2.2 In the case of regular agencies attached to a Department for policy and program coordination, their respective board/council shall determine the propriety of establishing a separate unit for the purpose or the availment of the services of the IAS of the Department.
- 2.3 GOCCs/GFIs which have original charters or those created through the Corporation Code shall likewise establish their respective IAS/IAU.

## ***Functions***

- 2.4 The IAS/IAU shall conduct comprehensive audit of various Department/Agency/GOCC/GFI activities. Specifically, it shall have the following functions:
- a. Advise the Department Secretary or the Governing Board (thru the Audit Committee in the case of GOCCs/GFIs), on all matters relating to management control and operations audit;
  - b. Conduct management and operations performance audit of the Department/Agency/GOCC/GFI activities and their units and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;
  - c. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports and performance standards of the agencies/units covered;
  - d. Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and
  - e. Perform such other related duties and responsibilities as may be assigned or delegated by the Secretary or the Governing Board, thru the Audit Committee, or as may be required by law.

## ***Organizational Structure***

- 2.5 The IAS of the Department shall report directly to the Department Secretary. It shall be headed by a Director IV or as may be provided by the Administrative Code of 1987 or other special laws. The Director IV shall be occupied by a career official with 3<sup>rd</sup> level eligibility.

The IAS of the Department shall have two (2) divisions, an Operations Audit Division and a Financial Audit Division, which shall each be headed by an Internal Auditor V (SG 24).

- 2.6 The head of the IAU of a regular agency attached to a Department for policy and program coordination shall have the rank equivalent to the fourth ranking official of the agency.

The IAU shall report to the head of the agency. In case of multi-headed attached agencies, said IAU may report directly to the governing body. The governing body may opt to organize an Audit Committee from among its members to which the IAU shall directly report.

- 2.7 In the case of GOCCs/GFIs, the IAU shall be a Department or its equivalent organizational unit, which shall be headed by a Department Manager with a Salary Grade of 26 or its equivalent position. It shall have two (2) divisions, an Operations Audit Division and a Financial Audit Division, each to be headed by an Internal Auditor V (SG 24).

The IAS/IAU of GOCCs/GFIs shall report to the respective Audit Committee of the Governing Board of the corporation.

### ***Staffing***

- 2.8 Each division of the IAS of the Department shall be staffed by Internal Auditor and Internal Auditing Assistant positions which shall not exceed seven (7) positions.

No Internal Auditor and Internal Auditing Assistant positions can be created in the Department's various component units, bureaus, regional/field offices and agencies which are under the direct supervision and control or administrative supervision of a Department.

- 2.9 For GOCCs/GFIs, the appropriate staffing shall be determined on the basis of the magnitude and complexity of operations. They are enjoined however to follow the guidelines set forth for national government agencies.

### **Guidelines in the Organization of the MD/MU**

#### ***Coverage***

- 2.10 Departments, including line bureaus, regulatory agencies, and other regular agencies/GOCCs/GFIs attached to a Department for policy and program coordination, are hereby authorized to create their respective MD/MU or corresponding positions for the purpose.

However, the creation of the MD/MU is no longer necessary in Departments/Agencies/GOCCs/GFIs concerned with existing units doing the intended functions of an MD/MU.

#### ***Functions***

- 2.11 The MD/MU is tasked to perform the following functions:
- a. Develop plans and programs relative to management improvement in the Department/Agency/GOCC/GFI;
  - b. Examine the administrative organization of the Department/Agency/GOCC/GFI and provide recommendations for improvement;
  - c. Maintain and update the Department/Agency/GOCC/GFI organization and other manuals;
  - d. Conduct regular management surveys of the organizational structure, manpower and operations, and studies on special problems as assigned;
  - e. Review existing methods, systems and procedures/processes, and provide recommendations for improvement;
  - f. Develop new and improved management systems, and provide staff supervision over the implementation of such improvements, as well as conduct trainings on the application of the system/s;
  - g. Develop staffing standards and manpower requirements of the Department/Agency/GOCC/GFI; and
  - h. Perform such other functions as may be provided by law.

### ***Organizational Structure***

- 2.12 The MD/MU may be placed under the Financial and Management Service (FMS) or its equivalent organizational unit which is responsible for handling the budgetary, financial and management matters of the agency. However, if the agency has a Planning and Management Service, the MD/MU may be organized under it.

### ***Staffing***

- 2.13 The manpower complement of the Department's MD shall not exceed seven (7) positions.
- 2.14 For GOCCs/GFIs, the manpower complement of their respective MD/MU shall likewise not exceed seven (7) positions.

### **Other Staffing Guidelines on the Establishment of the IAS/IAU and MD/MU**

- 2.15 Departments/Agencies/GOCCs/GFIs shall adopt the "scrap and build" policy in the creation of the necessary positions for the IAS/IAU and MD/MU, wherein existing vacant funded positions would have to be offered for abolition to create the appropriate positions. Priority shall be given for the creation of positions in the professional category rather than the clerical or non-professional items.
- 2.16 Where there are no existing vacant funded positions to be offered for abolition, an agency may transfer the positions of personnel who are deemed capable of performing the functions of these units. The transfer of personnel could involve the reclassification of positions based on the staffing requirements of the agency.

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

- 2.17 In the creation of the necessary positions for the IAS/IAU and MD/MU, the basic rule under the Rationalization Program shall be still be adopted, i.e., the resulting staffing pattern of the Departments/Agencies/GOCCs/GFIs (a) must have the same or lower number of positions compared to its filled positions at the start of the agency's rationalization efforts; and (b) the budgetary requirements of the same must not exceed the existing Personal Services level at the start of its rationalization efforts.

### **3.0 Responsibility Clause**

It shall be the responsibility of the Department Secretaries and equivalent Agency Heads to strictly implement the provisions of this Circular Letter.

#### **4.0 Applicability Clause**

The provisions of this Circular Letter shall be applicable until revoked.

#### **5.0 Repealing Clause**

Pertinent portions of Department<sup>of</sup> Budget and Management Budget Circular 2004-4 (Guidelines on the Organization and Staffing of Internal Auditing Units) dated 22 March 2004 that are inconsistent with this Circular Letter are hereby repealed, amended or modified accordingly.

#### **6.0 Effectivity**

This Circular Letter shall take effect immediately.



**ROLANDO G. ANDAYA, JR.**  
Secretary