

## PREFACE

Internal audit, a component of the internal control system, is a strategic function in ensuring good governance throughout the bureaucracy. This Manual is being issued to assist Departments, Government-Owned and/or -Controlled Corporations, State Universities and Colleges, Local Government Units and other agencies of government in establishing, and thereafter strengthening, the internal audit function in their institutions.

The Internal Auditor in the Philippine Government has the fundamental role of assisting the Department Secretary or the Governing Body/Audit Committee of the Governing Board in promoting effective, efficient, ethical and economical operations by appraising the adequacy of internal controls, consistent with the National Guidelines on Internal Control Systems (NGICS). The findings on the appraisal of internal controls are provided to said officials/bodies to institute corrective and preventive measures and achieve the agency objectives.

The role of the Internal Auditor is not about fault-finding. Neither is it investigative nor punitive. As one of the accountability mechanisms in public service organizations, the Internal Auditor reviews the extent of compliance with laws and policies under the authority of the Department Secretary or the Governing Body/Audit Committee.

As a component of the performance management framework of Departments/Agencies/Government-Owned and/or -Controlled Corporations/Government Financial Institutions, the Internal Auditor assesses the levels of performance against agreed measures, targets and objectives. The internal audit function is separate from, but complementary to, the day-to-day monitoring of internal controls and the conduct of continual management improvement, which are within the responsibility of operating units.

The Philippine Government Internal Audit Manual (PGIAM) was developed to empower Internal Auditors in performing their roles. It 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 user-friendly tools, techniques, and approaches in appraising the internal control systems against strategic objectives, and in conducting management and operations audits.

To complement the PGIAM and facilitate the roll-out of the NGICS, Generic Manuals on Controls in the Human Resource Management System, Quality Management System, and Risk Management System will also be issued. An overview of these generic manuals is provided in *Appendix A*.

The Department of Budget and Management, in conjunction with the Office of the President – Internal Audit Office, the Commission on Audit, and the Reference Panel will regularly review these manuals to ensure that these remain updated, relevant and attuned to the developments in the bureaucracy and best practices abroad.

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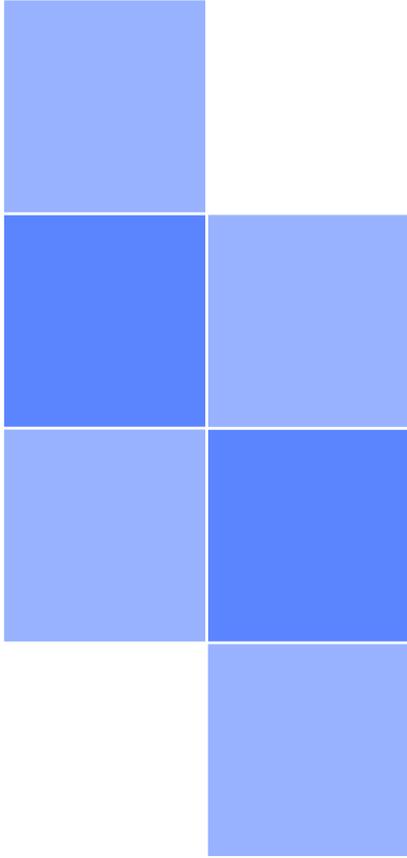


# LIST OF ACRONYMS

4Cs	Criteria, Condition, Conclusion and Cause
4Es	Effective, Efficient, Ethical, Economical
ABM	Agency Budget Matrix
AO	Administrative Order
AR	Audit Risk
ARP	Allotment Release Program
AuditCom	Audit Committee
AWP	Annual Work Plan
BA	Baseline Assessment
BAC	Bids and Awards Committee
BAR	Baseline Assessment Report
BC	Budget Circular
BSC	Balanced Scorecard
CAATTs	Computer-Assisted Audit Techniques and Tools
CIS	Computerized Information System
CL	Circular Letter
COA	Commission on Audit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Certified Public Accountant
CSC	Civil Service Commission
CU	Control Universe
DA	Department of Agriculture
DBIFC	Disclosure of Business Interests and Financial Connections
DBM	Department of Budget and Management
DepED	Department of Education
DOH	Department of Health
DOJ	Department of Justice
DPWH	Department of Public Works and Highways
DS	Department Secretary
EO	Executive Order
FMEA	Failure Mode and Effects Analysis
FTA	Fault Tree Analysis
GAA	General Appropriations Act
GAAM	Government Accounting and Auditing Manual
GB	Governing Board
GFI	Government Financial Institution
GISP	Government Information Systems Plan
GOCC	Government-Owned and/or -Controlled Corporation
GQMSS	Government Quality Management Systems Standards
HoA	Head of Agency
HoIA	Head of Internal Audit
HRM	Human Resources Management
ICS	Internal Control System
IA	Internal Auditor
IAS/IAU	Internal Audit Service/Internal Audit Unit
ICQ	Internal Control Questionnaire
IDR	Identification and Disclosure of Relatives
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors

INTOSAI	International Organization of Supreme Audit Institutions
ISO	International Organization for Standardization
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IT	Information Technology
KPI	Key Performance Indicator
MC	Memorandum Circular
MD/MU	Management Division/Unit
MO	Memorandum Order
MTPDP	Medium-Term Philippine Development Plan
MUS	Monetary Unit Sampling
NCA	Notice of Cash Allocation
NEDA	National Economic and Development Authority
NGAS	National Government Accounting System
NGICS	National Guidelines on Internal Control Systems
NOSCA	Notice of Organization, Staffing and Compensation Action
OGCC	Office of the Government Corporate Counsel
OMB	Office of the Ombudsman
OP- IAO	Office of the President – Internal Audit Office
OPIF	Organizational Performance Indicators Framework
PAPs	Programs, Activities, Projects
PD	Presidential Decree
PGIAM	Philippine Government Internal Audit Manual
PhilGEPS	Philippine Government Electronic Procurement System
PMS-	Performance Management System – Office Performance Evaluation
OPES	System
PNS	Philippine National Standards
PSIPOP	Personal Services Itemization and Plantilla of Personnel
PSSO	Public Service Sector Organizations
QMS	Quality Management System
RA	Republic Act
RCA	Root Cause Analysis
RMS	Risk Management System
SAI	Supreme Audit Institutions
SALN	Statement of Assets, Liabilities and Networth
SARO	Special Allotment Release Order
SCA	Statement of Control Attributes
SEC	Securities and Exchange Commission
SG	Salary Grade
SoG	Summary of Gaps
SP	Strategic Plan
SUCs	State Universities and Colleges
SWOT	Strengths, Weaknesses, Opportunities, Threats
TCWP	Test of Control Working Paper
UNDC	United Nations Disarmament Commission
UNTAG	United Nations Transition Assistance Group
WB	World Bank
WD	Working Days





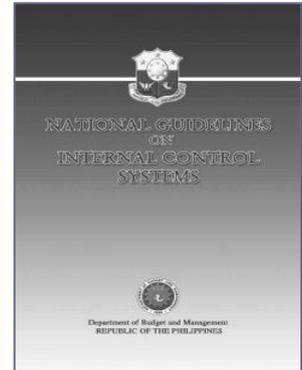
# Part I

## Guidelines

## INTRODUCTION

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

In October 2008, the Department of Budget and Management issued the NGICS pursuant to Administrative Order No. 119 dated 29 March 1989 and Memorandum Order No. 277 dated 17 January 1990 which directs the DBM to promulgate the necessary rules, regulations and circulars for the strengthening of the internal control systems of government agencies.



Following the provisions of the Constitution, the Government Auditing Code of the Philippines (Presidential Decree No. 1445 dated 11 June 1978, as amended), the Administrative Code of 1987 and the United Nations Convention Against Corruption (UNCAC), the NGICS serves as a guide to the heads of departments and agencies in designing, installing, implementing and monitoring a strong and responsive internal control system.

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

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

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

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

While it is the direct responsibility of the agency head to install, implement and monitor a sound system of internal control, the Internal Audit Service/Unit (IAS/IAU) assists him/her by conducting a separate evaluation of the internal control system (ICS) to determine if controls are well designed and properly implemented. This function of the IAS/IAU is separate or distinct from the function of the operating units, other support units, and their equivalent in Government-Owned and/or -Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs), which monitor and institute continual improvement of internal controls to support the achievement of performance targets and organizational objectives.

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

# **CHAPTER I**

## **CONCEPTS AND PRINCIPLES OF INTERNAL AUDIT**

## 1. Definition of Internal Audit

Internal audit is the evaluation of management controls and operations performance, and the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards and contractual obligations. It involves the appraisal of the plan of organization and all the coordinated methods and measures, in order to recommend courses of action on matters relating to operations and management control.<sup>1</sup>

Internal audit, being a separate component of internal control, is instituted to determine whether internal controls are well designed and properly operated.<sup>2</sup>

The results of internal audit are provided to the DS/HoA or the GB/AuditCom to assist management in achieving organizational objectives in an effective, efficient, economical and ethical manner.

## 2. Legal Bases for Internal Audit

The establishment of the internal audit function is based on Philippine laws and statutes. The creation of the Internal Audit Service (IAS) was first mandated under Republic Act No. 3456 or the Internal Auditing Act of 1962, as amended by Republic Act No. 4177. With the reorganization of the Executive Branch of government under Presidential Decree No. 1, the IAS was abolished but its functions were merged with the Management Division of the Financial and Management Service (FMS) of Departments. The Administrative Code of 1987 re-established the IAS in the Department of Public Works and Highways.

Subsequent administrative orders mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with the Department of Budget and Management (DBM). More recent administrative order and DBM issuances provided for the creation, functions, duties and activities of the IAS/IAU.

<b>Box 1 – Chronology of Issuances on the Creation of the IAS/IAU</b>	
1. Presidential Decree No. 1	Abolished the IAS created under RA 3456, as amended by RA 4177, and transferred the function to the Management Division
2. Administrative Code of 1987 or EO 292	Created an IAS in the Department of Public Works and Highways, and included the supervision of internal audit activities as one of the functions of the Department of Finance's Central Financial Management Office
3. AO 278 & AO 70	Provided authority for the creation of an IAS and its functions, duties and activities
4. DBM Budget Circular 2004-4	Highlighted the policy guidelines in the organization, staffing, positions and salary grades of the IAS
5. DBM-CSC Joint Resolution No. 1, s. 2006	Provided for the creation of an IAS/IAU with its functions in line with Executive Order No. 366
6. DBM Circular Letter No. 2008-5	Provided the guidelines in the organization of the IAS and clarified its functions, and the rank and salary grade of the head of the IAS
7. DBM Circular Letter No. 2008-8	Provided that the IAS would be composed of a Management Audit Division and an Operations Audit Division, and specified the IAS/IAU's functions related to internal control

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

- a. Republic Act No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, created and organized an IAS/IAU in all government agencies to help management achieve an efficient and effective fiscal administration and to assist in the performance of agency affairs and functions.
- b. Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), which was adopted on 1 September 1972 to effect the desired changes and reforms in the social, economic and political structure of the country, merged the IAS/IAU with the Management Division under the Financial and Management Service in Departments pursuant to Item 3, Article IV, Chapter I, Part V of the PD.
- c. Department of Justice Opinion No. 153 dated 27 September 1974, noted that the IAS/IAU was abolished by the Integrated Reorganization Plan under PD No. 1 and found no legal basis to allow the payment of salary differentials to seven Auditing Examiners II serving in said defunct IAS/IAU.
- d. Executive Order No. 292 (Instituting the Administrative Code of 1987) dated 25 July 1987, created an IAS/IAU in the Department of Public Works and Highways under Sec. 4, Ch. 1, Title V, Book IV, and included the supervision of internal audit activities as one of the functions of the Department of Finance's Central Financial Management Office under Ch. 3, Title II, Book IV.
- e. Section 1 of Administrative Order No. 119 dated 29 March 1989, mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with the DBM.
- f. Memorandum Order No. 277 dated 17 January 1990, Directing the Department of Budget and Management to promulgate the necessary rules, regulations and circulars for the strengthening of the internal control systems of government offices, agencies, government-owned or controlled corporations and local government units.
- g. Administrative Order No. 278 (Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, including Government Financial Institutions and Local Government Units, in their Operations) dated 28 April 1992, provided for the functions, duties and activities of the IAS/IAU.
- h. Administrative Order No. 70 (Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges and Local Government Units) dated 14 April 2003, reiterated the authority for the creation of the IAS/IAU and its functions.

- i. DBM Budget Circular 2004-4 (Guidelines on the Organization and Staffing of Internal Auditing Units) dated 22 March 2004, provided for the policy guidelines in the organization, staffing, positions and salary grades of the IAS/IAU in Departments/Agencies/GOCCs/GFIs concerned.
- j. DBM - Civil Service Commission Joint Resolution No. 1 (Rationalization Program's Organization and Staffing Standards and Guidelines) dated 12 May 2006, provided for the creation of the IAS/IAU with its functions in line with Executive Order No. 366.
- k. DOJ Opinion No. 007 dated 29 January 2007, in response to the query on whether or not RA No. 3456, as amended by RA No. 4177, is still the enabling law on the establishment of the internal audit function in government agencies, cited the evolution of the IAS/IAU from RA No. 3456, as amended by RA No. 4177, to PD No. 1, wherein the IAS/IAU was abolished but its functions were merged with the Management Division under the FMS. It also recognized DBM Budget Circular (BC) No. 2004-04 in setting the Guidelines on the Organization and Staffing of Internal Auditing Units. However, the DOJ opined that the query be coursed to the Office of the Government Corporate Counsel (OGCC) and/or the DBM.
- l. OGCC Opinion No. 099 dated 30 May 2007, stated that PD No. 1 recognized that the IAS/IAU had been abolished but its functions had been merged with the Management Division under the FMS, and DBM BC 2004-04.
- m. DBM Circular Letter No. 2008-05 (Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFIs Concerned) dated 14 April 2008, provides the guidelines in the organization of the IAS/IAU, clarifying its functions, and specifying the rank and salary grade of the head of the IAS/IAU. The Circular states that the head of the IAS/IAU shall directly report to the Department Secretary/Head of the Agency in the case of Departments and regular attached agencies, and to the Audit Committee<sup>3</sup> of the Governing Board in the case of GOCCs/GFIs.

### **3. Scope of Internal Audit**

#### **3.1 Scope**

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

Among others, internal audit encompasses 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 systems and support services units/systems.

### **3.2 Functions of IAS/IAU**

Pursuant to the Administrative Code of 1987, and as reiterated in the NGICS, the functions of the IAS/IAU are as follows:

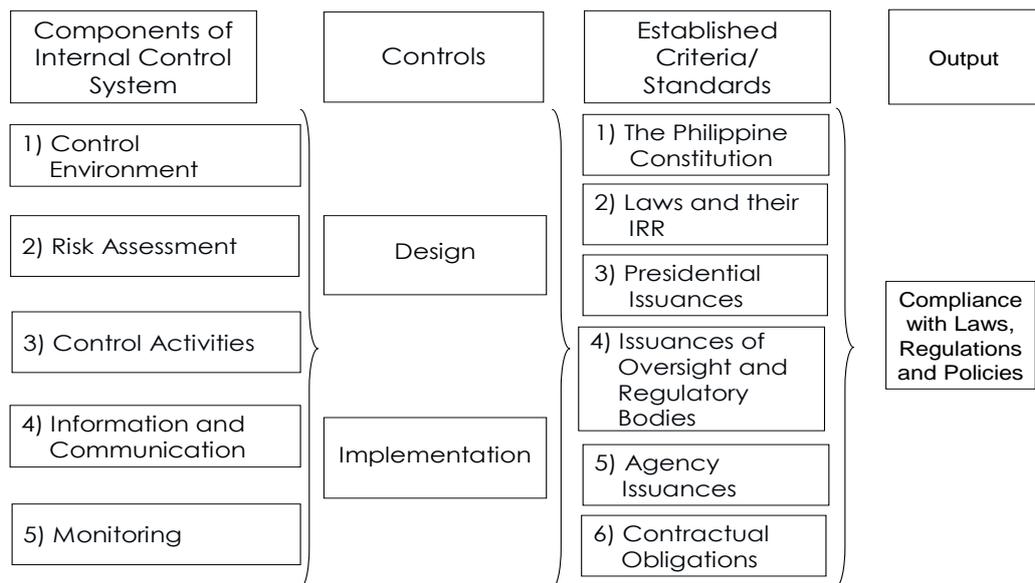
- a. Advise the DS/HoA or in the case of GOCCs/GFIs, the Governing Body through the Audit Committee, on all matters relating to management control and operations audits;
- b. Conduct management and operations audits of Department/ Agency/GOCC/GFI functions, programs, projects, activities with outputs, and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;
- c. Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports and performance standards of the department proper, bureaus and regional offices;
- d. Analyze and evaluate management deficiencies and assist 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 or as may be required by law.

## 4. Types of Audits

There are three types of audit: compliance audit, management audit, and operations audit.

### 4.1 Compliance Audit

Compliance audit is the evaluation of the degree of compliance with laws, regulations and managerial policies and operating procedures in the agency, 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 - Compliance Audit Flow Diagram**

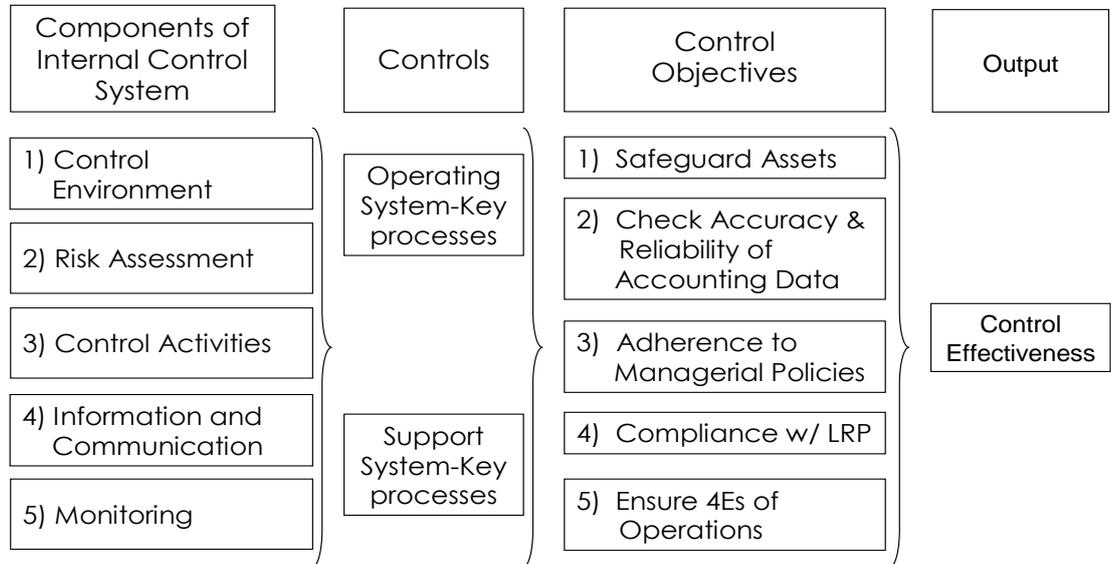
### 4.2 Management Audit

Management audit is a separate evaluation of the effectiveness of internal controls adapted in the operating and support services units/systems to determine whether they achieve the control objectives over a period of time or as of a specific date. It includes the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards and contractual obligations covering specific timeframes.

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

Management audit may encompass a comprehensive and thorough examination of an organization or a specific operating or support system or work process. Operating systems include aspects such as the rules of engagement in the conduct of arrest, search and seizure in the case of

investigating agencies, and the rules on vaccination and immunization in the case of health facilities. Examples of support services systems are human resource management system, financial management system, quality management system, risk management system and their sub-systems. The audit is conducted to *identify issues and control weaknesses or management deficiencies in the organization*, thus providing top management with courses of action to address the problem area.



**Figure 2 - Management Audit Flow Diagram**

#### 4.2.1 Control Effectiveness

Management audit focuses on results, evaluating the effectiveness and suitability of controls by reviewing or appraising existing measures and methods. Management audits include compliance audits and root cause analysis. When performed correctly, they are potentially useful evaluation method because they can be the basis of corrective or preventive measures.

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

Management control refers to internal control, which comprises the plan of organization and all the coordinated methods and measures adopted within an agency to ensure that resources are used consistent with laws, regulations and policies; resources are safeguarded against loss, wastage and misuse; financial and non-financial information are reliable, accurate and timely; and operations are economical, efficient and effective. Management controls are essential in managing any organization. It is not enough to enact laws or issue regulations, to appropriate budgets, or to establish policies if there can be no effective controls to ensure that they will be properly implemented.

## 4.2.2 Management Review and Management Audit

Management audit should be distinguished from management review.

- a. Management review is usually conducted by the Management Committee of a department/agency or delegated to the Management Division of the FMS. Management audit is conducted by the Management Audit Division of the IAS/IAU.
- b. Under a management review, the operating or functional unit assesses existing methods, systems and processes, and implements recommendations for improvement. In a management audit, the IAS/IAU appraises the management controls of the operating or support units to determine if the control objectives are being achieved, conducts root cause analysis in case the controls are weak, and recommends courses of action to address the control weakness.
- c. Management reviews are conducted any time prior to, during or after the implementation of the processes. Management audits are conducted after a system/process has been implemented or over a specific period of time or as of a given date.

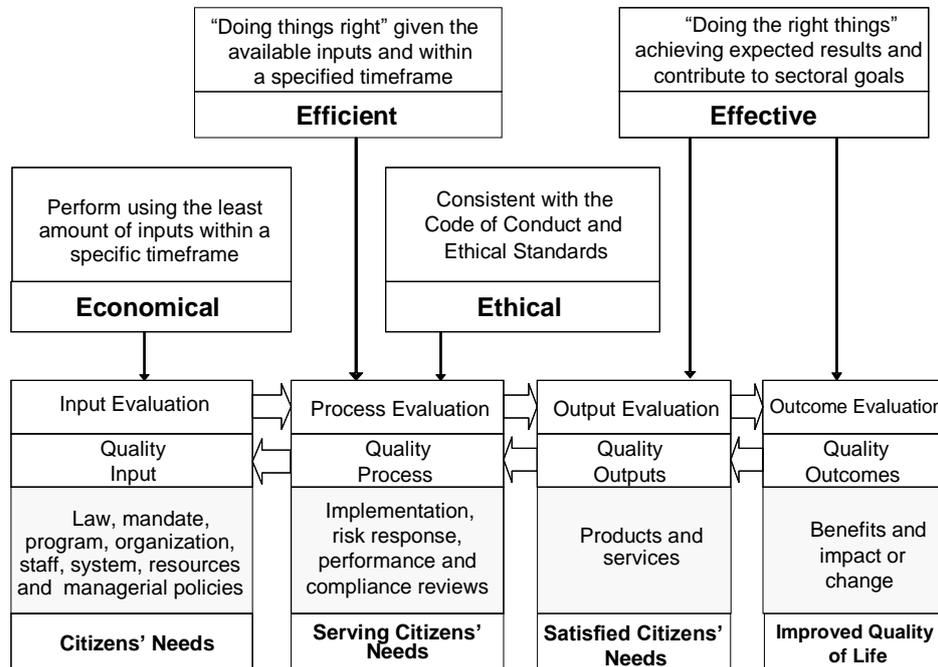
The distinctions between management review and management audit are summarized in Table 1 below:

**Table 1 - Distinction Between Management Review and Management Audit**

	<b>Management Review</b>	<b>Management Audit</b>
<b>Focus</b>	Assess existing organizational structure, methods, measures, systems and processes to ensure continuing suitability, adequacy and effectiveness and identify and assess opportunities for improvement	Evaluate management control effectiveness and determine the probable/root cause of control deficiencies, if any
<b>Scope</b>	Existing management system and practices, procedures and processes, organizational structure, staffing standards and manpower requirements	Appraise whether internal control components are well designed and properly implemented; evaluate whether internal control objectives are achieved; evaluate control effectiveness of operating systems and support systems for a specific period or date
<b>Timing</b>	Conducted anytime prior to, during or even after the implementation of a system or process	Takes place “after the fact” and covers a complete cycle of operations
<b>Action to be taken</b>	To improve or develop new management system and practices, procedures and processes, staffing standards and manpower requirements	To advise/report to the DS/ HoA or GB/AuditCom all matters relating to management control, and recommend courses of action to address inadequacy in internal control

### 4.3 Operations Audit

Operations audit is a separate evaluation of the outcome, output, process and input to determine whether government operations, programs and projects are effective, efficient, ethical and economical, including compliance with laws, regulations, managerial policies, accountability measures and contractual obligations.



**Figure 3 - Operations Audit Flow Diagram**

Operations audit of organizations, programs, and projects involves an evaluation of whether or not performance targets and expected results were achieved.

The importance of assessing the effectiveness, efficiency, ethicality and economy of government operations is to contribute to better public services, accountability and governance. The matter of outcomes, outputs, processes, and inputs, as well as their correlation with the goals of effectiveness, efficiency, ethicality and economy of operations are the focus in the evaluation.

Before conducting an operations audit, the IAS/IAU must have a good understanding of the organization, and its program and project processes. This will give a clear grasp of the processes and the key areas involved, and accordingly help the IAS/IAU determine the appropriate audit objectives, scope, criteria and evidence. Information gathered during the strategic and annual work planning is useful in understanding the organization and the program and project processes.

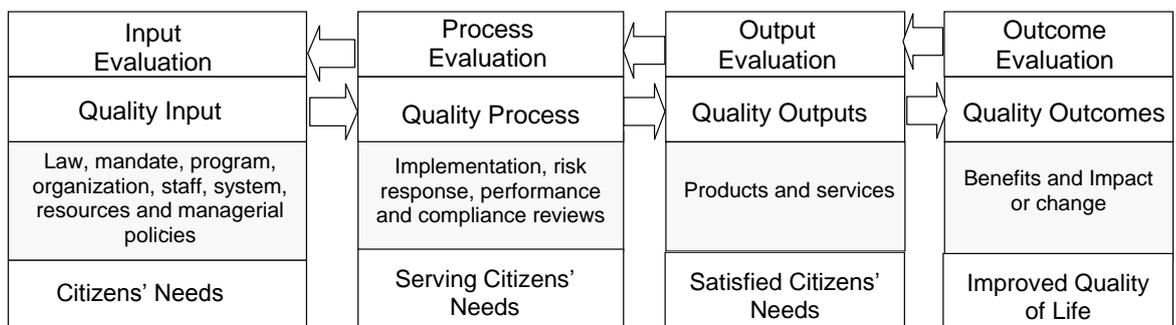
In undertaking operations audit, the auditor seeks to:

- a. Evaluate the outcome, which includes the evaluation of the benefits/impact of the program or the change in the condition of the beneficiaries;
- b. Evaluate the output, which are products/goods and services produced or delivered;
- c. Evaluate the process. The process is the transformation of an input to an output. There must be value added to the inputs. There is a need to evaluate whether or not processes have been properly implemented and there is proper conduct of risk response, performance and compliance reviews; and
- d. Evaluate the inputs (i.e., statutory policy, mandate, program, organization, staff, system, resources, managerial policies, and citizens' needs).

Evaluation can be done on the outcome-output-process-input (or work back approach), as it relates to the 4Es or effectiveness, efficiency, ethicality, and economy (see Figure 4). This approach, in particular, starts with a set of objectives (e.g., statutory policy objectives), that the DS/HoA or GB/AuditCom wants to achieve (expected outputs and outcomes) which have been formulated in SMART terms (i.e., Specific, Measurable, Attainable, Realistic and Time-bound).

#### 4.3.1 Work back Approach

Essential to the conduct of operations audit is the assessment of progress with respect to processes, projects and programs, and their respective outputs and outcomes or impact/change towards improving the condition of intended beneficiaries. This is the work back approach of operations audit.



**Figure 4 – Work back Approach Flow Diagram**

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

a. Programs/Projects/Processes

i. Activities are equivalent to a process.

Activities are actions taken through which inputs are mobilized to produce specific outputs.<sup>4</sup> Activities in public service sector organizations through which inputs are transformed into outputs are equivalent to a process<sup>5</sup> referred in the Government Quality Management Systems Standards (GQMSS) and NGICS.

The concept of an activity referred to in the Organizational Performance Indicators Framework (OPIF)<sup>6</sup> under its programs, activities, projects (PAPs – strategy and manner for effectively and efficiently delivering outputs and goods) is the same concept of an activity in the GQMSS and NGICS. These activities must add value to inputs to generate intended outputs. The organization can discard an activity that does not contribute to the attainment of a particular output.

ii. A project is a component of a program.

The Administrative Code of 1987 defines programs and projects. A program refers to the functions and activities necessary for the performance of a major purpose for which a government agency is established, while a project is a component of a program covering a homogeneous group of activities that result in the accomplishment of an identifiable output.<sup>7</sup>

Under the Budget of Expenditures and Sources of Financing for FY 2011 of the DBM, a program is defined as a homogeneous group of activities necessary for the performance of a major purpose for which a government agency is established, for the basic maintenance of the agency's administrative operations or for the provisions of staff support to the agency's administrative operations or for the provisions of staff support to the agency's line functions while projects is defined as special agency undertakings which are to be carried out within a definite time frame which are intended to result some pre-determined measure of goods and services.

Based on the foregoing, the following can be construed:

- (1) A process is a “set of interrelated or interacting activities of the public sector organization which transforms input elements (policies, resources, citizens’ needs and expectations, etc.) into outputs/outcomes (the products and services provided to the citizens).” A process requires inputs to produce an identifiable output. An output of one process may be an input to another process.
- (2) A project as a component of a program covers a homogeneous group of activities or processes needed in the accomplishment of an identifiable output to be carried out within a definite time frame.
- (3) A program is composed of several projects necessary for the accomplishment of a major output and program outcome of an agency. An aggregation of these major outputs generates the program outcome of an agency.

b. Program Outcomes/Project Outputs/Process Outputs

An outcome is a result of a program or programs, projects and processes of departments/bureaus/regional offices. The aggregate outputs of processes are considered as major final outputs of the project while the aggregate major final outputs of projects results in program outcome. The aggregation of outcomes results in benefits and impact or change that contributes to the satisfaction of citizens’ needs and expectations.

Major final outputs and organizational outcomes under the OPIF are the same as the output and outcome referred to in the GQMSS and NGICS. The OPIF viewed organizational outcome as the “desired effects, i.e., resulting condition when the major final outputs are utilized as reflected in the agency mandate.”<sup>8</sup>

c. Outcome, Output, Process and Input Evaluation

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

i. Outcome Evaluation

In the work back approach of operations audit, an outcome evaluation is conducted to assess the contribution and proper attribution of an agency outcome to the impact or change in the condition of the intended beneficiaries by comparing the

outcomes with the baseline data. An estimate of what would have happened in the absence of a department/bureau/ regional office or a local government unit program is determined.

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

- (1) Attribution of project outputs (major final outputs) to an agency's or program's outcome.

There is a need to disaggregate an agency's or program's outcome into project outputs (major final outputs) to establish/document whether such project outputs are relevant components of a program outcome delivered by the agency. This is to determine the extent of contribution of the actual/observed project outputs to the agency's or program's outcome.

- (2) Attribution of program outcome to impact/change in the condition of intended beneficiaries.

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

In the event when benefits and impact/change are contributed by several government agencies, there is a need to identify and accurately measure the particular contribution or intervention of an agency outcome to the impact or change in the condition of intended beneficiaries. In this way, causality between the agency outcome and the impact/change to the condition of

intended beneficiaries is established. This is to determine the extent of the contribution of the programs/projects/processes to the agency outcome and to the actual/observed impact or change in the condition of intended beneficiaries.

## ii. Output Evaluation

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

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

### (1) Attribution of process outputs to project outputs (major final outputs)

There is a need to disaggregate project outputs into process outputs to establish/document whether such process outputs are relevant components of a project output delivered by the agency. This is to determine the extent of contribution of actual/observed process outputs to the project outputs (major final outputs).

### (2) Attribution of project outputs (major final outputs) to the program outcome

This involves the disaggregation of the program outcome into project outputs to identify and accurately measure the contribution to the program outcome delivered by the agency. In this way, causality between the project outputs (major final outputs) and agency/program outcome is established. This is to determine the extent of contribution

of project outputs (major final outputs) to program outcomes towards the fulfillment of citizens' needs and requirements.

### iii. Process Evaluation

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

A review is conducted on interrelated activities to determine the contribution of each activity within a process to the achievement of a process output. Likewise, input elements such as policies, organizational structure, resources, citizens' needs and requirements to achieve the process outputs are properly identified.

Process evaluation entails the assessment of the following:

- (1) Implementation of processes/interrelated activities as to conformity with established standards and policies. This is to determine whether or not such processes/interrelated activities add value to the inputs for their transformation into outputs.
- (2) Internal controls embedded within processes/ interrelated activities as to their design and implementation.
  - (a) The risk response/treatment designed to contain uncertainty in achieving the process outputs.
  - (b) If performance review is conducted to determine whether actual process outputs meet established objectives and/or whether processes/ interrelated activities are efficient and effective. In the event when processes/interrelated activities and process outputs fall short of the established standards, the same should be reviewed to determine if process improvements are needed.
  - (c) Conduct of compliance review to determine the extent of compliance of processes/interrelated activities with established objectives, policies, methods, procedures, laws and regulations.

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

#### iv. Input Evaluation

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

As provided for in the Administrative Code of 1987, among the inputs, the budget "shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently".<sup>9</sup>

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

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

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

"The top management of the public sector organization should identify current and (where possible) future needs and expectations of its citizens to meet them and achieve citizen satisfaction within the framework of its legal powers and resources available. The requirements of the citizens should be defined and documented as requirements in public sector organization programs; specific objectives and performance indicators should be identified to ensure that these are being met. The needs and expectation of citizens should be reviewed at planned intervals and updated as necessary to ensure citizen satisfaction."<sup>10</sup>

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

#### **4.3.2 The 4 Es (Effective, Efficient, Ethical and Economical) of Operations Audit**

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

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

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

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

In auditing effectiveness, operations audit may, for instance:

- i. Assess whether or not government programs have been formulated and approved with clear and specific objectives;
- ii. Assess whether or not the means provided (legal, budget, etc.) for a new or ongoing government program are adequate, consistent, suitable or relevant;
- iii. Assess whether or not the quality and quantity of the public services meet the citizens' needs or the statutory objectives;
- iv. Assess the effectiveness of government investments and programs and/or their individual components, i.e., ascertain whether or not the goals and objectives are met;

- v. Identify the relative utility of alternative approaches to yield better performance or eliminate factors that inhibit program/project effectiveness.
- b. Efficient means being able to “do things right” given the available resources/inputs and within a specified timeframe. This is about delivering a given quantity and quality of outputs with minimum inputs or maximizing outputs with a given quantity and quality of inputs. It follows the principle of prioritization and leveraging by determining the critical path and assigning available resources. Efficiency means optimum utilization of resources keeping in mind the objectives of the organization.

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

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

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

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

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

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

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

The "*Code of Conduct and Ethical Standards for Public Officials and Employees*" or Republic Act No. 6713 dated 20 February 1989, declares that public officials and employees shall at all times be accountable to the people and shall discharge their duties with utmost responsibility, integrity, competence, and loyalty, act with patriotism and justice, lead modest lives, and uphold public interest over personal interest. Every public official and employee is expected to observe the standards of personal conduct in the discharge and execution of official duties which, among others, include:

- i. *Commitment to public interest.* Public officials and employees shall always uphold public interest over and above their personal interest. All government resources and powers of their respective offices must be employed and used efficiently, effectively, honestly and economically, particularly to avoid wastage in public funds and revenues.
- ii. *Professionalism.* Public officials and employees shall perform and discharge their duties with the highest degree of excellence, professionalism, intelligence and skill. They shall enter public service with utmost devotion and dedication to duty. They shall endeavor to discourage wrong perceptions of their roles as dispensers or peddlers of undue patronage.

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

- d. Economical means being able to perform functions and tasks using the least amount of resources/inputs within a specific timeframe. It implies that the resources/inputs should be acquired at the right cost, at the right time, at the right place, in the right quantity and of the right quality.

Organizations are enjoined to exercise prudence and restraint in the use of their resources by focusing on their core functions and prioritizing their programs/projects to those which would contribute best to the attainment of agency objectives. A compliance audit is made in an input evaluation (economy). Adherence to the Government Procurement Reform Act (RA 9184) and its Revised Implementing Rules and Regulations will also help in ensuring economy.

Audits of economy may provide answers to questions such as:

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

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

## **5. Principles and Standards of Internal Audit**

### **5.1 Conflict of Interest**

The Internal Auditor should avoid conflict of interest at all times, thereby maintaining objectivity and impartiality and upholding public interest. He/she should maintain an impartial, unbiased attitude, characterized by integrity and an objective approach to work and be constantly conscious of and alert to factors which may give rise to conflict of interest.

### **5.2 Objectivity and Impartiality**

Objectivity and impartiality are vital to the effectiveness of the internal audit function. Objectivity means an unbiased mental attitude and professionalism that allows an Internal Auditor to perform engagements with no quality compromises. The principle of objectivity imposes on all Internal Auditors the obligation to be fair and intellectually honest. Objectivity requires the auditors not to subordinate their judgment on audit matters to that of others. In the

execution of an audit, the Internal Auditor must base his/her findings on relevant, reliable, sufficient and timely audit evidence and a set of criteria. Such criteria include statutory policies, rules, regulations and procedures.<sup>11</sup> Impartiality, on the other hand, means that the Internal Auditor is free from bias and conflict of interest. He/she does not use his/her position to acquire benefits or advantage for his/herself or his/her related interests. In case of an actual or potential conflict of interest, he/she practices full disclosure and inhibits his/herself from participating in the decision making process.

To be objective and impartial, the Internal Auditor shall at all times uphold public interest over and above personal interest. He/she should have no direct authority or responsibility for the activities he/she reviews and no responsibility for developing or implementing processes or systems. He/she should not engage in regular functions or activities which are the primary duties of the unit of the agency, except as noted in the NGICS. He/she should not have a vested interest in the activity being audited. Internal auditors are not allowed to make the rules – they shall audit against performance standards that are already in place and accepted by the agency. If they develop the rules, they cannot impartially evaluate the effectiveness and application of these rules.

### **5.3 Professional Competence**

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

### **5.4 Authority and Confidentiality**

Based on the audit objectives and subject to compliance with the internal security policies of public service organizations,<sup>12</sup> the head of agency should authorize Internal Auditors to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documents and information that the head of internal audit (HoIA) considers necessary in undertaking internal audit activities.

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

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

The HoIA 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.

## 5.5 Code of Conduct and Ethics

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

## 5.6 Hierarchy of Applicable Internal Auditing Standards and Practice

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

- a. Constitutional provisions;
- b. Laws, rules, and regulations on public governance and accountability, and applicable jurisprudence;
- c. Government policies, standards, guidelines, and regulatory issuances;

### Box 2 – Rule X: Grounds for Administrative Disciplinary Action

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

- (a) Directly or indirectly having financial and material interest in any transaction requiring the approval of his office. Financial and material interest is defined as a pecuniary or proprietary interest by which a person will gain or lose something;
- (b) Owning, controlling, managing or accepting employment as officer, employee, consultant, counsel, broker, agent, trustee, or nominee in any private enterprise regulated, supervised or licensed by his office, unless expressly allowed by law;
- (c) Engaging in the private practice of his profession unless authorized by the Constitution, law or regulation, provided that such practice will not conflict or tend to conflict with his official functions;
- (d) Recommending any person to any position in a private enterprise which has a regular or pending official transaction with his office, unless such recommendation or referral is mandated by (1) law, or (2) international agreements, commitment and obligation, or as part of the functions of his office;

- d. Standards and other issuances of intergovernmental organizations such as the United Nations' specialized committees and agencies; and
- e. Relevant or applicable standards and best practices in governance, accountability, and operations, both local and international, such as the International Organization for Standardization (ISO) and other officially recognized organizations and associations.

**5.7 IAS Functions vis-à-vis Activities and Operations of Other Units**

The IAS should not participate in the activities and operations of another unit. The IAS/IAU is not responsible for or required to participate in procedures which are essentially part of regular operating activities or the primary responsibility of another unit in the organization.<sup>13</sup> These include management and process improvement of operating and support services systems such as quality management, human resource management, and financial management, which are the responsibilities of the operating and support services units concerned. Refer to Table 2 for the functions related to Internal Control among the Operating Units, the Support Services Units and the IAS.

**Continuation of Box 2**

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

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

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

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

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

In particular, the IAS/IAU should not undertake agency and sectoral risk assessment. This responsibility rests with top management and the functional and operating units concerned.

Operational risk assessment is best undertaken by a person or a unit responsible for managing those risks.

Moreover, except for purposes of planning and prioritizing potential audit areas, the IAS/IAU should not conduct control risk assessment. Control risk assessment is primarily performed by top management as part of its regular functions. Heads of organizations or units from the Department Secretary down to the regional and local government heads who exercise supervision and control or administrative supervision at their levels, i.e., sector, organization/agency, services, bureaus, regions, as well as local government units, must conduct an assessment of their own control risks.

Control risks include operational risks. In bureaus, regional offices and local government units, the bureau director, regional director, governor and mayor performing management control functions shall conduct both operations and control risk assessments.

#### **Continuation of Box 2**

This prohibition shall not include:

- (1) Unsolicited gift of nominal or insignificant value not given in anticipation of, or in exchange for, a favor from a public official or employee or given after the transaction is completed, or service is rendered. As to what is a gift of nominal value will depend on the circumstances of each case taking into account the salary of the official or employee, the frequency or infrequency of the giving, the expectation of benefits, and other similar factors.
- (2) A gift from a member of his family or relative as defined in the Code on the occasion of a family celebration, and without any expectation of pecuniary gain or benefit.
- (3) Nominal donations from persons with no regular, pending, or expected transactions with the department, office or agency with which the official or employee is connected, and without any expectation of pecuniary gain or benefit.
- (4) Donations coming from private organizations, whether local or foreign, which are considered and accepted as humanitarian and altruistic in purpose and mission.
- (5) Donations coming from government to government entities.

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

- (i) The acceptance and retention by a public official or employee of a gift of nominal value tendered and received as a souvenir or mark of courtesy;
- (ii) The acceptance and retention by a public official or employee of a gift in the nature of a scholarship or fellowship grant or medical treatment; or
- (iii) The acceptance by a public official or employee of travel grant or expenses for travel taking place entirely outside the Philippines (such as allowances, transportation, food and lodging) of more than nominal value, if such acceptance is appropriate or consistent with the interests of the Philippines, and permitted by the head of office, branch, or agency to which he belongs.

## 5.8 Internal Audit Not an Assurance and Consulting Activity

Internal audit in government is not an “assurance” and “consulting” activity. The IAS/IAU is an office/unit within a government department or certain agencies as authorized by law to have such. It assists the Department Secretary or the Governing Body and performs functions delegated by the head of agency. Its auditees are not its customers; neither is the Department Secretary nor the Governing Body its client. The IAS/IAU is therefore subordinate to the head of the organization within which it has been established.

### 5.8.1 Consulting Activity is Non-government Service

Consultancy services are not considered government service since no employer-employee relationship exists between the consultant and the government.<sup>14</sup> They are not covered by Civil Service Law, Rules and Regulations. They however are covered by COA rules.<sup>15</sup>

### 5.8.2 Consulting Activity is Non-audit Service

Non-audit services are those tasks like consulting services which are requested by management for the IAS/IAU to perform that directly support the agency’s operations.<sup>16</sup>

### Continuation of Box 2

Nothing in the Code shall be construed to restrict or prohibit any educational, scientific or cultural exchange programs subject to national security requirements.

- (g) Obtaining or using any statement filed under the Code for any purpose contrary to morals or public policy or any commercial purpose other than by news and communications media for dissemination to the general public;
- (h) Unfair discrimination in rendering public service due to party affiliation or preference;
- (i) Disloyalty to the Republic of the Philippines and to the Filipino people;
- (j) Failure to act promptly on letters and request within fifteen (15) days from receipt, except as otherwise provided in these Rules;
- (k) Failure to process documents and complete action on documents and papers within a reasonable time from preparation thereof, except as otherwise provided in these Rules;
- (l) Failure to attend to anyone who wants to avail himself of the services of the office, or to act promptly and expeditiously on public personal transactions;
- (m) Failure to file sworn statements of assets, liabilities and net worth and disclosure of business interests and financial connections; and
- (n) Failure to resign from his position in the private business enterprise within thirty (30) days from assumption of public office when conflict of interest arises, and/or failure to divest himself of his shareholdings or interests in private business enterprise within sixty (60) days from such assumption of public office when conflict of interest arises; Provided however, that for those who are already in the service and a conflict of interest arises, the official or employee must either resign or divest himself of said interests within the periods here-in above provided, reckoned from the date when the conflict of interest had arisen.

Section 5 (f), RA 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."

Engagement in non-audit services is therefore not encouraged as this may put the IAS/IAU at risk of conflict of interest or result in prejudice in the conduct of internal audit.<sup>17</sup>

### 5.8.3 Internal Audit in Government Not an Assurance Service

Under the Philippine setting, the IAS/IAU is not involved in assurance activity. The internal audit function or appraisal activity as conducted by the Internal Audit Office or Unit constitutes a separate component of internal control, the objective of which is to determine whether other internal controls are well designed and properly implemented.<sup>18</sup> Said appraisal by the IAS/IAU does not include an assurance that the agency's internal controls and operations are effective, efficient, ethical and economical.

Section 1, Chapter 1, Subtitle B, Book V of the Administrative Code of 1987 provides the policy on fiscal responsibility that "*all resources of the government shall be managed, expended or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy and effectiveness in the operations of the government.*" Said law further provides that "*the responsibility to take care that such policy is faithfully adhered rests directly with the chief or head of the government agency concerned.*"

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

Corollary thereto, Section 74, Volume I of the Manual on the New Government Accounting System (NGAS), requires the agency to submit a Statement of Management's Responsibility for Financial Statements which shall serve as a covering letter in transmitting the agency's financial statements to COA, DBM, other oversight agencies and other parties.<sup>19</sup> The statement has to be signed by the Director of

Finance and Management Office or Comptrollership Office, or the Chief of Office who has direct supervision and control over the agency's accounting and financial transactions, and the Head of Agency or his/her authorized representative. In said statement, those signatories have to certify that *“management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.”*

The IAS/IAU does not exercise direct supervision and control and is not responsible for procedures which are essentially a part of regular operating activities or in operations which are the primary responsibility of another unit in the agency/organization.<sup>20</sup> Thus, it is not the function of the IAS/IAU to ensure and even assure that the agency's internal controls and operations are effective, efficient, ethical and economical.

#### **5.8.4 IAS/IAU Does Not Undertake Process or Systems Improvement**

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

- a. Corrective measures refer to an organization's actions to eliminate the causes of noncompliance to policies, rules and regulations in order to prevent recurrence. These actions shall be appropriate to the effects of the nonconformities encountered.
- b. Preventive measures refer to determined actions of the organization to eliminate the causes of potential noncompliance in order to prevent their occurrence. These actions shall be appropriate to the effects of the potential problems.
- c. Top management refers to the DS/HoA and GB/Audit Committee.

**Table 2 - Functions Related to Internal Control Among the Operating Units, the Support Services Units, and the Internal Audit Service**

Operating Units, Bureaus, Regional and Field Offices	Support Services Units such as Planning, Administrative, Financial and Management Services	Internal Audit Service/Unit
<b>Nature and Purpose of Review</b>		
1) Performance review of operations, processes and activities; and  2) Compliance review of operations, processes and activities.	1) Review whether monitoring is applied at all levels within and across the agency and sector.	1) Appraise whether internal control components are well-designed and properly implemented; and  2) Evaluate whether internal control objectives are achieved.
<b>Scope, Coverage and Frequency</b>		
1) Performance is reviewed on a regular basis. If actual accomplishments do not meet established objectives or standards, the processes and activities established to achieve the objectives should be reviewed to determine if improvements are needed; and  2) Operations, processes and activities are periodically reviewed to ensure that they are in compliance with current regulations, policies and other requirements.	1) Planning, administrative, financial, management, and other support systems and processes;  2) Existing methods, measures, and other support systems and processes;  3) On-going monitoring and on a real-time basis; and  4) Ingrained in the operations.	1) Compliance, management and operations audits;  2) Evaluate the control effectiveness of operating systems and support systems for a specific period or date;  3) Evaluate whether operations are conducted effectively, efficiently, ethically, and economically; and  4) Takes place “after the fact” and covers a complete cycle of operations.
<b>Actions To Be Taken</b>		
1) Institute process improvements to meet objectives or standards and achieve efficiency and effectiveness in operations; and  2) Institute process improvements to achieve compliance with regulations, policies and other requirements in operations.	1) Develop new or improved methods, measures and other support systems and processes; and  2) Conduct trainings and provide staff supervision on the application of new or improved methods, measures and other support systems and processes.	1) Advise/report to the Department Secretary or the Audit Committee of the Governing Board on all matters relating to management control and operations audit; and  2) Recommend realistic courses of action.

## 5.9 Internal Audit Studies, Services and Other Seminars by Private Persons or Firms

The Administrative Code of 1987 specifies that no government agency shall enter into any contract with any private person or firm for services to undertake studies and services related to government auditing, including services to conduct, for a fee, seminars or workshops for government personnel on these topics, unless:

- a. The proposed contract is first submitted to the Commission on Audit to enable it to determine if it has the resources to undertake such studies or services; and
- b. The Commission shall have certified in writing its prior decision not to undertake such contract.

The Commission may, however, engage the services of experts from the public or private sectors in the conduct of these studies subject to the following provision:

“It is hereby reiterated that no government agency shall enter into a contract with any private person or firm to undertake studies and/or render services pertaining to government auditing, including the internal audit services, much less disburse public funds pertaining thereto, unless the Commission on Audit shall have certified in writing its prior decision not to undertake such contract. Payment for contracts entered into without the required certification shall be disallowed in audit.”<sup>21</sup> [underscoring supplied]

COA Memorandum No. 2009-011 dated 26 March 2009 requires Supervising Auditors and Audit Team Leaders of Departments/Agencies/GOCCs/GFIs, who have entered into consultancy contracts with private contractors under a grant or loan agreement with foreign funding institutions, for the establishment/strengthening of their IAS/IAU pursuant to DBM Circular Letters No. 2008-5 and 2008-8, to submit to their respective Cluster Directors or Regional Directors said consultancy contracts. This is for purposes of evaluating their appropriateness and monitoring the extent of the implementation of said DBM Circular Letters.

Aside from the certification requirements from COA, contracts with private institutions for consulting services must comply with the governing principles, rules and regulations for government procurement.<sup>22</sup> With reference to RA 9184 or the Government Procurement Reform Act, consulting services include, among others, advisory and review services, management and related services, and other technical services or special studies.

## **CHAPTER II**

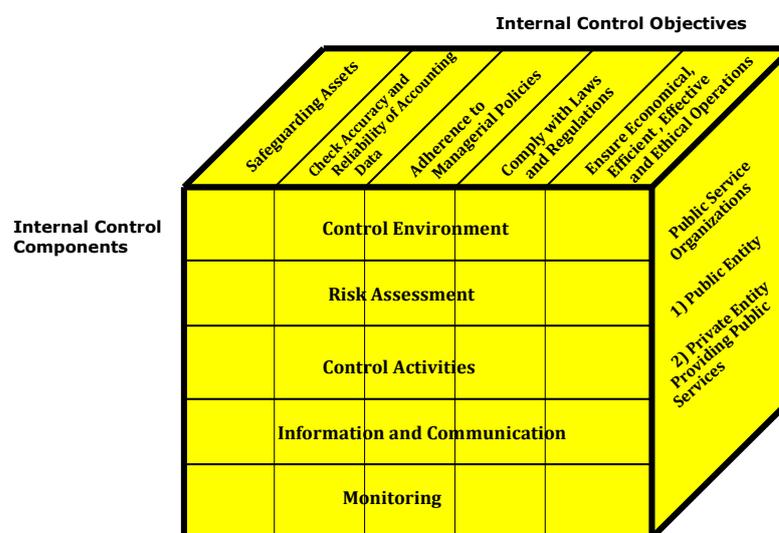
### **INTERNAL CONTROL SYSTEM AND INSTITUTIONAL ARRANGEMENTS**

## 1. Internal Control Framework

The most basic competence that an Internal Auditor must possess is the knowledge of internal controls. Pursuant to DBM CL 2008-5, one of the functions of the IAS/IAU in relation to internal control is to conduct an appraisal of the organization's internal control system to determine whether internal controls are well designed and properly operated.

It is reiterated here that the Internal Auditor is not responsible for establishing internal controls. As mentioned earlier, it is the direct responsibility of the agency head to install, implement and monitor a sound system of internal control.<sup>23</sup>

Figure 5 shows the Internal Control Framework consisting of the internal control objectives and the internal control components in the context of the public service sector.



**Figure 5 - Internal Control Framework**

### 1.1 Objectives of Internal Control

In fulfilling its mission and mandates, an agency must achieve as well the separate but interrelated general objectives of internal control, namely to:

- a. Safeguard assets;
- b. Check the accuracy and reliability of accounting data;
- c. Adhere to managerial policies;
- d. Comply with laws and regulations; and
- e. Ensure effective, efficient, ethical, and economical operations.<sup>24</sup>

## **1.2 Components of Internal Control**

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

Internal control has five interrelated components:

- a. Control environment;
- b. Risk assessment;
- c. Control activities;
- d. Information and communication; and
- e. Monitoring.<sup>25</sup>

## **1.3 Control Environment**

Control environment is the general framework serving as basis for the other four components of internal control. It is the scope and coverage of an organization's internal control system which impacts on its structural and operational framework.<sup>26</sup>

This component integrates all the other four internal control components that influence the direction and quality of an agency's strategies and outcomes. It also includes the concept of "Tone from the Top", emphasizing the important role that top management plays in instilling control consciousness.

The control features are built into, not on, and made as integral part of the plan of organization and all the coordinated methods and measures implemented by top management and personnel to achieve the control objectives.

### **1.3.1. Plan of Organization**

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

The typical set-up of an agency, both in the operating and support services units, allows specialization of functions for them to operate efficiently. Operating units are structured to perform the main tasks or mandates of the agency. Support services units provide planning, financial and management, administrative and other support services

to operating units to ensure the efficient functioning of the entire organization.

### **1.3.2. Coordinated Methods and Measures**

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

### **1.3.3. Integral Process**

Integral process means that internal controls are integrated in the organizational and decision-making processes to guide and regulate its operations to achieve expected results and contribute to sectoral goals and objectives.

The control environment includes the informal, and often intangible, soft controls, such as ethics, integrity, management practices, discipline and commitment to competence. It also includes laws, rules, regulations and managerial policies currently in place to support good governance and accountability.

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

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

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

As to constituency, the publics to serve of the DepEd in the education sector are classified into:

- a. Internal public - such as teaching and non-teaching personnel; and
- b. External public – students as the object and subject of instructions.

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

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

Administrative governance refers to institutions, policies, mechanisms and processes that ensure the effective, efficient, accountable and transparent implementation of political and economic governance. It involves the system of networking within and outside government to attain better coordination or convergence of the execution of responsibilities.<sup>27</sup>

In order to attain better coordination or convergence of efforts in the execution of their responsibilities, all agencies must develop a comprehensive approach in fulfilling their mandates and missions, including the necessary networking within and outside the government.

## **1.4 Risk Assessment**

Risk assessment is the overall process of identifying, analyzing and evaluating relevant risks to the achievement of the control objectives and determining the appropriate response. In other words, it is the identification, analysis and evaluation of what could go wrong and how to address it.

### **1.4.1. Risk Identification**

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

As specified in ISO 31010, *“The risk identification process includes identifying the causes and sources of the risk (hazard in the context of physical harm), events, situations or circumstances which could have a material impact upon objectives and the nature of that impact.”*<sup>28</sup>

### 1.4.2. Risk Analysis

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

As stated in ISO 31010, “*Risk analysis consists of determining the consequences and their probabilities for identified risk events, taking into account the presence (or not) and the effectiveness of any existing controls. The consequences and their probabilities are then combined to determine a level of risk.*”<sup>29</sup>

### 1.4.3. Risk Evaluation

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

As defined in ISO 31010, “*Risk evaluation involves comparing estimated levels of risk with risk criteria defined when the context was established, in order to determine the significance of the level and type of risk.*”<sup>30</sup>

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

- a. Communication and consultation;
- b. Establishing the context;
- c. Risk assessment (comprising risk identification, risk analysis and risk evaluation);
- d. Risk treatment; and
- e. Monitoring and review.

It should be noted that, “*Risk assessment is not a stand-alone activity and should be fully integrated into the other components in the risk management process.*”<sup>31</sup> As with all the other elements in the risk management process, risk assessment should not be taken in isolation. Indeed, it should be seen as an integral part of organizational processes and decision-making.

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

As a component of internal control, risk assessment plays a key role in the selection of the appropriate control activities to undertake.<sup>32</sup>

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

Generally, the purpose of risk assessment is to provide evidence-based information and analysis to make informed decisions on how to treat particular risks and how to select between options.<sup>33</sup>

*“Risk assessment provides decision-makers and responsible parties with an improved understanding of risks that could affect achievement of objectives, and the adequacy and effectiveness of controls already in place. This provides a basis for decisions about the most appropriate approach to be used to treat the risks. The output of risk assessment is an input to the decision-making processes of the organization.”<sup>34</sup>*

Risk assessment provides an understanding of risks, their causes, consequences and their probabilities.

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

#### **a. Assessment of Operations Risk**

Everyone in the agency plays a role in ensuring successful operations risk assessment. The units responsible for addressing risks must make the assessment of their own risks. Operations risks are the responsibility of the operating units, thus, assessment of risks at the operational level must be done by the operating units themselves. In like manner, planning, administrative, and financial risks are the responsibility of the functional units concerned.

Neither the Internal Auditors nor anyone else not involved in a particular operation can perform operational risk assessment. Only the officers and employees responsible for achieving the agency’s functional objectives can do so. Operational risk assessment is a responsibility of the functional and operating units of an agency. The risk assessment process is an opportunity for said units to look at their operations, determine the areas of significant risk, and evaluate what actions can be taken to address the risk and enhance the effectiveness and efficiency of operations.

The IAS/IAU should not undertake agency and sectoral operational risk assessment. The determination on whether or not the risk management system would address the risk in operations is the responsibility of the operating and functional units concerned, i.e., the bureaus and offices, including the regional and field units and the planning, administrative, financial and management services concerned.

#### **b. Assessment of Control Risk**

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

Top management, as mentioned, refers to the Department Secretary/Head of Agency and the Governing Board/Audit Committee. In the bureaus, regional offices and local government units, the bureau director, regional director, governor and mayor performing management control functions shall conduct both operations and control risk assessments.

Except for planning and prioritizing audit areas, the Internal Auditor should not conduct control risk assessment. Heads of agencies or units from the Department Secretary down to the regional and local government heads who exercise supervision and control over the sector, organization/ agency, service, bureau, region, as well as the local government units, must make an assessment of their own control risks. They must conduct identification, analysis, and evaluation of those risks which may undermine the achievement of the control objectives, e.g., risks that their policies and guidelines may not be achieved.

#### **c. Assessment of Internal Audit Risk**

In line with the auditorial functions of the IAS/IAU, Internal Auditors shall conduct an assessment of their audit risk (not risk on management) vis-à-vis their functional objectives. A more detailed discussion on the assessment of internal audit risk is found in a separate section of this manual.

## 1.5 Control Activities

Control activities are the policies and procedures established to address risks and achieve the agency's mandate and objectives. Control is a measure that is modifying a risk. Control includes any process, policy, device, practice, or any other action which is intended to modify risk.<sup>35</sup>

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

Control activities must be appropriate, cost effective, comprehensive, reasonable and must directly relate to the control objectives and mandate of the agency. Appropriate means that the control activity is in the right place and is commensurate to the risk response, operating performance and compliance improvements. Cost effective means that the cost of implementing the control activity should not outweigh its benefits. Comprehensive and reasonable mean that the control activity directly relates to the control objectives. The control activities should also be doable and should function consistently with the design or plan.

### 1.5.1 Risk Response

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

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

- a. For some risks, the best response is to transfer them. This is done by removing the impact or the consequences of the risk event. An example of a risk transfer is through insurance coverage, that is, by paying a third party to take the risk in another way.
- b. Tolerating a risk is done when the ability to do something about it may be limited, or the cost of taking an action is disproportionate to the potential benefits that could be derived.
- c. Terminating the risk is usually done by eliminating the cause since some risks could only be addressed or contained to acceptable levels by terminating the activity.

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

Under ISO 31000 and ISO 31010, risk treatment options are not necessarily mutually exclusive or appropriate in all circumstances. The options can include the following:

- a. Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk;
- b. Taking or increasing the risk in order to pursue an opportunity;
- c. Removing the risk source;
- d. Changing the likelihood;
- e. Changing the consequences;
- f. Sharing the risk with another party or parties (including contracts and risk financing); and
- g. Retaining the risk by informed decision.<sup>36</sup>

### **1.5.2 Performance Review and Improvement of Operations, Processes and Activities**

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

### **1.5.3 Compliance Review and Improvement of Operations, Processes and Activities**

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

## **1.6 Information and Communication**

Information and communication are vital in attaining the five control objectives. They go hand in hand and cut across all other internal control components. Information and communication include the records system which will ensure the transfer of required information to employees and top management, to the public it serves, to other public service organizations, and to its network of organizations and sectors that need the information.

Information must be shared in a determined format and communicated in a given time period which enables the parties concerned to fulfill internal control objectives and other responsibilities.

### 1.6.1 Information

Information, in the context of internal control, refers to the act of receiving or giving data and information needed by public officials and employees to do their jobs and understanding their roles and responsibilities. Information includes both internally generated data (operational, management and compliance-related information) and information about external events, activities and conditions necessary for informed decision-making.

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

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

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

“Section 2. x x x. They shall establish information systems that will inform the public of the following: (a) policies, rules, and procedures; (b) work programs, projects, and performance targets; (c) performance reports; and (d) all other documents as may hereafter be classified as public information.

x x x.”<sup>37</sup>

## 1.6.2 Communication

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

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

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

Top management is responsible for facilitating communications and information flow within the agency, with the public it serves, other public service sector organizations, including its network of organizations and sectors. The Department Secretary/Governing Board must establish a feed forward and feedback mechanism to ensure that relevant information coming from the top management is communicated and clearly understood throughout the agency and to all persons concerned and vice versa.

“Section 5. Every department, office and agency shall consult the public they serve for the purpose of gathering feedback and suggestions on the efficiency, effectiveness and economy of services. They shall establish mechanisms to ensure the conduct of public consultations and hearings.”<sup>38</sup>

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

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

### 1.6.3 Accountability for Transparency

Public service sector organizations are accountable for transparency.

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

- a. RA No. 9485 (Anti-Red Tape Act of 2007) involving the implementation of the:
  - i. Citizen's Charter;
  - ii. Public assistance desk; and
  - iii. Report card survey.
  
- b. RA No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees) and RA No. 3109 (Anti-Graft and Corrupt Practices Act) requiring the:
  - i. Submission of Statements of Assets, Liabilities and Net Worth, Disclosure of Business Interests and Financial Connections, and Disclosure of Relation in Government Service of all public officials and employees;
  - ii. Establishment of Review and Compliance procedures for the review of statements to determine whether said statements have been properly accomplished; and
  - iii. Establishment of a mechanism to make documents available to the public for inspection within reasonable working hours.
  
- c. The Administrative Code of 1987 and RA 6713 require the heads of departments, bureaus, offices and agencies of government to submit performance reports to document accomplishments for a particular period.

The concept of accountability is intrinsic to the governing process. Accountability for transparency is not achieved by providing relevant information alone. The public is entitled to know whether or not government agencies are properly handling funds and complying with laws and regulations. It needs to know whether or not government organizations, programs, and services are achieving the purposes for which they were authorized and funded.

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

## **1.7 Monitoring**

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

Monitoring considers the collective effectiveness of the five components of internal control. It is aimed at ensuring that the other components of internal control continue to function over time in relation to the achievement of 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 continue to be applied at all levels and across the agency and sector, and are able to achieve the control objectives. There are three (3) ways through which monitoring is accomplished:

- a. Ongoing monitoring which is ingrained in the daily operations and management of the organization;
- b. Periodic separate evaluation of the controls' effectiveness; and
- c. Combination of ongoing monitoring and separate evaluation.

### **1.7.1 Ongoing Monitoring**

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

Ongoing monitoring of internal controls is both a function of all units and of the top management of an agency. The bureaus and offices and the support services (i.e., planning, financial and administrative units) monitor the performance of regional and field units within their functional concerns. Top management shall ensure proper check and balance in the monitoring by operating units and support services.

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

## **1.7.2 Separate Evaluation**

Specific separate evaluations cover the periodic evaluation of the effectiveness of the internal control system to ensure that internal controls achieve the desired results through predefined methods and procedures. Separate evaluations are a way to take a fresh look at the internal controls by focusing directly on the controls' effectiveness at a specific time or date.

In the agency structure, the IAS/IAU is mandated to conduct a separate evaluation or appraisal of the internal control system to determine whether controls are well designed and properly implemented. In the conduct of separate evaluation, the IAS/IAU shall determine the extent of compliance and assess the adequacy of controls embedded in operating and support systems/units, as well as evaluate the performance of programs, projects and activities of the agency.

Internal audit is a separate evaluation and review function or activity within the overall internal control framework of each public service sector organization. To distinguish, operational and management monitoring and review include management review, monitoring and evaluation, operating performance and compliance reviews which are part of the control activities. These are day-to-day responsibilities of operating and support units, distinct from the internal audit function.

The scope and frequency of separate evaluation by the internal audit unit should depend primarily on the results of the baseline assessment of the internal control system. The baseline assessment should focus on the five components of internal control, the significance and materiality and control risk of key processes and systems to achieve the five control objectives, and the assessment of the internal audit risks.

## **1.7.3 Combination of Ongoing Monitoring and Separate Evaluation**

In the assessment of the quality of the internal control systems' performance, a combination of ongoing monitoring and separate evaluation will help ensure that internal control maintains its effectiveness overtime.<sup>39</sup>

### **a. Conduct of Baseline Assessment of ICS**

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

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

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

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

The baseline assessment should cover the five components of the internal control system which include the assessment of the control environment, the adequacy of risk assessment, control activities, information and communication, and monitoring. All five components must be present and functioning to conclude that internal control over operations is initially adequate. (Refer to PGIAM Part II – Practices on the tools, techniques and approaches that will facilitate the conduct of the baseline assessment of ICS.)

#### **b. Control Significance and Materiality and Control Risk of Key Processes**

After conducting a baseline assessment of the internal control system in accordance with the standards, the IAS/IAU should also consider the control materiality and significance and control risk of the key processes of the operating and support systems to achieve the control objectives.

Significance is considered in terms of quality. A process is significant if it has an impact on the control objectives.

Materiality is quantitative and is often considered in terms of value or amount.

For purposes of planning and prioritizing potential audit areas, the IAS/IAU will conduct risk assessment on the identified material and significant controls where there may be high risk of impact on key processes of operating and support systems.

### **c. Assessment of Internal Audit Risk**

After the baseline assessment of the internal control system and determination of the control significance and materiality and control risk of the key processes, the Internal Auditor should also assess those risks or factors which may affect the conduct of the audit and may have an impact on the planned results without neglect or failure and in spite of the exercise of due diligence, such as sudden change in political leadership/administration, replacement of principal, natural calamities, judicial findings and decisions which may affect audit objectives.

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

#### **1.7.4 Distinction Between Monitoring, Performance Review and Compliance Review**

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

- a. Performance review of the operations is done by all organizational units as part of the internal control activity to determine whether or not their accomplishments meet the established objectives and standards and to implement improvements, when necessary.
- b. To ensure that the operations are conducted in compliance with ethical and quality procedures, applicable laws, regulations and managerial policies, all units also perform compliance review.
- c. The IA does not conduct performance and compliance review. The operating and support units do. The IAS/IAU conducts management and compliance audits.

## **2. Administrative Relationships**

The agency head or executive/management committee disseminates managerial policies through the issuance of guidelines and standards. They are given to provide guidance to personnel in the proper execution of their individual and unit tasks that collectively contribute to the attainment of the agency goals.

To operationalize this particular objective, the Administrative Code of 1987 distinguishes the following administrative relationships pertaining to the manner by which agency activities may be controlled, supervised and coordinated.<sup>40</sup>

## **2.1 Supervision and Control**

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

## **2.2 Administrative Supervision**

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

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

## **2.3 Attachment**

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

“(3) Attachment. – (a) x x x. The coordination may be accomplished by having the department represented in the governing board of the attached agency or corporation, either as chairman or as a member, with or without voting rights, if this is permitted by the charter; having the attached corporation or agency comply with a system of periodic reporting which shall reflect the progress of programs and projects and having the department or its equivalent provide general policies through its representative in the board, which shall serve as the framework for the internal policies of the attached corporation or agency; x x x.”<sup>41</sup>

# **CHAPTER III**

## **ORGANIZING THE INTERNAL AUDIT**

## 1. Establishment of Internal Audit Service/Unit

Each Department, Governing Body, Commission or Council of the Executive Branch is authorized to establish its own IAS/IAU to cover audit areas in the Office of the Department Secretary, bureaus, offices, agencies, including regional/field offices, regulatory agencies and other agencies either under the supervision and control or under the administrative supervision of a department, consistent with the foregoing provisions of the Administrative Code of 1987 on administrative relationships.<sup>42</sup>

## 2. Reporting Lines

The IAS/IAU is an integral part of the agency which provides assistance to the DS/HoA or GB/AuditCom and performs functions delegated by the DS/HoA or GB/AuditCom.<sup>43</sup> As such, the IAS/IAU shall report to the following:

- a. In departments, the IAS/IAU shall report directly to the Department Secretary.
- b. In the case of regular *attached agencies*, the IAS/IAU shall report to the HoA.<sup>44</sup>
- c. For *multi-headed agencies*, the IAS/IAU may report directly to the Governing Body. The GB may opt to organize an Audit Committee from among its members to which the IAS/IAU shall report directly.<sup>45</sup>
- d. In the case of *GOCCs/GFIs*, the IAS/IAU shall report to the Audit Committee of the Governing Board of the corporation.

## 3. Roles and Responsibilities

Pursuant to Section 124 of the Government Auditing Code of the Philippines and the Administrative Code of 1987, the DS/HoA or the GB/AuditCom has the direct responsibility to install, implement and monitor a sound system of internal control. However, the DS/HoA/GB/AuditCom may task the IAS/IAU to undertake the appraisal of the internal control within the department, agency, GOCC/GFI or SUC.

The Head of Internal Audit (HoIA) is accountable to the DS/HoA or the GB/AuditCom, as the case may be, for the efficient and effective operation of the internal audit function. The HoIA has direct access to the DS/HoA/Chair and other members of the Board, and the Chair and other members of the Audit Committee. This means that the IAS/IAU functionally/operationally reports to the DS/HoA or GB/AuditCom, as often as necessary. They meet regularly to provide the DS/HoA or the Chair/members of the GB/AuditCom the opportunity to seek the comments of the HoIA on management control and audit function, quality of the audit effort and internal controls, and other areas of concern, as deemed appropriate.

As an output of its internal audit functions, the IAS/IAU may provide inputs to the DS/HoA or GB/AuditCom in:

- a. Maintaining accountability for results, norms of conduct and transparency;
- b. Promoting self-assessment and adherence to professional and ethical standards;
- c. Ensuring that funds are utilized in order to attain objectives;
- d. Enhancing management controls to ensure that control objectives are achieved; and
- e. Ensuring that the 4Es of operations are achieved.

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

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

#### **4. Relationships with Principals and Key Stakeholders**

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

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

Stakeholder refers to a person or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity.

Key stakeholders may either be internal or external.

- a. Internal stakeholders include those within the sector (e.g., Civil Service Commission, Office of the Ombudsman, and other review and oversight bodies). These are the individuals and groups that can affect and be affected by the agency's operation within a particular public service sector. In terms of relationship, the IAS/IAU basically coordinates with internal stakeholders.
- b. External stakeholders, on the other hand, pertain to those outside the sector. These are the persons, organizations and other service groups that are outside a specific public service sector but may have an interest and can influence the achievement of the sectoral goals of the agency concerned. The IAS/IAU only collaborates with external stakeholders.

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

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

#### **4.1 Internal Audit Service/Internal Audit Unit and the Department Secretary**

As mentioned in the previous section, the IAS/IAU must report directly to the DS/HoA.<sup>46</sup> It is reiterated that the Department Secretary or the agency head is not the client of the IAS/IAU. Instead, a superior-subordinate relationship exists between the DS/HoA and the Internal Auditors. This means that the HoIA is accountable to the DS/HoA. This relationship should be used as an opportunity for internal audit to gain insights into new and emerging issues and concerns facing the organization, and to discuss the role that the DS/HoA requires the IAS/IAU to fulfil, in line with the latter's mandated function.

#### **4.2 Internal Audit Service/Internal Audit Unit and the Governing Body**

In GOCCs and GFIs, the IAS/IAU reports to the Governing Board/Commission/Council on the effectiveness of the internal audit function. The Governing Body shall periodically meet with the HoIA to discuss reports of evaluation. As a minimum, it is important that the HoIA has direct access to the Chair of the GB as required.

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

### **4.3 Internal Audit Service/Internal Audit Unit and the Audit Committee in GOCCs/GFIs**

The relationship between the IAS/IAU and the Audit Committee is also crucial and is likely to have a number of dimensions. These involve the following:

- a. The IAS/IAU being functionally responsible to the Audit Committee for the implementation of the internal audit program which places the Audit Committee in the role of being the IAS' primary principal and requires the latter to have a close professional relationship with the Audit Committee;
- b. The IAS/IAU being a key source of information on management controls and the performance of the organization through its reports and general interaction with the Audit Committee;
- c. In many organizations, the Audit Committee being responsible for either reviewing and approving internal audit plans, or recommending their approval to the GB; and
- d. The Audit Committee being involved in assessing the performance of the IAS/IAU.

### **4.4 Internal Audit Service/Internal Audit Unit and Management**

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

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

### **4.5 Internal Audit Service/Internal Audit Unit and the Commission on Audit**

The COA has the Constitutional authority and duty to examine, audit and settle accounts in accordance with law and regulations.<sup>47</sup> The Constitution, as well as the Administrative Code of 1987, also provides that, "where the internal control system of the audited agencies is inadequate, the COA may adopt such measures, including temporary or special pre-audit, as necessary and appropriate to correct the deficiencies". This authority of the COA is distinguished from the functions of the IAS/IAU.

The IAS/IAU is an integral part of the department or agency and assists in the management and effective discharge of the responsibilities of the Office without intruding into the authority and mandate of the COA granted under the Constitution<sup>48</sup> or encroaching on or be adversarial with those of the auditors of the COA.<sup>49</sup> However, there must be constructive cooperation between the IAS/IAU and the COA.

The coverage of internal audit provided in the Strategic and Annual Internal Audit Work Plans, including the appropriate amendments, are subject to the authority of the DS/HoA or the GB/AuditCom.

Access to internal audit plans, working papers and reports is subject to the authority of the DS/HoA or GB/AuditCom and/or in accordance with Department-specific policies on security of information and disclosure.

#### **4.6 Internal Audit Service/Internal Audit Unit and Oversight, Regulatory and Other External Bodies**

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

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

#### **4.7 Internal Audit Service/Internal Audit Unit and Professional Bodies**

It is generally expected that Internal Auditors may be members of professional bodies.

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

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

## 5. Organizational Structure

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

- a. An appropriate organizational structure;
- b. Access to sufficient human resources with the necessary skills and experience; and
- c. An adequate budget.

The quantum and mix of resources required is influenced by a number of factors.

### Box 3 – Issuances on the Organization and Staffing of the IAS/IAU

- DBM Budget Circular No. 2004-4 dated 22 March 2004 entitled, “Guidelines in the Organization and Staffing of Internal Auditing Units”
- DBM Circular Letter No. 2008-5 dated 14 April 2008 entitled, “Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/Agencies/GOCCs/GFIs Concerned”
- DBM Circular Letter No. 2008-8 dated 23 October 2008 entitled, “National Guidelines on Internal Control Systems”

It is important that the IAS/IAU be positioned well within the organization. The location of the IAS/IAU in the organizational structure of the Office of the Secretary and in the department proper is provided in Figure 6 and Figure 7.<sup>50</sup>

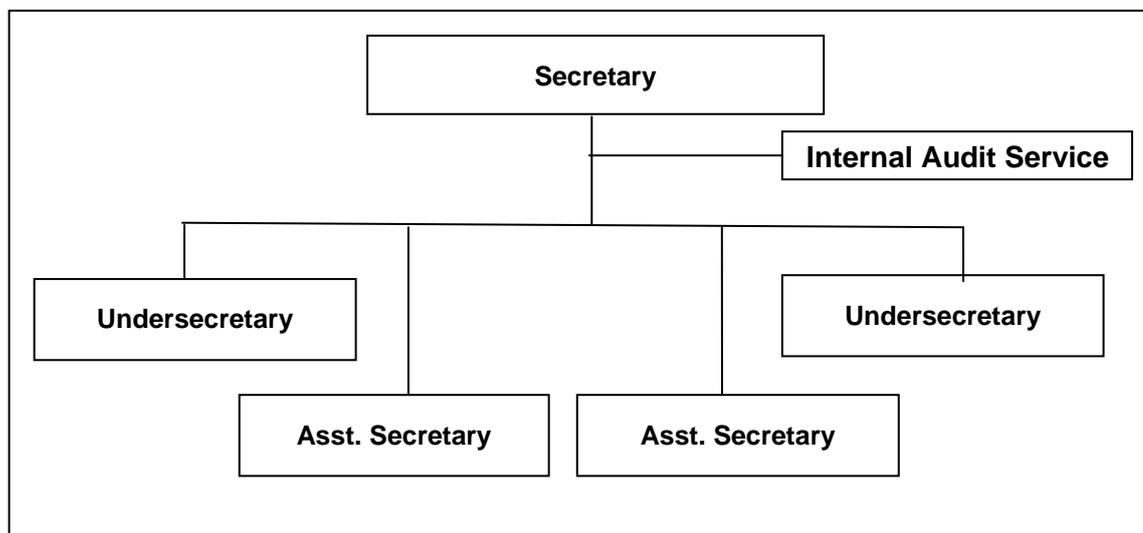
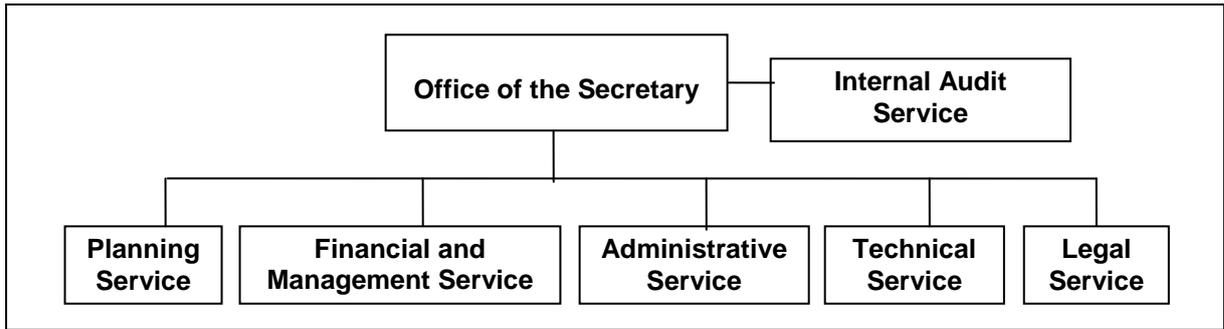


Figure 6 – Organizational Chart of the Office of the Secretary

The IAS/IAU 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 a third level eligibility.



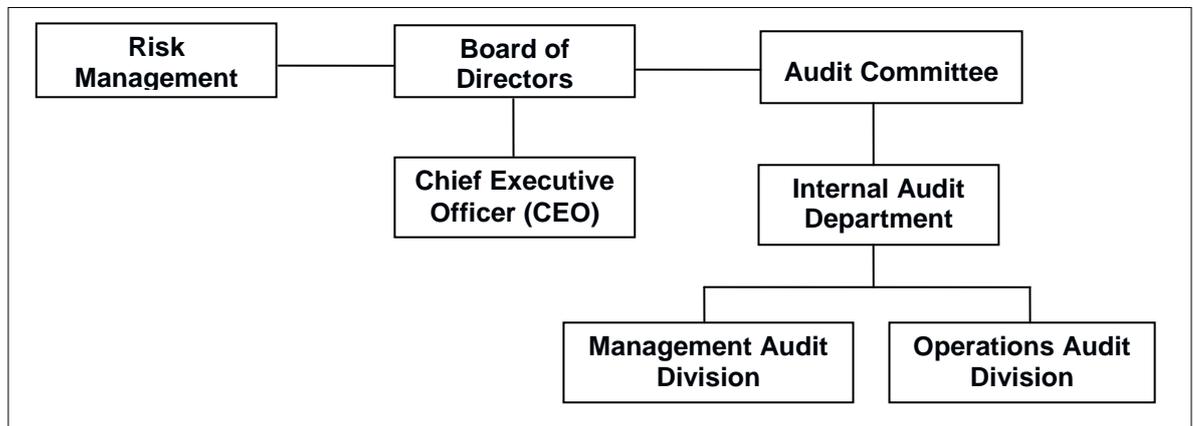
**Figure 7 – Organizational Chart of the Department Proper**

In the absence of special provisions, the major staff units of a Department include the Planning Service, Financial and Management Service, Administrative Service, and when necessary, the Technical and Legal Services.<sup>51</sup>

Except when otherwise provided by law, each Department may have units which shall perform planning, financial and management, administrative services, internal audit, and other support to operations.<sup>52</sup>

In the case of regular agencies attached to a Department for policy and program coordination, their respective Board/Council shall determine the propriety of establishing a separate unit for the purpose or avail of the services of the IAS/IAU of the Department.<sup>53</sup>

GOCCs/GFIs which have original charters or those created through the Corporation Code shall likewise establish their respective IAS/IAU. The IAS/IAU shall report to the respective Audit Committee of the Governing Board of the corporation, as shown in Figure 8.<sup>54</sup>



**Figure 8 – Organizational Chart of the Internal Audit Department of a GOCC/GFI**

The IAS/IAU in departments and equivalent agencies shall consist of two divisions - an Operations Audit Division and a Management Audit Division as shown in Figure 9.<sup>55</sup> The Divisions shall be headed by an Internal Auditor V (SG 24).

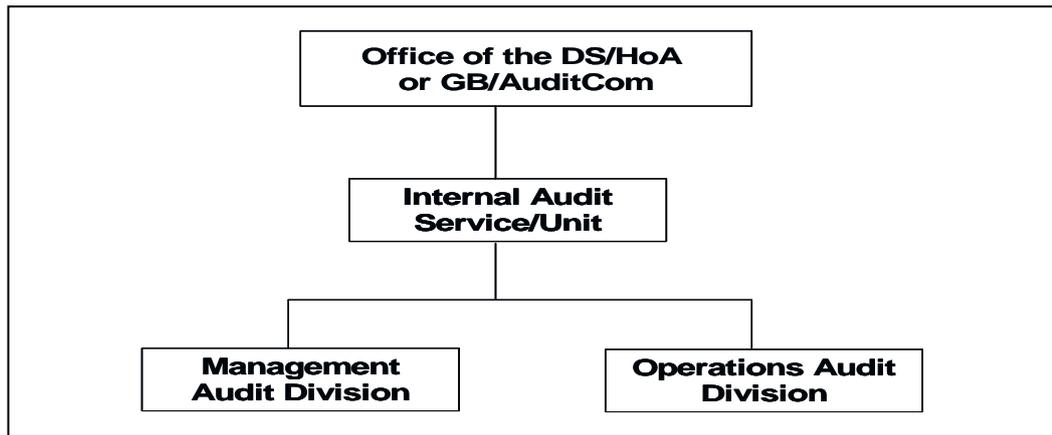


Figure 9 – Organizational Chart of the Internal Audit Service

## 5.1 Management Audit Division

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

Pursuant to the Administrative Code of 1987<sup>56</sup>, and as adopted in DBM Circular Letter 2008-5, s. 2008<sup>57</sup>, the Internal Audit Service shall “[c]onduct management and operations performance audit of Department activities and units and determine the degree of compliance with established objectives, policies, methods and procedures, government regulations, and contractual obligations of the Department.” (underscoring supplied)

Administrative Order No. 278,<sup>58</sup> s. 1992 further espoused the management audit function where it explicitly stated that the internal audit activities shall include “[r]eviewing and evaluating the soundness, adequacy and application of accounting, financial and other operating controls and promoting the most effective control at reasonable cost.” (underscoring supplied)

### Functional Statements

The Management Audit Division shall evaluate the achievement of the control objectives which include the safeguarding of assets, checking the accuracy and reliability of accounting data, adherence to managerial policies, compliance with laws, rules and regulations by utilizing internal auditing methods. It has the following functions:

- a. Conduct management audit of activities and its units and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5 and Section 1.1.2, AO 278, s. 1992);

- b. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports and performance standards of the agencies/units covered (Section 2.4c, DBM Circular Letter No. 2008-5);
- c. Verification and analysis of financial and management data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid (Section 4.1.1.2, DBM Budget Circular No. 2004-4);
- d. Ascertain the reliability and integrity of financial and management information and the means used to identify, measure, classify and report such information (Section 1.1.1, AO No. 278, s. 1992);
- e. Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds (Section 1.1.3, AO 278, s. 1992);
- f. Review and evaluate the soundness, adequacy and application of accounting, financial and management controls and promote the most effective control at reasonable cost (Section 1.1.4, AO 278, s. 1992);
- g. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278, s. 1992);
- h. Perform functions of a protective nature, such as prevention and detection of fraud or dishonesty; review of cases involving misuse of agency property; and checking of transactions with outside parties (4.1.1.4, DBM Budget Circular No. 2004-4); and
- i. Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

## 5.2 Operations Audit Division

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

Pursuant to the Administrative Code of 1987,<sup>59</sup> and as adopted in DBM Circular Letter 2008-5 s. 2008,<sup>60</sup> the Internal Audit Service shall “[c]onduct management and operations performance audit of Department activities and units and determine the degree of compliance with established objectives, policies, methods and procedures, government regulations, and contractual obligations of the Department.” (underscoring supplied)

Administrative Order No. 278,<sup>61</sup> s. 1992 further espoused the operations audit function where it explicitly stated that the internal audit activities shall include “[r]eviewing of operations or programs to ascertain whether or not results are consistent with established objectives and goals and whether or not such programs are being carried out as planned.” (underscoring supplied)

### **Functional<sup>62</sup> Statements**

The Operations Audit Division shall evaluate the extent of compliance and ascertain the effective, efficient, ethical and economical execution of operations by utilizing internal auditing methods. The Division is tasked to perform the following functions:

- a. Conduct operations performance audit of activities of the department/GOCC and their units and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5);
- b. Review and appraise systems and procedures/processes, organizational structure, operations practices, operations records, reports and performance standards of the agencies/units covered (Section 2.4c, DBM Circular Letter No. 2008-5);
- c. Verify and analyze operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid (Section 4.1.1.2, DBM Budget Circular No. 2004-4);
- d. Ascertain the reliability and integrity of operational information and the means used to identify, measure, classify and report such information (Section 1.1.1, AO No. 278 s. 1992);
- e. Review operations or programs to ascertain whether or not results are consistent with established objectives and goals and whether or not such programs are being carried out as planned (Section 1.1.5, AO 278 s. 1992);
- f. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278 s. 1992);
- g. Recommend courses of action on operational deficiencies observed (Section 1.1.7, AO 278 s. 1992);
- h. Perform functions of a protective nature, such as prevention and detection of fraud or dishonesty; review of cases involving misuse of agency property; and checking of transactions with outside parties (Section 4.1.1.4, DBM Budget Circular No. 2004-4); and

- i. Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

## **6. Head of Internal Audit**

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

### **6.1 Status**

The rank and salary grade of the HoIA are stipulated in Sections 2.5 to 2.7 of DBM Circular Letter 2008-5.

In departments covering the Office of the Secretary-Proper, Bureaus, Regional Offices and Regulatory Agencies, the IAS/IAU shall be headed by a Director IV or as may be provided by the Administrative Code of 1987 or other special laws. The Director IV shall be occupied by a career official with a third level eligibility, and with a Salary Grade of 28 or its equivalent position.<sup>63</sup> Said position is highly technical in nature and shall be station/office specific.

The HoIA of a regular agency attached to a department for policy and program coordination shall have the rank equivalent to the fourth ranking official of the agency.

In the case of GOCCs/GFIs, the HoIA shall be headed by a Department Manager with Salary Grade of 26 or its equivalent position.

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

## 6.2 Qualifications

The HoIA must meet the eligibility requirements specified in Sections 2.5 to 2.7 of DBM Circular Letter No. 2008-5<sup>64</sup>. As a career service officer, he/she must also meet the prescribed minimum education, training and experience requirements. However, CSC MC No. 12, s. 2006 encourages agencies to set specific or higher standards for their IAS/IAU positions. These must be submitted to the CSC for approval, and once approved, shall be adopted by the Commission as qualification standards in the attestation of the appointments of non-Presidential appointees of the agency concerned.

The following Qualification Standards for the HoIA may be adopted for CSC approval:

**Table 3 - Qualification Standards for the HoIA**

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

The knowledge that the HoIA must possess prior to qualification consists of general knowledge and professional knowledge.

- a. General knowledge is obtained upon completion of a course of appropriate studies from an accredited higher education institution prior to becoming certified.
- b. Professional knowledge refers to the range of one's information and understanding of organizational, business, information technology, and accounting-related matters.

Since both management and operations audits start with compliance audit, which involves the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards and contractual obligations, it would be an advantage if the HoIA possesses

sufficient foundation in law and is familiar with the rudiments of the law, in addition to the general knowledge gained from the basic education. The HoIA must also possess functional expertise. His/her knowledge of a specific function and sector (e.g., health) must be contextualized within the operations of the department/agency which performs this particular function. It helps if he/she has relevant experience in applying this knowledge in a work setting as it enhances his/her understanding of the organization and its operations.

### **6.3 Responsibilities**

The HoIA is responsible for:

- a. Ensuring the efficient and effective operation of the internal audit function;
- b. Developing strong professional relationships with the DS/HoA or GB/AuditCom and key stakeholders;
- c. Leading the development of the internal audit strategic plan and annual work plan that outlines the objectives, priorities and proposed internal audit coverage; and
- d. Liaising with other external monitoring and evaluation bodies in developing internal audit plans for the review and approval by the DS/HoA or GB/AuditCom.

### **6.4 Skills**

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

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

## 7. Staffing the Internal Audit Service/Internal Audit Unit

The rank and salary grades of the IAS/IAU staff are stipulated in Section 4.1.3 of DBM Budget Circular No. 2004-4, Annex A.

The qualification standards for the IAS/IAU staff are enumerated in the following:

- a. Rule IV, CSC Omnibus Rules Implementing Book V of EO 292, s. 1987 or the Administrative Code of 1987; and
- b. CSC MC 12, s. 2006, "Qualification Standards for IAS Positions".

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

**Table 4 - Qualification Standards for the IAS/IAU Staff**

IAS/IAU Positions	Education	Experience	Training	Eligibility
Internal Auditor V (SG 24)	Master's degree relevant to the position/agency/sector	4 years in position/s involving management and supervision	24 hrs. of relevant training in management and supervision	Career Service (Professional)/ Second level eligibility
Internal Auditor IV (SG 22)	Bachelor's degree relevant to the position/agency/sector	3 years of relevant experience	16 hrs. of relevant training	Career Service (Professional)/ Second level eligibility
Internal Auditor III (SG 18)		2 years of relevant experience	8 hrs. of relevant training	
Internal Auditor II (SG 15)		1 year of relevant experience	4 hrs. of relevant training	
Internal Auditor I <sup>65</sup> (SG 11)				
Internal Auditing Assistant (SG 8)	Completion of 2 years of study in college			Career Service (Sub-professional)/ First level eligibility

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

In government, the organizations, programs, activities, and functions are usually created by law and are subject to specific rules and regulations.<sup>66</sup> It cannot be subject to an Internal Audit Charter which may provide a *formal, written agreement* with management and the board about the organization's internal audit activity.<sup>67</sup>

## **7.1 Temporary Personnel Movements to Supplement Internal Audit Resources**

The need to establish and maintain an internal audit unit that is staffed with people who have the necessary competence, skills and experience is an ongoing issue for most, if not all, agencies. Temporary movement of officials and staff to the IAS/IAU can be a useful way of supplementing internal audit resources.

Temporary personnel movements can be a useful way of gaining training and experience for the IAS/IAU staff. The following arrangements are supported by the CSC under its MC No. 40, s. 1998, as amended by MC No. 15, s. 1999 and MC No. 21, s. 2002.

### **7.1.1 Detail**

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

Detail is the temporary movement of an employee from one Department or agency to another which does not involve a reduction in rank, status or salary. (Refer to CSC MC No. 21, s. 2002 for the policies on detail.)

### **7.1.2 Secondment**

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

Secondment is the movement of an employee from one department or agency to another which is temporary in nature and which may or may not require the issuance of an appointment which may either involve a reduction or increase in compensation or benefits. However, secondment shall be limited to employees occupying managerial, professional, technical and scientific positions; and to international bodies/organizations recognized by the Philippine government. (Refer to CSC MC No. 40, s. 1998, as amended by CSC MC No. 15, s. 1999 for the guidelines on secondment.)

### 7.1.3 Other Arrangements

Other arrangements may be explored including the following:

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

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

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

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

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

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

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

There are merits in rotating potential senior officers and exposing them to the internal audit function for set periods as part of their career development. The IAS/IAU benefits by having auditors or experts with operational experience in the organization that can provide a reality check on audit findings. To ensure that the IAS/IAU staff remains objective and to avoid any perception of conflict of interest, appropriate disclosure of such arrangements must be made, including the official's scope of internal audit assignment. Effective training and supervision is essential to maintain objectivity, impartiality and integrity of the internal audit function.

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

## 8. Internal Audit Budget

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

The factors that influence the internal audit budget include:

- a. The number and types of audits included in the annual work plan - performance audit is more complicated and costly than compliance audit, but more beneficial in terms of agency opportunities;
- b. Complexity of the annual work plan - an audit requiring special skills, such as an information technology expert, could add to the cost of the audit;
- c. Geographic spread of audit work - the more travel that is required, the greater the required budget; and
- d. Related audit services, such as being reference point for contacts like the COA, Office of the Ombudsman and other oversight or regulatory bodies and/or intervening activities or tasks that may be assigned to the IAS/IAU by the DS/HoA or GB/AuditCom.

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

**CHAPTER IV**

**PERFORMANCE MONITORING**

**AND**

**EVALUATION**

## 1. Performance Evaluation

Periodically assessing performance and addressing opportunities for improvement can help maximize the efficiency and effectiveness of the internal audit function. Measuring performance is also the means whereby the internal audit's own performance is assessed and internal audit is held accountable for the use of its resources. By adopting appropriate indicators, implementing a rigorous performance measurement system and acting on the results, internal audit can demonstrate that it practices what it preaches, and thus encourage acceptance of its role within the organization.

Since the DS or GB/AuditCom is responsible for reviewing the performance of internal audit, the performance indicators must be mutually agreed upon by the DS or GB/AuditCom and the HoIA.

### 1.1 Measuring Internal Audit Performance

Performance assessment has three interrelated elements.

- a. Performance measurement, which refers to the systematic analysis of performance against goals taking account of reasons behind the performance and the influencing factors.
- b. Rating, which refers to the judgment of progress - good or bad - based on indicators. This can also include rating another performance dimension.
- c. Indicators, which are used to verify if progress towards results has taken place.<sup>68</sup>

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

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

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

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

- c. Auditees' survey on the extent of impartiality, professionalism, communication and due care in managing the internal audit;
- d. Number of audit findings approved by the DS or GB/AuditCom;
- e. Number of recommendations implemented by the auditee;
- f. Number of audit support activities undertaken;
- g. Internal audit staff satisfaction; and
- h. Overall contribution made by the internal audit function.

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

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

## **1.2 Measurement Techniques**

Management information systems and processes should be established to record and report the required performance data in a cost-effective way.

Principal and key stakeholders' surveys at the end of an audit are useful and well-accepted ways of measuring the level of satisfaction with internal audit services. Short surveys that can be completed electronically are efficient means of collecting data, but manual approaches can also be done in cases when IT-based systems are not adequate. Any significant issue identified from such surveys should be followed up, where possible.

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

- a. Auditors' understanding of the area under review;
- b. Quality of the analysis undertaken;
- c. Usefulness of the suggested courses of action;
- d. Efficiency of the process;
- e. Level of collaboration with management, the public they serve, and the agency's stakeholders; and
- f. Overall value of the report to the management, the public they serve, and the agency's stakeholders.

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

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

### **1.3 Internal Audit Annual Performance Report**

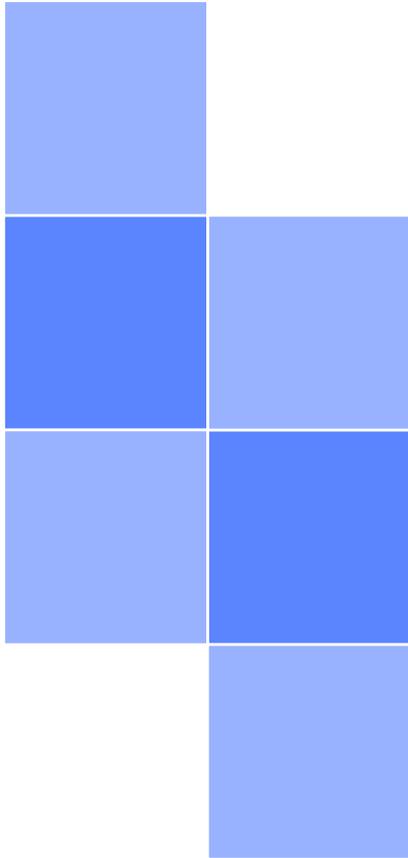
To assist the DS or GB/AuditCom in reviewing the performance of internal audit, it is good practice for the HoIA to prepare a report for them, at least annually, on progress in implementing the internal audit strategic plan and annual work plan.

The report should contain:

- a. Comments on the internal audit activities and any variance from approved plans;
- b. Progress in the implementation of the internal audit strategic plan and completion of the annual work plan;
- c. Highlights and challenges during the period;
- d. Overall contribution of internal audit in managing the organization's internal control deficiencies; and
- e. Issues that may require attention in relation to the internal audit function.

A summary of the internal audit reports could be included in the organization's annual report.

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



# Part II

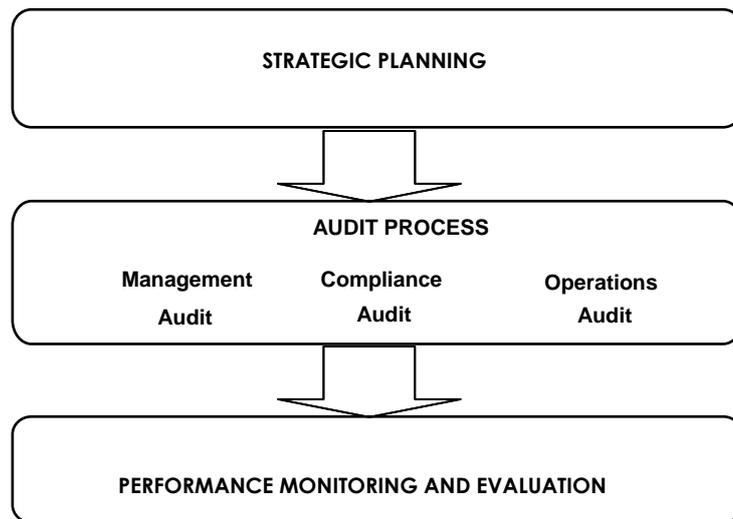
## Practices

## INTRODUCTION

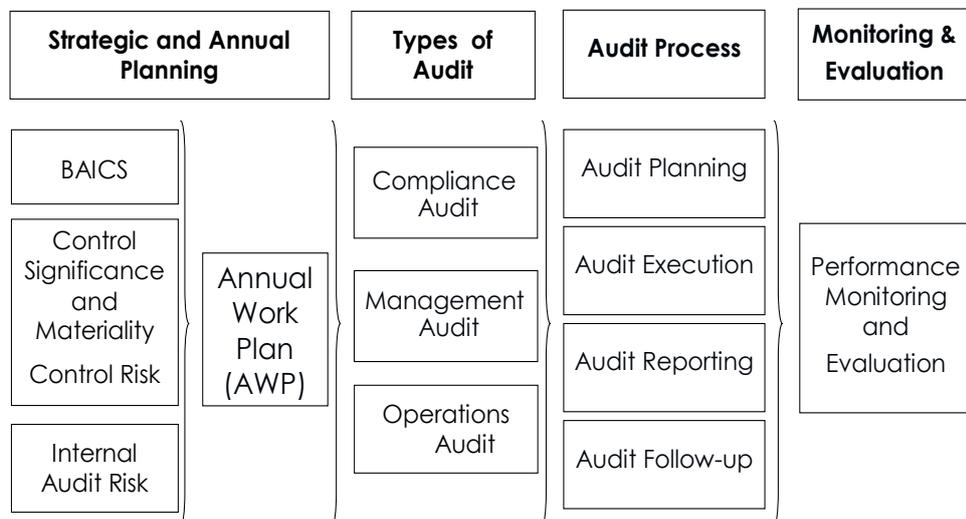
The Philippine Government Internal Audit Manual (PGIAM) Part II - Practices contains the approaches, tools and techniques that will facilitate the conduct of internal audit activities as explained in the PGIAM Part I - Guidelines.

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

The PGIAM Part II - Practices is composed of three chapters representing the major steps in the conduct of internal auditing. To facilitate navigation of this manual, reference should be made on the flow of internal audit activities as illustrated in Figure 10 and the internal audit key processes as illustrated in Figure 11.



**Figure 10 – Flow of Internal Audit Activities**



**Figure 11 - Diagram of Internal Audit Key Processes**

Internal audit activities start with the development of a strategic plan for a three-year period, which consists of the strategic plan and the annual work plan. The strategic planning begins with a baseline assessment of ICS that establishes how the IAS/IAU: (1) reviews the organization's internal control components in the context of the public service organization in the sector and key strategic challenges and advantages; and (2) leverages on this knowledge to plan for the work to be undertaken in assisting the organization to achieve its objectives. After the baseline assessment of ICS, the IAS/IAU considers the control significance and materiality and control risk of key processes in the operating and support systems to achieve the control objectives, assesses the internal audit risks, formulates the Strategic Plan and prepares the Annual Work Plan.

The audit process, as will be discussed in Chapter 2, involves four (4) stages, namely: (1) audit engagement planning; (2) audit execution; (3) audit reporting; and (4) audit follow-up. The processes pertain specifically to the preparation of the audit engagement plan, conduct of the audit itself by identifying the standards/criteria and gathering pieces of evidence for the conditions and causes, analysis of the findings of facts and pieces of evidence, formulation of recommendations, and monitoring of the implementation of approved audit recommendations. At any point during the audit and during the conduct of the baseline assessment of ICS, when significant risks/issues arise, the IAS/IAU will prepare an Interim Report to the DS or GB/AuditCom to communicate findings, issues, and problems that may affect the conduct of the audit and expose the organization to considerable risks. The audit process applies to compliance, management and operations audits.

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

Workflow charts and diagrams of internal audit key processes are provided in Appendix D of this Manual.

**CHAPTER I**

**STRATEGIC**

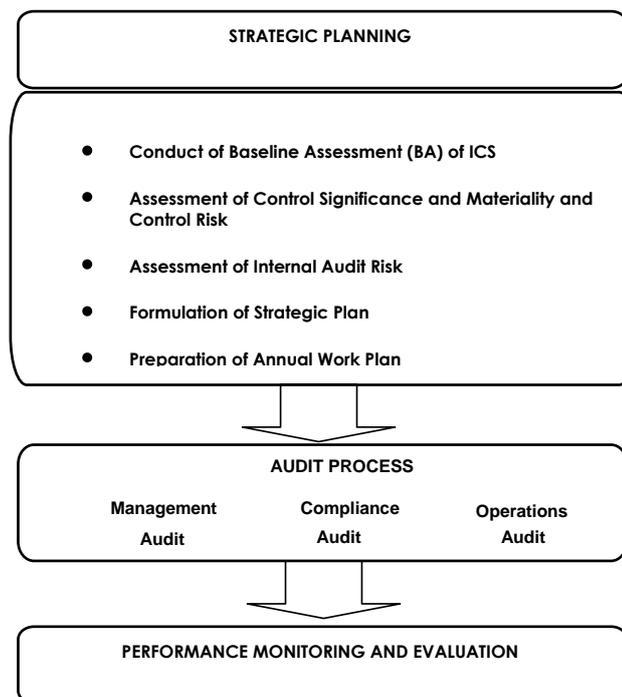
**AND**

**ANNUAL WORK PLANNING**

## 1. Strategic Planning

Strategic planning is the process of identifying the key audit strategic direction of the IAS/IAU for a three-year period. Its format and content shall be agreed upon between the Department Secretary/Head of Agency or the Governing Board/Audit Committee (DS/HoA or GB/AuditCom) and the Head of Internal Audit (HoIA). In strategic planning, the IAS/IAU:

- a. Performs the baseline assessment of the ICS;
- b. Considers the control significance and materiality and control risk of key processes in the operating and support systems to achieve the control objectives;
- c. Assesses internal audit risk;
- d. Formulates the Strategic Plan; and
- e. Prepares the annual work plan.



**Figure 12 – Strategic Planning Flow Diagram**

There are three levels of planning:

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

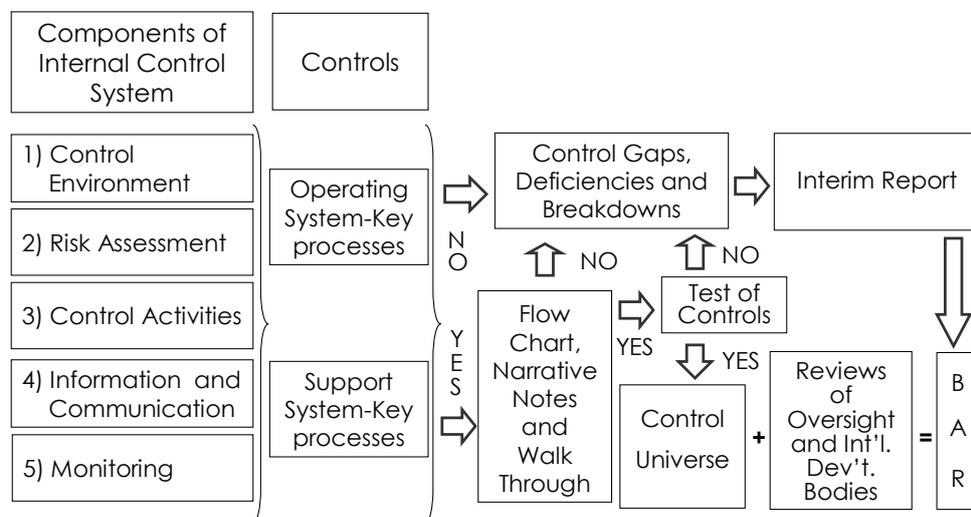
The annual work plan (AWP) is based on identified audit areas resulting from the strategic planning, while the audit engagement plan sets the activities per audit engagement identified in the AWP.

The first activity to develop the strategic plan is the baseline assessment of the ICS. Baseline assessment is done for the purpose of formulating a three-year strategic plan which should be iterative and updated for changes in the control component. This is to ensure that the focus of the IAS/IAU is relevant to the conditions of the organization. Conceptually, it should have two parts. Part A is the Strategic Plan (SP). Part B is the Annual Work Plan (AWP).

### 1.1 Conduct Baseline Assessment (BA) of the Internal Control System

The objectives of the baseline assessment are to: (1) get familiar with the organization’s operations; (2) identify and document the five components of ICS; (3) review key control processes and performance of operating and support systems; and (4) gather sufficient information on potential audit areas to be included in the strategic plan.

Baseline assessment is carried out by performing activities such as: administering internal control questionnaires/checklist and verifying the results; using flowchart/narrative notes, conducting walkthrough and test of controls.



**Figure 13 – Baseline Assessment of ICS Flow Diagram**

#### 1.1.1 Familiarization with the Organization’s Operations

The IAS/IAU gathers and analyzes information on the organization’s mandate, objectives, strategies, operating and support systems, relevant laws, rules and regulations, and organizational and sectoral performance. This involves a table review of the pertinent materials such as previous audit reports.

The documents to be obtained and reviewed to be familiar with the organization’s operations may be the primary source documents (obtained from the original source of the information, documents or records) or the secondary source documents (obtained from

references/copies of information, documents or records other than the original source). For example: the primary source of Philippine laws is the Philippine Congress, and the primary source of the Department of Health's operating manual is the DOH itself. On the other hand, the secondary source of Philippine laws are copies of said laws in the records of an agency; and the secondary source of DOH's operating manual is a copy of it maintained in the UP Law Center, if any.

#### **a. Documenting the Five Components of ICS**

To obtain an understanding of the agency's ICS in the context of a public service sector, the IAS/IAU identifies and documents the five components of ICS, to wit: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring and Evaluation.

##### **i. Control Environment**

It is important that the IAS/IAU understands what composes the control environment and identifies the management controls that are necessary to achieve the control objectives.

Control environment is the foundation of the ICS. It provides discipline and structure, as well as the climate, which influences the overall quality of internal control.

Control environment is the scope and coverage of an organization's ICS which impacts on its structural and operational framework. It integrates all other internal control components, elements and features to influence the direction and shape of an organization or agency's strategies and outcomes. This component constitutes the plan of organization and all the coordinated methods and measures. These are based on the specific law creating the agency or the Administrative Code of 1987, which is a general law.

To understand the control environment of a specific organization, the IAS/IAU needs to identify its components in the context of a *sector*. A sector consists of: (1) public service organizations providing public service; (2) constituents or the publics to serve; and (3) stakeholders.

Public service sector organizations are the: (1) public entities referring to agencies of the government, including departments, bureaus, offices, instrumentalities, GOCCs or local government units; and (2) private entities required or authorized by law to provide goods and services for public benefit such as transportation, electricity, water, shipping, telecommunications and oil companies.

Constituents or publics to serve are: (1) internal public relating to individuals or groups within the organization; and (2) external public refer to the recipients of services outside the agency directly or indirectly affected by an agency's operations.<sup>69</sup>

Stakeholders are persons or organizations that can affect, be affected by, or perceive themselves to be affected by a decision or activity. Stakeholders are categorized into: (1) internal stakeholders affected by an agency's operation within a particular public service sector; and 2) external stakeholders who are outside a specific public service sector but may have an interest on and can influence the effective performance of the sectoral goals of an agency concerned.<sup>70</sup>

The documents/criteria to be considered are listed below. The list is a starting point. It is not all-inclusive and not every document/criterion will apply to every department/agency/process.

(1) The Plan of Organization

(a) *Structural Principles of Governance (Organizational Structure and Staffing)*

- (i) DBM Manual on Position Classification and Compensation;<sup>71</sup>
- (ii) Department/Agency's approved Rationalization Plan;<sup>72</sup>
- (iii) Notice of Organization, Staffing and Compensation Action (NOSCA) or DBM issuances as bases of the following: organizational chart and functional chart/statements; Organizational Linkages/ Work Flows; Staffing Pattern, Position Description/ Statement of Duties and Responsibilities; and
- (iv) Personal Services Itemization and Plantilla of Personnel (PSIPOP).<sup>73</sup>

(b) *Functional Principles of Governance (Management and Personnel)*

- (i) Department/Agency's Code of Conduct and other policies/issuances relating to integrity and ethical standards<sup>74</sup> in accordance with the minimum standards of RA 6713<sup>75</sup>;
- (ii) Department/Agency's Performance Measurement and Evaluation System in accordance with the minimum requirements of EO 292<sup>76</sup>; and
- (iii) Doctrine of Completed Staff Work.<sup>77</sup>

(2) The Coordinated Methods and Measures

- (a) Planning<sup>78</sup> - Planning Manual for sectoral planning and organizational planning;
- (b) Budget<sup>79</sup> - Primer on Government Budgeting and Primer on Barangay Budgeting;<sup>80</sup> (Agency Budget Matrix [ABM]; Allotment Release Program [ARP]; Special Allotment Release Order [SARO]; Notice of Cash Allocation [NCA]); General Appropriations Act (GAA);<sup>81</sup> DBM Documentary Requirements for Budgetary Requests;<sup>82</sup> President's Budget Message;
- (c) Accounting<sup>83</sup> – Government Accounting and Auditing Manual;<sup>84</sup> Manual on the National Government Accounting System (NGAS) for National Government Agencies<sup>85</sup> (Accounting Systems); Chart of Accounts; Description of Accounts; Books of Accounts; Registries and Records; Accounting Forms and Reports; Trial Balances, Financial Reports and Statements;
- (d) Administrative<sup>86</sup> - Generic Procurement Manual and Local Procurement Manual (Project Procurement Management Plan; Approved Budget for the Contract; Bidding Documents; Terms of Reference; Contracts and Annual Procurement Plan);<sup>87</sup> Philippine Government Electronic Procurement System (PhilGEPS);<sup>88</sup> Operating Manuals or Service Guides;<sup>89</sup> National Archives of the Philippines Guidelines on Records Disposal;<sup>90</sup>
- (e) Human Resource<sup>91</sup> - 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.);<sup>92</sup> Uniform Rules on Administrative Cases in the Civil Service;<sup>93</sup> Rules on Qualification Standards;<sup>94</sup> Performance Management System – Office Performance Evaluation System (PMS-OPES);<sup>95</sup> and
- (f) Quality Management<sup>96</sup> – Quality Management Manual including documents on Six (6) Mandatory Procedures (control of documents; control of records; control of nonconforming service; internal quality audit; corrective action and preventive action); process approach; perception monitoring.<sup>97</sup>

## ii. Risk Assessment

Risk assessment is the process of identifying, analyzing and evaluating relevant risks to the achievement of the control objectives and determining the appropriate response. In other words, it is the identification, analysis and evaluation of what could go wrong and how to address it.

The documents/criteria to be considered are listed below. The list is a starting point, thus is not all-inclusive. Not every document/criterion will apply to every department/agency/process.

- (1) Risk management manual which contains the risk management framework and risk management process.
- (2) Risk assessment methodology, tools and techniques used:
  - (a) Risk identification (risk register/risk log, risk profile), risk analysis (risk matrix), and risk evaluation (risk evaluation results) which may be contained in the agency's operating manuals, risk management manual, or separate manuals/documents by reference.
  - (b) Documentation of the risk assessment which includes: objectives and scope; description of relevant parts of the system and their functions; summary of the external and internal context of the organization and how it relates to the situation, system or circumstances being assessed; risk criteria applied and their justifications; limitations, assumptions and justifications of hypotheses; risk identification results; data, assumptions and their sources, and validation; risk analysis results and their evaluation; sensitivity and uncertainty analysis; critical assumptions and other factors which need to be monitored; discussion of results; conclusions and recommendation; and references.<sup>98</sup>
- (3) Risk management plan which specifies the approaches, management components and resources to be applied to the management of the risk.<sup>99</sup> This includes, among others, the risk management policy, risk assessment objectives, risk criteria (based on organizational objectives, and internal and external context; it is derived from standards, laws, policies and other requirements),<sup>100</sup> 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.

### **iii. Control Activities**

Control activities are the policies and procedures established to address risks and to achieve the organization's objectives. They are the response to a risk designed to contain the uncertainty of an outcome that has been assessed. These are the procedures that an organization establishes to treat risks of the internal control activities. Once implemented, control activities are ingrained into the control environment of the agency.

The IAS/IAU should obtain an understanding of the risk response (transfer, tolerated, terminated or treated); operating performance review and operating compliance review.<sup>101</sup>

The documents/criteria to be considered are listed below. This is a starting point. It is not all-inclusive and not every document or criterion is applicable to every department, agency or process.

- (1) Implementation of the risk management plan through policies and procedures pertaining to the risk response<sup>102</sup> (tolerated, transferred, terminated or treated<sup>103</sup>)<sup>104</sup> such as insurance contracts (risk sharing<sup>105</sup>), and risk financing<sup>106</sup> (risk treatment);
- (2) Risk monitoring and review reports; and
- (3) Results of the operating performance review and operating compliance review by management.

### **iv. Information and Communication**

Information and communication are vital in attaining the control objectives. They go hand in hand and cut across all other internal control components. Relevant information must be communicated throughout the agency, as well as to its network of organizations and sectors.

The documents/criteria to be considered are listed below. The list, which is a starting point, is not all-inclusive. Not every document/criterion will apply to every department/agency/process.

(1) Information

- (a) Department's/Agency's Citizen's Charter;<sup>107</sup>
- (b) Information systems as part of knowledge management<sup>108</sup> - Government Information Systems Plan (GISP) also known as Philippine Government Online;<sup>109</sup> and
- (c) 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.<sup>110</sup>

(2) Communication

- (a) Report Card Survey and feedback mechanism of RA 9485 (Anti-Red Tape Act of 2007);<sup>111</sup>
- (b) Consultations and dialogues between officials and staff;<sup>112</sup>
- (c) Consultations with various offices to evaluate public and private entities providing public goods and services;<sup>113</sup>
- (d) Mechanism of public consultations and hearings to the public to serve;<sup>114</sup> and
- (e) Consultation with internal and external stakeholders.

**v. Monitoring**

The ICS must be monitored by management and service units in the organization. Monitoring the internal control activities themselves should be clearly distinguished from reviewing the operations of a unit which is an internal control activity performed by the operating unit concerned.

The IAS/IAU should obtain an understanding on how management ensures that internal controls continue to be applied at all levels and across the agency and achieve the control objectives through ongoing monitoring activities, separate evaluation, or a combination of both.

The documents/criteria to be considered which are listed below is a starting point. It is not all-inclusive. Thus, not every document/criterion is applicable to every department/agency/process.

(1) Ongoing Monitoring

- (a) Monitoring of compliance by various offices to the performance measurement reports<sup>115</sup> by the Planning Service, Financial and Management Service, Administrative Service, and other support service units; and
- (b) Attendance and leave monitoring system.<sup>116</sup>

(2) Separate Evaluation

- (a) Internal Audit - Philippine Government Internal Audit Manual (PGIAM);<sup>117</sup> DBM Circular Letter No. 2008-8 (National Guidelines on Internal Control Systems); and
- (b) External Audit - Value for Money Audit – Participant’s Manual;<sup>118</sup> COA Memorandum No. 2009-04 on DBM Circular Letter No. 2008-8 (National Guidelines on Internal Control Systems).<sup>119</sup>

(3) Combination

- (a) Consultation and coordination between and among operating units, support services units and the IAS/IAU; and
- (b) Consultation and coordination with COA and the IAS/IAU on matters of internal control.

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

It includes obtaining documents from primary sources for validation, e.g., the Department of Health, in reviewing the compliance of hospitals on the standard health care services, would require the submission of their reports of compliance; the Civil Service Commission, in the review of the implementation of recruitment policies and guidelines, would require the submission of their reports from agencies on the hiring of

officers and employees. The relevant documents may be inspection guidelines or manuals which contain the standards, timing and methods for the conduct of inspection.

Internal controls are management controls. These are controls used by the DS/HoA or GB/AuditCom to achieve the following objectives:

- (1) Safeguard assets;
- (2) Check the accuracy and reliability of accounting data;
- (3) Adherence to managerial policies;
- (4) Compliance with laws and regulations; and
- (5) Ensure economic, efficient, ethical, and effective operations.

A generic Internal Control Questionnaire (ICQ) has been designed (Appendix E) to evaluate the five components of the ICS. These components have a pervasive effect, and their absence can increase the opportunity for fraud or errors in the organization. Both the management and the internal auditors can make use of the ICQ in documenting the components of the ICS.

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

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

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

"Yes" answers to questions would require submission of evidence by the personnel concerned or gathering of evidence by the auditor to validate such answer. "Yes" answers and "No" answers with compensating controls will be subject to a test of controls for validation.

"No" answers without compensating controls should be identified as control deficiencies and their root cause/s should be determined before courses of action are recommended in

the interim report. Their content should eventually be included in the Baseline Assessment Report. Subsequently, interim report recommendations should be monitored, and in the ensuing audit period, it should be validated if the actions taken addressed the control deficiencies. The recommendations should not merely include addressing the control deficiencies, but should hold accountable the next level in the hierarchy for failure of supervision.

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

#### **b. Review of Key Processes and Performance in the Operating System**

The objective of the review is to document controls in key processes of operations within the organization that are critical to the achievement of the control objectives. This is to determine adequacy of internal control and identify gaps, deficiencies or breakdown for potential inputs to the baseline assessment report. The processes include operating processes for programs and projects.

Process refers to a set of interrelated or interacting activities of the public sector organization which transform input elements (statutory policies, resources, managerial policies, citizens' needs and expectations, etc.) into outputs/results (products/goods and services; benefits) provided to the citizens.<sup>120</sup> The application of a system of processes within an organization, together with the identification and interactions of these processes, and their management to produce the desired outcome, can be referred to as the "process approach".

An example can be the procurement of medicines in the delivery of health services. The critical processes may include: planning the procurement; identifying citizens' needs and expectations; transparency of bidding and award; inspection and acceptance; and monitoring and output/outcome evaluation.

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

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

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

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

Performance measures refer to the criterion in terms of quantity, quality, cost, and perception (responsive rating) of plans and programs. These are the indicators of performance expressed in units of work, which quantify or measure the outputs and outcomes. Every unit of output (public goods/products and services) must have a standard cost which should be compared with the actual cost to obtain the difference. Ordinarily, the DBM should develop standard costs with the agency for duly approved units of work measurement for each agency's budgetary projects or activities. These standard costs should be compared with the actual unit costs and utilized in the evaluation of agency budgetary performance.<sup>121</sup> In the absence of a standard cost, the agency must set up a standard or predetermined cost before the start of each undertaking. Said cost will be made as reference in determining irregular, unnecessary, excessive, extravagant or unconscionable expenditures.

In analyzing operational performance, it is important to:

- (1) Determine the relevant operational performance measures for evaluation based on discussions with the DS/HoA or GB/AuditCom;
- (2) Determine the frequency of reporting operational performance, the intermediary goals, and whether or not improvements have been introduced as a result of the performance review as part of monitoring their own performance;
- (3) Determine whether or not measures are in place to ensure compliance with laws, rules, regulations and managerial policies within the operational level or of the sector;

(4) Assess the relative position of the organization, comparing one or more of the following:

- (a) Current performance to target;
- (b) Current performance to past performance; and
- (c) Current performance to others in the sector (or similar organizations).

Any indication of performance below expectation (target/previous year/sectoral indicator/average) is a cue to the IAS/IAU that an operations audit is necessary, by *working back* from outcome to output to implementation (process/input) to policy formulation. The objective is to determine the root cause of deficiencies, if adequate resources are in place to achieve goals, if responses to risks are beneficial, if controls are imbedded in the operational procedures, and to check compliance with standards.

(5) Prepare a preliminary summary and assessment of the programs/projects which should be included in the baseline assessment report/control universe noting weaknesses, gaps, deviations and processes that are potential areas for the audit.

### **c. Review the Key Processes and Performance in the Support System**

The objective of the review is to document controls in key processes of the support systems within the organization/sector that are critical to the achievement of the control objectives. This is to determine compliance with controls put in place and to identify gaps, deficiencies or breakdown for potential inputs to the strategic plan. The processes include support systems to operations, e.g., administrative, finance, budget, planning, technical support systems.

As previously indicated, the criteria for the selection of key or critical processes can include the following:

- i. A process with an output that is an input to a major final output;
- ii. A process that comprises significant control procedures; and
- iii. A process where the financial value of inputs are high.

This also includes a review of the performance of the support systems such as procurement, personnel, accounting, budgeting, quality management and risk management. The objective is to identify and understand the network and linkages of support services to the operating units; or determine whether adequate controls are in place in providing the needs of the operating units for logistics, funds, and personnel (e.g., review of the controls in

the procurement system or in the hiring of personnel). The review is expected to identify strengths and weaknesses, sources of problems, and potential problem areas.

This may include a query on the structure, personnel qualifications and performance, and processes of the office of primary responsibility to determine compliance with prescribed methods and procedures; the presence of a manual of operations, and a review of the level or extent of compliance. Support services' performance is profiled, then efficiency and effectiveness are evaluated in terms of quantity and quality, and compared against norms and targets. If any activity within the support unit has no output, it may be eliminated.

This also involves interviews of key persons responsible in the operating units to determine the opinions and attitudes that key people outside the support unit have about the services delivered and whether or not needs are served. While many criteria can be measured quantitatively, the IAS/IAU has to use sound judgment and objectivity when evaluating issues (quality) that cannot be measured.

#### **d. Review of Controls in a Computerized Environment**

In public service organizations operating in an information technology (IT) environment, the IAS/IAU should consider the criticality of the control processes in place in the IT operations.

The objective of internal audit in a manual system does not change in a computerized environment, that is, assessing the adequacy of controls embedded in the computerized program. This involves reviewing the general and application controls. Controls in a computerized environment consist of two broad groupings.

##### **i. Review of General Controls**

“General controls are the structure, policies and procedures that apply to all or a large segment of an entity’s information system (IS) and help ensure their proper operation. They create the environment in which application systems and controls operate.”<sup>122</sup>

The International Organization of Supreme Audit Institutions (INTOSAI) identified major categories of general controls:

- (1) Entity wide security program planning and management provide a framework and continuing cycle of activity for managing risks, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls.
- (2) Access controls limit or detect access to computer resources (data, programs, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure. Access controls include both physical and logical controls.
- (3) Controls on the development, maintenance and change of application software prevent unauthorized programs or modifications to existing programs.
- (4) System software controls limit and monitor access to the powerful programs and sensitive files that control the computer hardware and secure applications supported by the system.
- (5) Segregation of duties implies that policies, procedures and an organizational structure are established to prevent one individual from controlling all key aspects of computer-related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records.
- (6) Service continuity controls help to ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected.

## **ii. Review of Application Controls**

“Application controls are the structure, policies, and procedures that apply to separate, individual application system, and are directly related to individual computerized applications. These controls are generally designed to prevent, detect, and correct errors and irregularities as information flows through information systems.”<sup>123</sup>

Application software is the software that processes and understands data with reference to the transaction. The application software could be a payroll system, an inventory system, or a billing system. The rules pertaining to the systems and processes are implemented in the application software.

“Application controls and the manner in which information flows through information systems can be categorized into three phases of a processing cycle:

- (1) Input - data are authorized, converted to an automated form, and entered into the application in an accurate, complete, and timely manner;
- (2) Processing - data are properly processed by the computer and files are updated correctly; and
- (3) Output - files and reports generated by the application reflect transactions or events that actually occurred and accurately reflect the results of processing, and reports are controlled and distributed to the authorized users.”<sup>124</sup>

### **1.1.2 Flowchart/Narrative Notes and Walkthrough**

The critical operational/support processes may be documented and analyzed using flow charts and walkthrough, among the array of methods and techniques, to identify and understand their key activities. A narrative note shall be added to be more descriptive of the process. The DS/HoA or GB/AuditCom control structure such as policies, guidelines, feedback mechanism, reportorial requirements, monitoring and evaluation should also be understood because it significantly influences the effectiveness of management controls. If flowcharts are available, the IAS/IAU should make use of them. System/process flowcharts and system/process narratives should be evaluated by the internal auditor subject to validation/walkthrough.

- a. A process map or flowchart is an analytical technique used to document a system in a clear, concise and logical manner, showing the flow of documents thru various steps and actions from its origin up to the final disposition.

It is used to illustrate by means of symbols, the procedures, forms, records and reports handled by each position, and charts the flow of forms, records and reports by each position and from one position to another.

A flowchart shows the series of procedures and their inter-relationships, identifies the major controls and aids in the review of the system.

It is a workflow diagram in a graphic representation of all the major steps of a process. It helps visualize the process and therefore facilitates an analysis of the operation and assists in identifying inefficiencies, overlaps and duplications/missing procedures and control weaknesses. It helps the auditor:

- i. Understand the complete process;
- ii. Identify the critical stages of a process;
- iii. Locate problem areas;
- iv. Show relationships between different steps in a process; and
- v. Evaluate/test controls, where an audit impact has been identified.

#### Elements of a Flowchart

- (1) Heading -
  - Name of Organization
  - Title of System (being documented)
  - Existing Procedural Flowchart
- (2) Area of Responsibility - defines the organizational unit and the position or name of personnel responsible for the procedures being charted
- (3) Symbols - used to show predefined items, steps and actions. The IAS/IAU should adopt and follow standard symbols for uniformity.

Guidance on flowcharting, including the standard flowchart format and symbols can be found in PNS ISO 5807:2004 – “Information processing – Documentation symbols and conventions for data, program and system flowcharts, program network charts and system resources charts”. Commonly used flowcharting symbols are provided in Appendix D of this Manual.

- b. Narrative notes provide a step-by-step description of the auditee’s major systems or operations. It contains a narrative explanation of certain items that cannot be adequately described by the flow. A narrative statement may be made regarding the existing internal controls of the agency. The primary purpose of preparing narrative notes is to identify key control activities. Information for preparing narrative notes may be obtained through interviews, observations, review of procedures, manuals and other system documentation. The notes should include all significant parts of the process, especially the control points, the names and positions of the people performing the actions and taking decisions, and the timing of such actions.

- c. The internal auditor must conduct a walkthrough test after documenting the auditee's processes. This involves following one or two transactions or activities step-by-step through the process from beginning to end. From a control standpoint, a walkthrough is simply the act of tracing the identified significant controls in a transaction through organizational records and procedures – a practical approach to learning how a process works and determining whether or not the policies have been communicated and implemented. In a walkthrough, the auditor traces a transaction from its origin through the agency's information systems, until it is reflected in the reports.

The auditor's primary objective when performing a walkthrough is to develop an understanding of the transactions flow – that is, how transactions are initiated, processed, authorized, recorded, and reported. It is a technique for validating the understanding of the system/process and verifying the accuracy of the flowcharts, narratives and other documentations. The critical information that the validated procedures can provide are as follows:

- i. An understanding of the transaction flow and control design, particularly with respect to controls that may help prevent or detect fraud and error;
- ii. A determination of whether or not controls have been designed effectively and actually placed in operation; and
- iii. An identification of areas in the organizational processes where fraud or error might occur.

When performing a walkthrough, the auditor may find that some processes having control significance were inadvertently omitted in the flowcharts or narrative notes. Such exceptions or deviations disclosed during the walkthrough are validated through triangulation by reviewing other transaction/s, reviewing other documents, and/or interviewing the personnel concerned, and documenting the same in a working paper. Such deficiencies in the flowcharts prepared by the functional units and their root causes serve as inputs to the interim report, and appropriate recommendations are addressed to the DS/HOA/GB or AuditCom to enable the same to direct the responsible offices having supervision over the process owners/functional units to address the gaps. The recommendations should not merely include the updating of the flowcharts by the functional units by, example, adding additional steps, but to hold accountable the next level in the hierarchy for failure of supervision.

### 1.1.3 Test of Controls

An understanding of the ICS is obtained during the strategic planning. In order to gather initial evidence on the presence of key controls in place (“YES” answers in ICQ) which have been identified by auditees, a test of controls is performed in one or two transactions after making a flowchart/narrative notes and walkthrough to determine if controls are actually present or to determine conformance. If the control turns out to be a gap or if the control is not present or is deficient, the IAS/IAU issues an interim report on the gap or control deficiency/breakdown by the operating or support units. Positive results of the test of controls go to the control universe and will eventually be included in the baseline assessment report.

A test of controls includes a physical observation of the actual transactions involving the internal control procedures being performed, evaluation of evidence that the control procedures were performed (and performed at the appropriate time), and inquiry about how and when the procedures were performed. Test of controls reveal what is going on and how, and whether or not what are purported to exist corresponds to reality. They may involve touring facilities/site visits, reviewing processes, flow of materials and documents.

The tools/working papers that may be used in the test of controls are the:

- a. Statement of Control Attributes (SCA) - This document summarizes the selected control attributes/features in the ICQ that will be subject to test;
- b. Walkthrough Working Paper - This document summarizes the control attributes/features in the flowchart that will be subject to test.
- c. Test of Control Working 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 (SoG) – Based on the TCWP, this document is used to summarize the deviations noted from the conduct of the test of controls. The deviations indicate breakdowns or gaps in controls.

#### 1.1.4 Interim Report

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 in the operating and support systems;
- b. Gaps or control deficiencies/breakdowns found out after conducting a flowchart, preparing narrative notes and conducting a walkthrough; and
- c. Gaps or control deficiencies/breakdowns after conducting a test of controls.

The gaps or control deficiencies/breakdowns are subjected to a root cause analysis and the preliminary recommendations should form part of the interim report. A summary of the interim report will be included in the baseline assessment report.

For guidance on how to determine if a deficiency is significant, a weakness is material, or when a combination of significant deficiencies becomes material weaknesses, the following definitions are to be used:

- i. 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.
- ii. 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.
- iii. 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.

A significant deficiency is a control deficiency (or a combination of control deficiencies) that adversely affects the agency's ability to initiate, process, authorize, record, or report data reliably such that there is more than a remote likelihood that an error that is more than inconsequential will not be prevented or detected. The term "remote likelihood" is defined as when the "chance of the future events or events occurring is slight." Thus, the likelihood that an event is "more than remote" is when it is either reasonably possible or probable.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that fraud or error will not be prevented or detected.

### **1.1.5 Defining Control Universe**

Before defining the Control Universe, the IAS/IAU should validate understanding with the unit concerned. This is to verify the IAS'/IAU's complete and accurate understanding of the control components and key processes, and to validate this understanding. This step is important to corroborate initial results as it gives the opportunity to obtain a buy-in that the audit will be focused on the important organizational/sectoral concerns. This step may be formal or informal.

The positive results of the test of controls will be an input to the Control Universe (CU). The CU is a list of all auditable areas which shall be an input to the baseline assessment report, included in the strategic plan and will be prioritized in the formulation of the annual work plan. Aside from the CU, other sources to be considered in strategic planning are the results of the review of oversight bodies and international development partners.

### **1.1.6 Review of Oversight Bodies and International Development Partners**

This includes results from the evaluation reports of various monitoring and oversight bodies like the Department of Budget and Management (DBM), Commission on Audit (COA), National Economic and Development Authority (NEDA), Office of the President (OP), Civil Service Commission (CSC) and Office of the Ombudsman (OMB). This also includes the review made by international development partners working with the Philippine government such as the United Nations Disarmament Commission (UNDC); United Nations Transition Assistance Group (UNTAG) (e.g., millennium development goals); Australian Agency for International Development (AusAID) (e.g., Philippines – Australia Country Assistance Strategy); World Bank's Improving Public Expenditure Management Project); and Asian Development Bank (ADB).

The aim is to identify gaps or control deficiencies/breakdowns that need to be considered in the baseline assessment report and in prioritizing internal audit activities.

### **1.1.7 Preparation of the Baseline Assessment Report (BAR)**

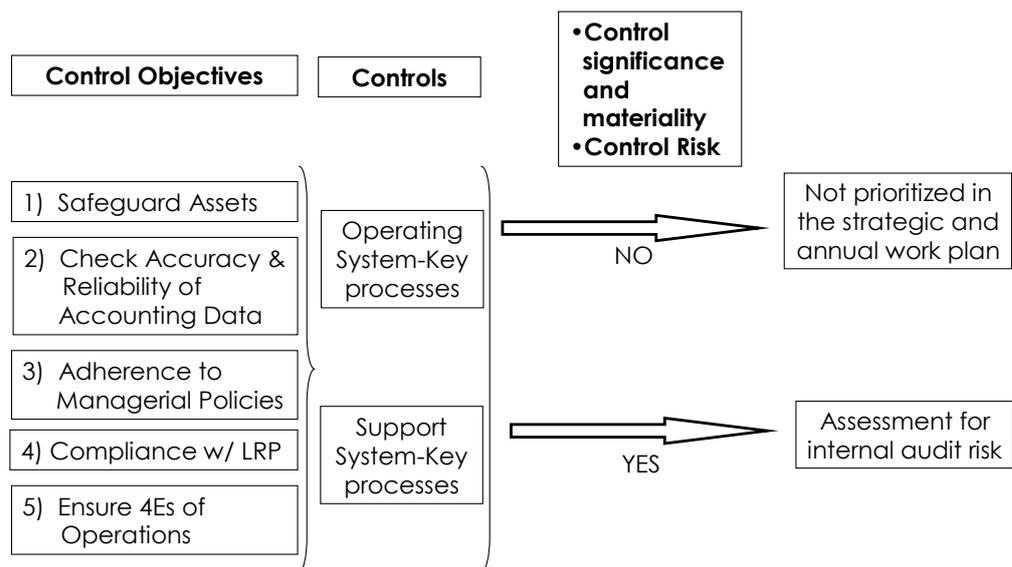
The BAR summarizes the gaps and control deficiencies/breakdowns resulting from the baseline assessment of the ICS. This report can be used in the next assessment to determine improvements from where it came from to the current condition. Issues not captured in the report should be lessons learned to be included in the next assessment. The

report includes a summary of the interim report which contained the gaps or control deficiencies/breakdowns, root cause analysis, and recommended courses of actions. The BAR also includes the Control Universe and the results of the review of oversight bodies and international development partners.

The parts of the report include an executive summary; objectives, scope and methodology; detailed findings and recommendations on each internal control component; overall findings (which includes a summary of the interim report; control environment and results of review of oversight bodies and international development partners); and attachments. The detailed findings portion discusses the results of the assessment of the five components of internal control. The findings are supported with at least three methods of assessment, the results of which corroborate each other.

## 1.2 Consider Control Significance and Materiality and Control Risk of Key Processes

After the baseline assessment of the ICS, the IAS/IAU also considers the control significance and materiality and control risk of key processes of the operating and support systems to achieve the control objectives as illustrated in Figure 14 below:



**Figure 14 - Control Significance and Materiality and Control Risk Flow Diagram**

### **1.2.1. Control Significance and Materiality Level**

Significance is considered in terms of quality and is based on a process' possible impact on the control objectives.

Materiality is quantitative and is often considered in terms of value or the relative importance of an amount. The materiality level may or may not be set based on a specific amount. Information is material if its omission or misstatement could affect the control objectives. It depends on the nature and size of the item or error judged in particular circumstances.

This involves the following steps:

- a. Assess the significance level taking into account qualitative factors, including cumulative effects of errors, legal and regulatory requirements;
- b. Assess the materiality level taking into account quantitative factors and nonfinancial items that, independent of the amount, may impact on the achievement of the control objectives, e.g., legal and regulatory requirements; and
- c. Identify controls in the potential audit areas (controls in the organization and those embedded in the system).

### **1.2.2. Control Risk Level**

Generally, the units responsible for addressing risks must make the assessment of their own risks. Control risk assessment is primarily performed by top management as part of its regular functions. As control risk owners, they should have identified and initiated measures to modify the material and significant control risks, based on probability and impact, before the auditors begin an audit.

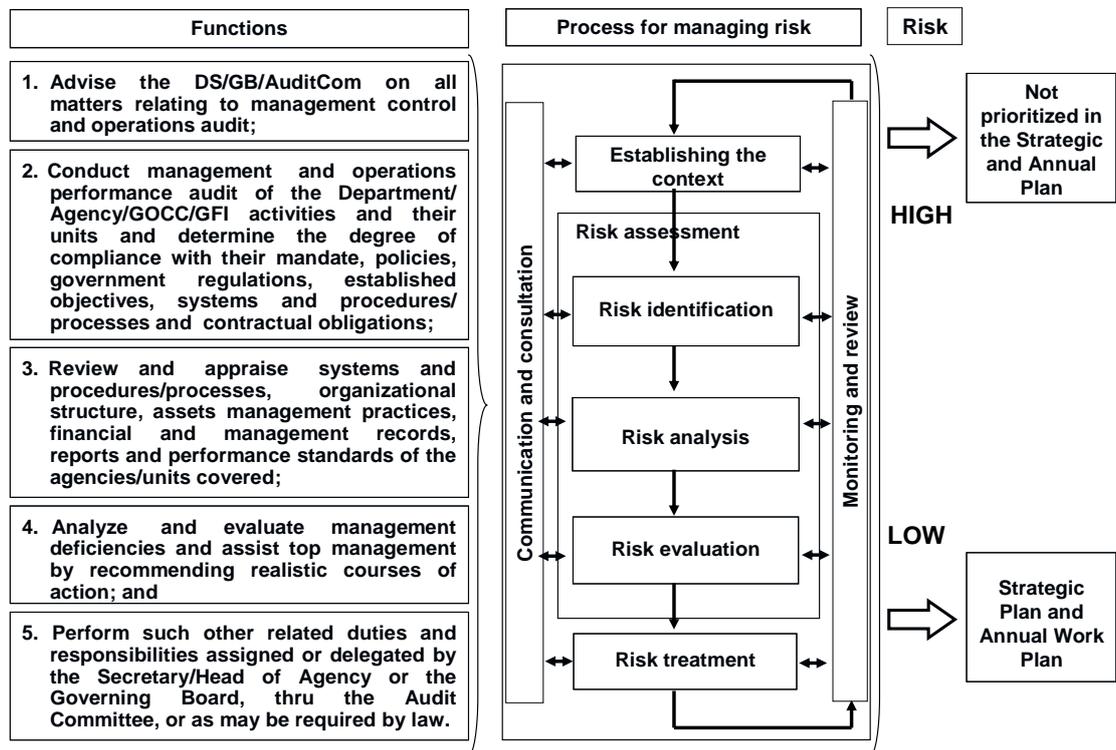
In like manner, operations risks are the responsibility of the operating units. Thus, assessment of risks at the operational level must be done by the operating units themselves. Neither the auditors nor anyone else not involved in a particular operation can perform operational risk assessment.

However, as opposed to operations risk, for purposes of planning and prioritizing potential audit areas, the IAS/IAU will have to conduct risk assessment on the identified material and significant controls where there may be high risk of impact on key processes of operating and support systems. This involves the following steps:

- a. Conduct risk assessment on the identified material and significant controls where there may be high risk of impact on key processes of operating and support systems;
- b. Determine those controls that are vulnerable to be omitted, being improperly implemented or bypassed.

### 1.3 Assess Internal Audit Risks

The IAS/IAU also focuses its auditing efforts based on the assessment of internal audit risks illustrated in Figure 15 below:



**Figure 15 – Assessment of Internal Audit Risk Flow Diagram**

Internal audit risks are those risks or factors which may affect the conduct of the audit and may have an impact on the planned results without neglect and in spite of the exercise of due diligence, e.g., sudden change in political leadership/administration, replacement of the principal, natural calamities, judicial findings and decisions which may affect audit objectives.

### **1.3.1 IAS/IAU Audit Objectives**

The IAS/IAU assesses internal audit risks which will impact on its functions (audit objectives) to:

- a. Give an appropriate advice to the DS/HoA or GB/AuditCom on all matters relating to management control and operations audit;
- b. Properly conduct management and operations audits 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, 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 (such as budgets and standard costs) 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 through the Audit Committee, or as may be required by law.

### **1.3.2 Steps in the Assessment of Internal Audit Risks**

Assessment of internal audit risks involves the following steps:

#### **a. Risk identification**

- i. Choose the risk identification method/s or technique/s to be used;
- ii. Identify risk sources and events; and
- iii. Identify the causes of the risk.

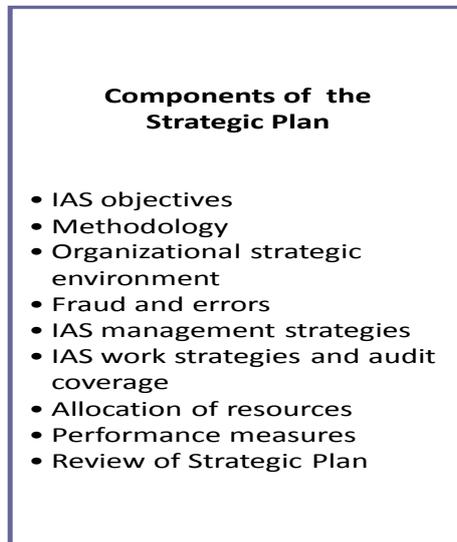
#### **b. Risk analysis**

- i. Choose the risk analysis method/s or technique/s to be used;
- ii. Determine the consequences for the identified risks;
- iii. Determine the probabilities for the identified risks;
- iv. Identify the factors that could affect the consequences and probability; and
- v. Determine the level of the risks.

**c. Risk evaluation**

- i. Compare the estimated levels of the risks with the risk criteria; and
- ii. Determine whether or not the risk or its magnitude is acceptable or tolerable.

**1.4 Formulate Strategic Plan**



The Strategic Plan consists of the three-year direction of the IAS/IAU considering the results of the baseline assessment of the ICS of the organization/sector, the control significance and materiality and control risk of key processes, and the assessment of internal audit risks. The IAS/IAU prepares the proposed three-year direction of the internal audit activities for approval by the DS/HoA or the GB/AuditCom.

**1.4.1 Steps in the Formulation of a Strategic Plan**

The formulation of a Strategic Plan involves the following steps:

- a. Analyze the results of the BAR;
- b. Evaluate the result of the assessment of the significance and materiality and the risk involved in the identified controls that may impact on the achievement of control objectives, if omitted, improperly implemented and/or bypassed; and
- c. Evaluate the result of the assessment of internal audit risks.

**1.4.2 Components of a Strategic Plan**

The Strategic Plan shall consist of the following components:

**a. IAS/IAU Objectives**

This section provides a statement of the broad audit objectives and directions for internal audit over a three-year period, including the limitations. It focuses on both audit and management goals and is consistent with organization/sector policies and guidelines.

## **b. Methodology**

This section outlines the approach in developing the plan, consisting of the conduct of the baseline assessment of the ICS, consideration of the control significance and materiality and control risk of key processes in the operating and support systems, assessment of internal audit risks, and consultation with the principal, constituents or public it serves, and key stakeholders.

## **c. Organizational Strategic Environment**

This section identifies issues and trends relevant to the organization which may impact on the achievement of the organization's objectives. Such issues could come from a number of sources including:

- i. Governance, organizational structure, roles and accountabilities;
- ii. Policies, objectives, and strategies that are in place to achieve the organization's objectives;
- iii. Capabilities, understood in terms of resources and knowledge;
- iv. Information systems, information flows and decision making processes;
- v. Relationships with, and perceptions and values of, stakeholders;
- vi. Organization's culture;
- vii. Standards, guidelines and models adopted by the organization;
- viii. Form and extent of contractual relationships;
- ix. social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local; and
- x. Key drivers and trends having impact on the objectives of the organization.<sup>125</sup>

This is derived from a review of key strategic and other planning documents and discussions with the DS/HoA or GB/AuditCom, senior executives, other public sector organizations, the public they serve, and key stakeholders.

The aim of this section is to demonstrate that internal audit has a good understanding of the organization and the sector operations, what is planned for the future and how the work undertaken by internal audit will assist the organization achieve its objectives.

#### **d. Fraud and Errors**

The primary responsibility for establishing and maintaining control rests with the DS/HoA or GB/AuditCom and the organization's personnel. Management has a responsibility to establish and maintain an effective control system to prevent fraud and error.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional and unintentional deception. It can be perpetrated to the detriment of the organization and by persons outside, as well as inside, the organization.

The IA should have sufficient knowledge to identify the indicators of fraud but it is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. The IA should be alert to opportunities that could allow fraud, evaluate the need for investigation, and notify the appropriate authorities. The IAs have a responsibility to exercise "due professional care".

A well-designed ICS should not be conducive to fraud and error. The functional units, not the IAS/IAU, are responsible for the deterrence and detection of fraud and error. The IAS/IAU, however, may determine whether or not:

- i. The organizational environment fosters control consciousness;
- ii. Realistic organizational goals and objectives are set;
- iii. Written policies (e.g., code of conduct) exist that describe prohibited activities and the action required whenever violations are discovered;
- iv. Appropriate authorization policies for transactions are established and maintained;
- v. Policies, practices, procedures, reports, and other mechanisms are developed to monitor activities and safeguard assets; and
- vi. Communication channels provide management with adequate and reliable information.

When an IA suspects wrongdoing, prompt recommendations need to be given to management and to the DS/HoA or GB/AuditCom to establish or enhance cost-effective controls to help deter fraud. The IA may recommend whatever investigation is considered necessary in accordance with law, given the circumstances.

#### **e. IAS/IAU Management Strategies**

This section describes the IAS'/IAU's three-year management strategy to achieve its broad audit objectives described earlier considering the emerging trend in the sector. The strategies, detailed into plans and approaches, should: (1) address short and long term direction focused on the audit needs of the sector; and (2) describe the capabilities and resources, both dictated by the assessment of internal controls.

Examples of management strategies include:

- i. Changes in work practices and enhancement of audit methodologies to ensure that internal audit meets the needs of its publics and delivers value for money;
- ii. Review of the internal audit professional development program to address new trends in audit;
- iii. Development or introduction of new audit technology;
- iv. Benchmarking exercises or external reviews, as may be deemed appropriate;
- v. Introduction of secondment programs aimed at augmenting the capacity of the IAS/IAU; and
- vi. Skilled and experienced staffing resources to deliver the internal audit annual work plan.

#### **f. IAS/IAU Work Strategies and Audit Coverage**

This section describes the major focus of the audit function and any audit related activity over the three-year period; and any change that is required to ensure that the audit plan and other activities remain relevant to the strategic direction of the organization/sector.

The section clarifies the audit coverage, as follows:

- i. The focus of the audit prioritized from the baseline assessment of the ICS, consideration of the control significance and materiality and control risk of key operating and support processes, and assessment of internal audit risks.
- ii. The audits proposed to be conducted over a three-year period categorized into compliance, management and operations audits, containing the following:
  - (1) Audit area;
  - (2) Site; and
  - (3) Priority.
- iii. Rationale on the greater need for compliance, management or operations audit.

For transparency in the prioritization of the audit coverage, potential audit areas are calculated by assigning scores to the controls as to consequence and probability (or the total impact). Those controls with the highest impact shall be covered in the audit and included in the three-year audit plan. The IAS/IAU may further formulate criteria on which offices/units may be included in audit, such as offices/units/system with the biggest budget, least achievement, or with the most adverse findings reported by the external auditor and oversight bodies.

A sample of a proposed audit coverage for management audit is provided in Table 5 below:

**Table 5 - Example of a Management Audit Coverage**

Department of Education					
YEAR 1		YEAR 2		YEAR 3	
Audit Area	Site	Audit Area	Site	Audit Area	Site
Controls in the procurement system	Selected Regional Field Units – Procuring Entities	Controls in the payroll system	Selected Regional Field Units (frontline units)	Controls in the performance evaluation system	Selected bureaus and agencies

A sample of a proposed audit coverage for operations audit is provided in Table 6 below:

**Table 6 - Example of an Operations Audit Coverage**

Department of Education					
YEAR 1		YEAR 2		YEAR 3	
Audit Area	Site	Audit Area	Site	Audit Area	Site
Output evaluation of public secondary education services	Selected regional offices	Input - process - output evaluation of the alternative learning system services	Selected regional offices	Outcome evaluation of the national learning of pupils enrolled in secondary education	Selected regional offices

### **g. Allocation of Audit Resources**

This section details the relative allocation of financial and human resources between 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 between the different types of audit, organizational units and/or geographical locations. Details may be provided in tabular or graphic form.

### **h. Performance Measures**

This section lists the performance measures of the IAS/IAU that are used to measure the performance of internal audit and any change in measures or targets over time.

### **i. Review of the Strategic Plan**

This section describes the timeframe and arrangements for the review and update of the plan. The plan covers a three-year rolling period and needs to be reviewed iteratively.

It is developed by the IAS/IAU and approved by the DS/HoA or GB/AuditCom, as appropriate.

## **2. Prepare the Annual Work Plan**

An Annual Work Plan (AWP) contains the prioritized audit areas from the Strategic Plan and approved by the DS/HoA or GB/AuditCom which will be focused on during a one-year period, the type and approach of the audit, and the timelines of the same.

The AWP should include areas for management audit and operations audit. The audit area can also come from the DS/HoA or GB/AuditCom. In doing so, the basic frame of reference is the objective established by the organization and the weight of the expected results from the audit area. If failure to deliver expected results is attributed to a control deficiency in the system, there is a need to conduct a management audit. The IAS/IAU should refer to the approved Annual Work Plan for management audit developed during the strategic planning phase.

As part of strategic planning and developing the AWP, the IAS/IAU may review the control components for any change, new systems and processes, and the results obtained on, for example, the top five key audit issues and the organization's priorities.

## 2.1 Prioritize Potential Audit Areas

From the list of controls identified in the Strategic Plan, the IAS/IAU categorizes by process the control methods and measures of the operating and support units/systems, into potential audit areas/topics.

The following steps shall be made in prioritizing potential audit areas:

- a. Validate the Baseline Assessment Report (on the 2<sup>nd</sup> and 3<sup>rd</sup> year);
- b. Update consideration of the control significance and materiality and control risk assessment (on the 2<sup>nd</sup> and 3<sup>rd</sup> year);
- c. Update the internal audit risk assessment (on the 2<sup>nd</sup> and 3<sup>rd</sup> year); and
- d. Prioritize the potential audit areas.

Of the three-year strategic plan, the IAS/IAU schedules the prioritized audit areas into three annual plans or AWP, subject to the approval of the DS/HoA/GB/AuditCom. The IAS/IAU then prepares the Audit Engagement Plan which focuses on the specific audit areas prioritized for the year. An example of an audit focus is shown in Table 7. In case the allocated budget is insufficient, the IAS/IAU should strategically source augmentation of resources.

**Table 7 - Example of Audit Focus/Foci for One Period**

Department of Education Audit Foci – Year 1							
Audit Area	Audit Type	Audit Description	Expected Benefit	Area Responsible	Priority	Estimated Duration	Estimated Start
Controls in the Procurement System	M a n u a d g i t e m e n t	Appraisal of the existing controls in the procurement system	Raise recommendation on the controls to ensure that the procurement system will be observed and satisfy citizens' needs and expectations	Bureau of Elementary Education (BEE)	1	30 WD	Jan 15
				Bureau of Secondary Education (BSE)	2	30 WD	Jan 15
				Bureau of Technical and Vocational Education (BTVE)	3	30 WD	April 15
				Bureau of Physical Education And School Sports (BPSS)	4	30 WD	April 15
				National Book Development Board (NBDB)	5	30 WD	July 15
				National Council for Children's Television (NCCT)	6	30 WD	July 15
Output evaluation of the secondary education services	O p e r a t i o n s	Validation of the effectiveness of the public secondary education services	Raise recommendation to ensure the effectiveness of the public secondary education services	Region V – Bicol	1	30 WD	Aug. 15
				Region III	2	30 WD	Aug. 15
				Region XI – Davao Region	3	30 WD	Sept.15
				Region II – Cagayan Valley	4	30 WD	Oct 15
				Region VI – Western Visayas	5	30 WD	Oct 15
				CAR	6	30 WD	Nov.15

## **2.2 Validate Previous Audit Follow-up Report**

In the preparation of AWP, auditors should take into consideration previous audit follow-up reports in order to validate the implementation/ non-implementation/inadequate implementation by the units concerned of the approved actions and recommendations. The steps involved are as follows:

- a. Validate the report of the non-implementation/inadequate implementation of preventive/corrective actions;
- b. Validate the report of justification for the non-implementation/ inadequate implementation of actions; and
- c. Validate the recommendations for possible legal/management action for the non-implementation/inadequate implementation of preventive/corrective actions

## **2.3 Discuss with the DS/HoA or GB/AuditCom**

The HoIA should present and discuss the Strategic Plan and Annual Work Plan with the DS/HoA or GB/AuditCom. The objective is to obtain a good understanding of the insights of the DS/HoA or GB/AuditCom on the organizational and sectoral objectives. It also allows the IAS/IAU to focus on important issues throughout the planning process and audit. Finally, the HoIA should obtain the approval of the Strategic Plan and the Annual Work Plan by the DS/HoA or GB/AuditCom.

## **3. Summary**

The significance of the strategic and annual work planning is to identify and prioritize potential audit areas where controls are claimed by auditees to be in place based on the results of the baseline assessment of the ICS. Before this can be achieved, the IAS/IAU needs a thorough understanding of the internal control components of the public service organization as a going concern in the context of the sector. The assessment also includes a review of the operating and support units/systems with all their coordinate methods and measures.

On the other hand, all the gaps or control deficiencies/breakdowns are contained in the interim report and summarized in the Baseline Assessment Report and recommendations are offered at the level of the DS/HoA/GB or AuditCom. The gaps or control deficiencies/breakdowns where courses of actions have been recommended are critical and should form part of the ensuring year's Audit Plan to determine if recommendations have been implemented.

The three-year Strategic Plan is prepared based on the information gathered during the baseline assessment of the ICS, consideration of the control significance and materiality and control risk of key processes in the operating and support systems, and assessment of internal audit risks geared towards observing IAS/IAU audit functions (objectives), and directions for internal audit over the

three-year period. It focuses on both audit and management goals and is consistent with organization/sector policies and guidelines. This Plan needs to be updated iteratively for changes occurring in the control component of the organization.

The Strategic Plan is developed from the prioritized audit areas contained in the control universe and the results of the review of oversight bodies and international development partners, and incorporated in three Annual Work Plans. The IAS/IAU then prepares the Audit Engagement Plan for the first year, which is explained in the succeeding chapters. The possible audit areas for the second and third year audit plans are updated and/or revised when necessarily affected by the changes occurring in the control component, and should include gaps or control deficiencies/breakdowns where courses of action have been recommended.

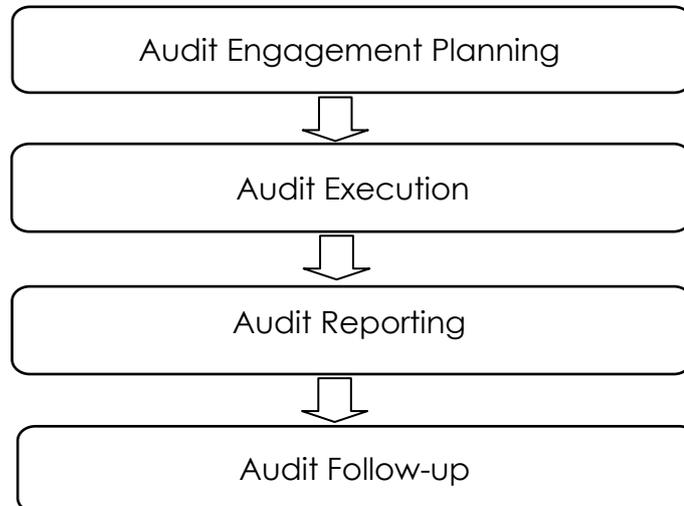
The Strategic and Annual Work Plans are a matter of agreement between the DS/HoA or GB/AuditCom and the HoIA. The approval of the plans by the DS/HoA or GB/AuditCom gives the go signal for the IAS/IAU to plan the audit engagement.

# **CHAPTER II**

## **AUDIT PROCESS**

## 1. The Audit Process

The Audit Process is divided into four phases, namely: audit engagement planning, audit execution, audit reporting, and audit follow-up. See Figure 16. This audit process is applicable for both management audit and operations audit. For each phase, there are specific criteria to ensure a successful audit engagement.



**Figure 16 – Audit Process Flow Diagram**

### 1.1 Audit Engagement Planning

Audit requires good planning. Planning entails familiarization with the objectives, processes, risks and controls of the auditee and activity to be audited, and developing a strategy and approach in conducting the audit. It is the most important part of the audit as the success of an audit depends on how well it has been planned.

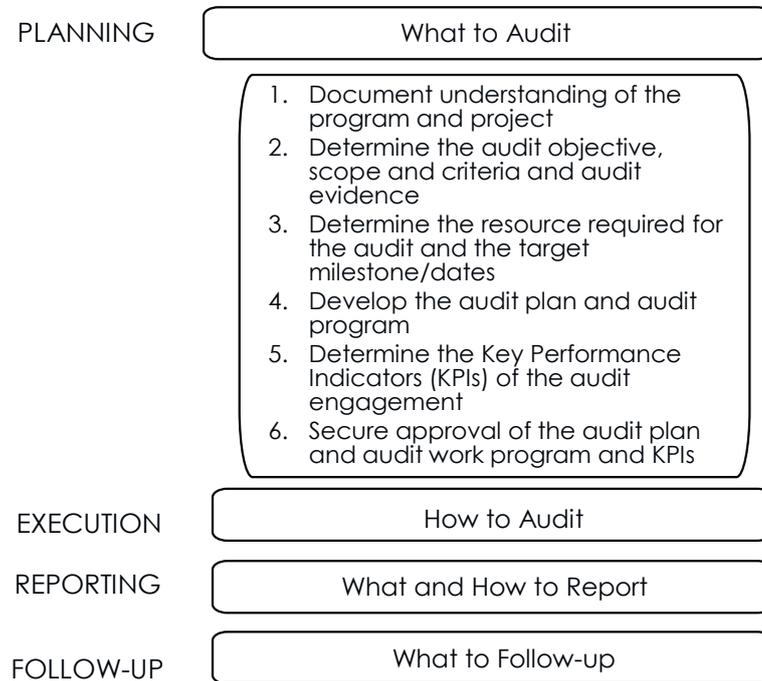
Planning is an iterative process with the following important purposes:

- a. Understanding the control environment and the organization;
- b. Outlining the scope and objectives of the audit;
- c. Establishing the basis for budgeting (time, cost, personnel);
- d. Identifying the evidence required to develop the audit findings;
- e. Assisting in choosing/determining the audit procedures (nature, extent and timing); and
- f. Establishing the basis for coordinating the staff.

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

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

Figure 17 summarizes the steps involved in Audit Engagement Planning.



**Figure 17 – Audit Engagement Planning Flow Diagram**

### 1.1.1 Document Understanding of the Program and Project

Audit engagement planning starts from an understanding of the organizational mandate and focusing on what areas will be audited. It involves the selection of specific internal controls and focusing on the degree of compliance with laws, regulations and policies of specific program/project/ system/process for evaluation; evaluation of the control effectiveness; and determination of whether or not operations are conducted economically, efficiently, ethically and effectively.

Specifically, for Management Audit, engagement planning starts from an understanding of the management controls to be audited. This is important considering that the main objective of management audit is to evaluate the effectiveness of management controls. Management controls are internal controls. They consist of the controls interwoven into and made an integral part of each operating and support system that management uses to regulate and guide its operations.

The audit plan should be based on a sound understanding of the internal control system, operating and support systems and processes.

For Operations Audit, engagement planning starts from an understanding of the organizational mandate. The IAS/IAU should understand the objective of the organization and focus on what output or outcome will be audited. It involves the selection of a specific activity and focusing only on a specific program/project/process for evaluation, being concerned with the economy, efficiency, ethicality and effectiveness of operations. The audit plan should be based on a sound understanding of the objectives, accountability, internal control system, and operating and support processes.

A program refers to the functions and activities necessary for the performance of a major purpose for which a government agency is established. A program consists of an organization/agency's functions, projects, systems, and processes. An activity is auditable if it transforms an input to an output. It may be an implementing or a monitoring activity or a process in itself as an input to another process.

A project means a component of a program covering a homogeneous group of activities or processes needed that result in the accomplishment of an identifiable output to be carried out within a definite time frame.

In Operations Audit, there are drawbacks that may often be encountered. The IAS/IAU should then come up with recommendations. The common drawbacks may be as follows:

- a. Program objectives are not clear enough; 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); a restudy of the system may be recommended;
- c. Subject matter is difficult to measure (e.g., effectiveness of an anti-alcoholism program is very difficult to measure merely by using the number of patients whose consumption is reduced. Many social factors blur the evaluation of such a program like degree of family support); the IAS/IAU may focus its audit on measurable subject matters;

- d. Purely systematic review may not be adequate (e.g., effectiveness of a vocational training program may be measured by the auditee through % of trainees gaining employment; but the auditor may have to review what % of the trainees gained employment related to the training and what % retained their employment); the IAS/IAU should identify appropriate audit procedures; and
- e. Time constraints restrict the auditor; the IAS/IAU should prioritize audit activities.

### **1.1.2 Determine the Audit Objective, Scope, Criteria and Evidence**

#### **a. Determine Audit Objective**

Based on information gathered and analyzed during the understanding of the 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. Determining the audit objectives involves the following activities:

- i. Preliminary gathering of documents/information;
- ii. Identifying the focus of the audit and the aspect of performance to be examined; and
- iii. Determining the type of audit to be performed: (1) compliance with laws, regulations and policies; (2) evaluation of control effectiveness; or (3) determination of whether or not operations are conducted economically, efficiently, ethically and effectively.

One of the objectives of a management audit is to ascertain if the operations has its measurement and evaluation system which will be used to review and improve performance and assess compliance with laws, rules, methods and procedures.

If the IAS/IAU verifies that such a self-assessment is in place, it evaluates the components of the performance evaluation system for adequacy, appropriateness of the measures and reliability of the reporting, as well as the evaluation result.

If the IAS/IAU verifies that such self-assessment is not in place, then it assesses the internal control system built in the operating and support system under audit to determine if there are compensating controls. The IAS/IAU makes a report on the matter.

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

For Operations Audit, the IAS/IAU may choose from any of the following objectives, or may formulate more which are appropriate to the results of the audit planning:

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

The IAS/IAU compares the identified performance accomplishments with the corresponding targets to determine variances, if any. Variances may be positive/favorable or negative, which means that targets have not been achieved.

- ii. To validate the reported accomplishments of the program or project as of a certain period from the data source to the consolidation and preparation of the final report

- iii. To assess and gauge the level of achievement of the program or project objective

For example, in the case of the program of the DepEd, the audit objective may be: to determine if the expected passing rate of graduating pupils of 75% is achieved from the given inputs (such as school buildings and classrooms, textbooks, curriculum, and number of teachers) using the prescribed teaching methodologies to attain the desired level of literacy, function and life skills.

## **b. Determine the Audit Scope**

Audit scope is the framework or limits of the audit. It is normally defined by stating what the audit intends to cover and the relevant timeframes.

The steps in determining the audit scope are as follows:

- i. Define the parameters and nature of the audit work to achieve the audit objectives;
- ii. Determine the audit tools, techniques and methodology to be utilized; and
- iii. Select the sampling method to be utilized. Discussions on sampling methods are provided in Appendix F.

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

To continue the example for the DepEd program, the scope for the given audit objective may be to: validate the rate of graduating pupils (information on graduation) covering a schools division in each city in Metro Manila (coverage) for the school year 2008-2009 (timeframe) to determine if the expected level of graduating pupils 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, assets management practices, financial and management records, reports and performance standards of the agencies/units covered.

An appraisal of the operating and support systems is conducted to determine whether or not the five different components, i.e., control environment, risk assessment, control activities, information and communication, and monitoring and evaluation, accomplish each of the five 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 Bids and Awards Committee (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, award, implementation and termination of the contract.

Moreover, the IAS/IAU does not only check on the presence of these control components. More importantly, it assesses whether these activities achieve the control objectives of the organization.

Thus, the IAS/IAU could 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 effectiveness, efficiency, economy and ethicality of operations?

The IAS/IAU can conclude on the effectiveness of the controls only when the internal control components achieve all the control objectives.

### **c. Determine 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. It includes statutory and/or managerial requirements; process requirements; and citizens' requirements, needs and expectations. To be able to come up with sound criteria, auditors must:

- i. Gather/Identify the standards (laws, regulatory policies) for audit evaluation;
- ii. Set reasonable and attainable standards of performance, statutory or managerial policies for evaluation; and
- iii. Identify pieces of audit evidence required by law and standards and the approaches to be utilized in obtaining them.

#### **1.1.3 Determine the Resources Required for the Audit and the Target Milestones/Dates**

Careful planning involves the determination of the overall resource requirements to accomplish the planned audits. This involves assessing the current staff capability/capacity; technological resources (e.g., computers, software); financial resources (budget requirements), among others.

Target milestones/dates for the completion or accomplishment of critical elements during the audit process should be established to keep track of the progress of the engagement and check on the quality of the outputs.

#### **1.1.4 Develop the Audit Plan and Audit Program**

An audit plan is a document that provides the main guidance of the whole audit process in order to achieve the audit objective in an efficient and effective way. It provides an integrated description of the auditee and the audit by serving as a guide for the whole audit.<sup>126</sup>

The audit plan for Management and Operations Audits will document the results of all the planning tools which would necessarily contain the following:

**Table 8 - Contents of the Audit Plan for Management Audit**

<b>Element</b>	<b>Information</b>
Introduction	A brief description of the management controls, i.e., the plan of organization and all the methods and measures adopted within an agency to ensure that resources are used consistent with laws, regulations and managerial policies; resources are safeguarded against loss, wastage and misuse; financial and non-financial information are reliable, accurate and timely; and operations are economical, efficient, ethical and effective
Audit Objective and Scope	Overall objective and scope of the work to be accomplished
Assessment of Controls	Critical processes identified by the IAS/IAU during the planning phase which led to the selection of the audit area approved by the DS/HoA or GB/ AuditCom and the formulation of the audit objective
Audit Approach	Compliance audit and management control process audit
Resources/ Inputs	Statutory policies, mandates, managerial policies, government regulations, established objectives, systems and procedures/processes, etc.
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or managerial policies, laws and regulations, etc.

**Table 9 - Contents of the Audit Plan for Operations Audit**

<b>Element</b>	<b>Information</b>
Introduction	A brief description or background information of the program or project, including the main activities and significant events; may include information on the structure of the program or project, systems and processes, which lead to the attainment of the output or the aggregate of the outputs to achieve the outcome, which process is underperforming causing delays in completion
Audit Objective and Scope	Overall objective and scope of the work to be accomplished
Assessment of Controls	Critical points identified by the IAS/IAU during the understanding phase which led to the selection of the audit area which was approved by the DS/HoA or GB/AuditCom and the formulation of the audit objective
Audit approach	Audit of program or project results
Resources/ Inputs	Statutory policies, mandates, managerial policies, citizens' needs and expectations, manpower, materials, equipment and timelines
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or managerial policies, laws, regulations, etc.

The audit work program or audit program contains the audit objective, the step by step audit procedures to accomplish the audit objective, the auditor responsible to perform the procedures, and the specified timeframe.

Audit programs are guidelines for action during the execution phase of the audit. Audit programs set out the detailed audit procedures for cost effective collection of evidence.<sup>127</sup> It is the detailed listing of steps to be taken by the IA when analyzing samples to achieve an audit objective. It describes the details of the planned audit and enumerates the processes or methods and tools for identifying, analyzing, and recording information gathered during the engagement.

#### **1.1.5 Determine Key Performance Indicators (KPIs) of the Audit Engagement**

KPIs are performance measures that are utilized to assess the outputs/outcomes contributing to the overall organizational efficiency and effectiveness. In evaluating performance, KPIs are employed to gauge the IAS's/IAU's accomplishments and to determine whether or not:

- a. Audit objectives are met as reflected in the audit findings and recommendations;
- b. Findings and recommendations are based on facts, substantial evidence and in compliance with relevant laws, rules and regulations;
- c. There is compliance with Internal Auditing Standards (NGICS, PGIAM and other relevant standards) under COA/DBM rules and regulations;
- d. Findings and recommendations promote the adequacy of internal control under COA rules and regulations; and
- e. High standards of ethics and efficiency of public officials and employees are being observed under OMB and CSC rules and regulations.

It is important that the KPIs for internal audit are aligned with the internal audit strategic plan and the annual work plan and help drive the performance that the organization expects from the IAS/IAU. It is incorporated in the audit plan to guide the auditors during the execution of the audit engagement.

#### **1.1.6 Approval of the Audit Plan, Audit Work Program and KPIs**

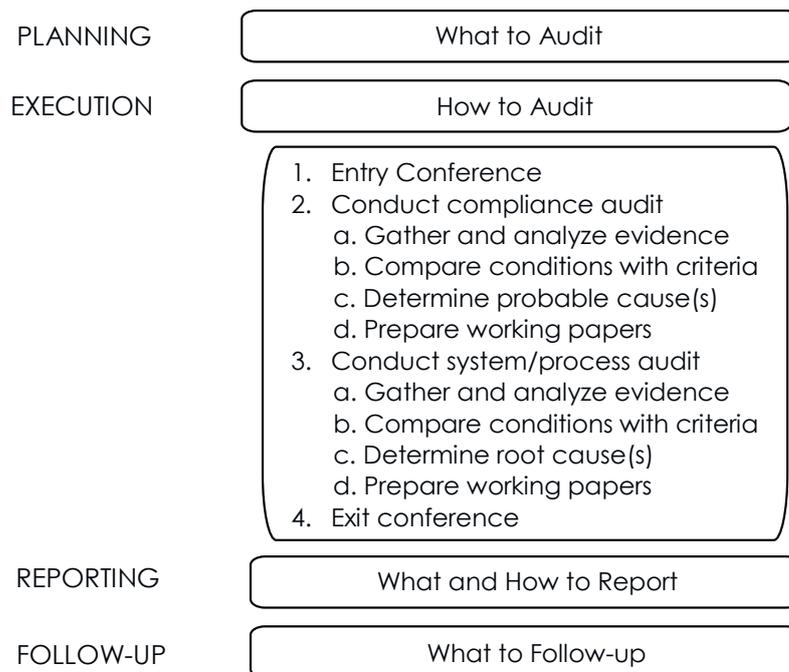
The audit plan, audit work program and KPIs, are submitted by the internal audit team leader to the HoIA for review and approval prior to the commencement of the audit execution. The HoIA will evaluate the documents to assess the relevance, significance, auditability and other factors affecting the conduct of the audit.

After the documents have been approved, management should be informed about the approved audit plan, audit work program and the KPIs. The audit plan and the KPIs should be discussed with management but the audit work program should not be shared.

## 1.2 Audit Execution

Execution of the audit is initiated with an entry conference to discuss the focus, requirements and timelines of the audit. It involves performing the audit techniques and procedures enumerated in the audit work program 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 work program, the revision should be submitted to the HoIA for approval. The HoIA uses the audit work program to supervise and monitor the progress of the audit and to check whether the team is generating sufficient and appropriate pieces of (substantial) evidence.

At any point during the audit and during the conduct of the baseline assessment of the ICS, when significant risks/issues arise, the IAS/IAU will prepare an Interim Report to the DS or GB/AuditCom to communicate findings, issues, and problems that may affect the conduct of the audit and may expose the organization to considerable risks. A summary of the interim report will be included in the audit report.



**Figure 18 – Audit Execution Flow Diagram**

### **1.2.1 Entry Conference**

The entry conference sets the tone of the audit. The initial conference aims to discuss the plans for the conduct of the audit as well as to obtain the audited entity's views and expectations for the overall framework for the conduct of the audit. Matters arising from the entry conference must be recorded (Entry Conference Notes) and should be considered during the conduct of the engagement planning.

### **1.2.2 Conduct Compliance Audit**

Compliance audit is the evaluation of the extent or degree of compliance with laws, regulations, managerial policies and operating processes in the agency, including compliance with accountability measures, ethical standards and contractual obligations. It is a necessary first step to, and part of, management and operations audits.

The approach in management audit is to first conduct compliance audit. Only when there is compliance that control effectiveness is determined. If there is no compliance, the probable cause for such non-compliance is determined.

The first approach to operations audit is also to conduct a compliance audit to determine whether government operations are in accordance with the organization's mandate and explicit objectives. The IAS/IAU identifies the standards as specified in the organization's mandate and objectives or laws/rules/regulations and compares whether 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 Bids and Awards Committee (BAC) exists in the procuring entity, if the procurement entity has an Annual Procurement Plan, and the BAC has a mechanism in the selection of observers. COA Memorandum No. 2010-003, "Guide in the Audit of Procurement" dated 14 January 2010 may be used for this purpose.

The steps in the conduct of Compliance Audit are as follows:

- a. Gather and analyze evidence to establish the condition that the auditee is in.

This refers to findings of facts which is defined as a fact, supported by substantial evidence (includes consequence, effects or impact).

- b. Compare conditions with criteria to draw conclusion.

This refers to conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.<sup>128</sup>

- 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,<sup>129</sup> could have caused the non-compliance with laws, regulations and managerial policies and operating procedures in the agency, including compliance with accountability measures, ethical standards and contractual obligations, which may warrant the conduct of administrative proceeding by the disciplining authority. It must be noted that to come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's<sup>130</sup> of the non-compliance.

- d. Prepare the working papers.

The IAS/IAU should record relevant information to support the audit results. The working papers should contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' findings.

- e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs – Criteria, Condition, Conclusion and Cause.

### **1.2.3 Conduct System/Process Audit**

Operations process audit is designed to evaluate the effectiveness, efficiency, ethicality and economy of operating systems selected for audit. On the other hand, management process audit aims to evaluate control effectiveness. This step involves the documentation of the process or system under audit, identification of the control procedures, verification and validation on whether or not such control procedures are complied with and are working effectively.

- a. Gather and analyze evidence to establish the condition.

This refers to findings of facts which is defined as a fact, supported by substantial evidence (includes consequence, effects or impact).

- b. Compare conditions with criteria to draw conclusion.

This refers to conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.<sup>131</sup>

- c. Determine the root cause(s).

Root cause is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it.<sup>132</sup> The determination of root cause through varying techniques is an essential audit methodology that will assist auditors in analyzing pieces of audit evidence to come up with appropriate recommendations.

- d. Prepare the working papers

The IAS/IAU should record relevant information to support the audit results. The working papers should contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' findings.

- e. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs – Criteria, Condition, Conclusion and Cause.

#### **1.2.4 Exit conference**

The purpose of the exit conference is to discuss the highlights of the audit findings with the auditee and/or the responsible official who has sufficient knowledge about the audit area. It also provides an opportunity to get the auditee's comments (management comments) and insights about the significant audit issues as a way of validating the audit findings. Management's comments should be taken into consideration so as to arrive at workable recommendations and obtain the auditee's commitment towards performing remedial actions – as a manifestation of progressive attitude towards the audit findings. The auditee's comments/responses are recorded in the audit findings sheet and integrated into the draft report.

### 1.3 Audit Reporting

Audit reporting represents the culmination of the audit execution and the associated analysis and considerations made during the audit. The audit report sets out the findings in appropriate format; provides the pieces of evidence gathered to arrive at the audit findings, and the recommendations.

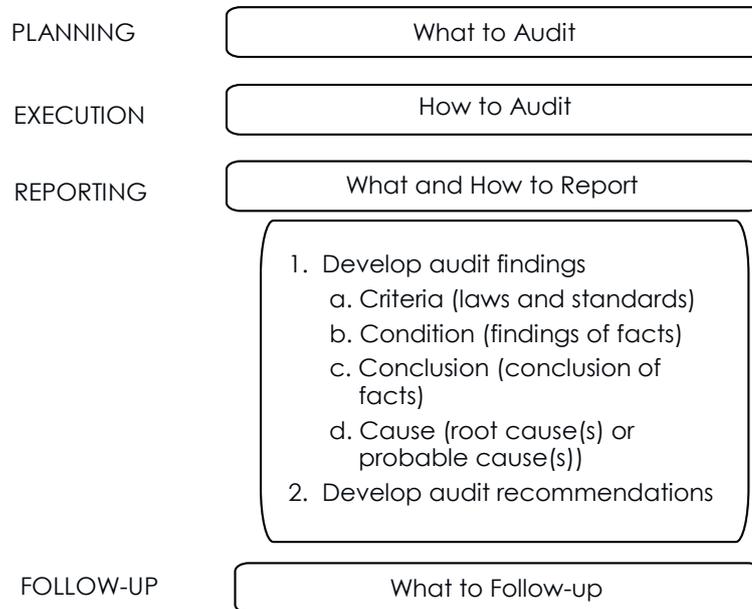


Figure 19 – Audit Reporting Flow Diagram

#### 1.3.1 Develop Audit Findings

The audit findings can be developed by analyzing the pieces of evidence gathered for each of the audit elements. Evidence may be categorized as physical, documentary, testimonial, analytical or electronic. Evidence should be sufficient and appropriate (substantial), competent, and relevant. Audit findings provide answers to the audit objectives.

Audit findings compare the conditions (factual and evidentiary conditions such as the current state/practices or what is obtaining, and their effects) with the audit criteria, and determine the causes. Once an audit finding has been identified, two complementary forms of assessment take place: the assessment of the significance of the findings and the determination of the probable cause/s and the root cause/s. In fine, all audit findings should be formulated based on the four Cs (criteria, condition, conclusion, cause) defined as follows:

- a. Criteria – the standards against which a condition is compared with (i.e., laws, regulations, policies).
- b. Condition – a fact, backed up by substantial evidence. The condition refers to what is currently being done or the current situation.

Condition is what the auditor actually finds as a result of the review. It is a situation that exists. The auditor may find that the actual condition of an event is not in accordance with the criteria. For example, under the program of the DepEd, the actual cost of school building is more than the estimated cost; the ratio of book distribution per pupil of 1:1 was not followed despite the sufficiency of budget for books; the actual passing rate of pupils was reduced to 66% from the expected or acceptable passing rate of 75%.

The condition should be compared with the criteria to assess if the condition falls short of the criteria or it is beyond acceptable levels.

- c. Conclusion – the evaluation of the criteria and the conditions 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.
- d. Cause – the immediate and proximate reason/s for the condition for which substantial evidence will be used as basis of the audit recommendation. It may also refer to the probable cause which needs only to rest on evidence showing that more likely than not<sup>133</sup> 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. Root cause is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it.<sup>134</sup>

The audit findings should align with the audit objectives and should be rational and based on specific standards and criteria. Audit findings on probable cause of illegality of a transaction constitute a violation of law, while irregularity constitutes a violation of regulations.

### **1.3.2 Develop Audit Recommendations**

Much of the work of internal audit is judged on the quality of the final audit report, including its analyses, findings, and recommendations. The recommendations, in particular, provide courses of action as the basis for improving internal controls.

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

Audit recommendations are management/legal remedies to avoid occurrence (preventive action) or avoid recurrence (corrective action) of control weaknesses and incidences.

The issues to consider in developing recommendations are as follows:

- a. Recommendations are submitted to the DS/HoA or the GB/AuditCom as the official primarily responsible. The recommendations should identify the probable/root cause of the gaps or deficiencies/breakdowns. The IAS/IAU should not address the probable/root cause; instead, it should recommend courses of action wherein the responsible units will take preventive (avoid occurrence) and corrective (avoid recurrence) measures.
- b. Recommended courses of action to indicate what needs to be done, but not how to do it. The “how” of it is the responsibility of the unit and/or management concerned.
- c. The circumstances that aid or hinder the organization in achieving the criteria should be identified.
- d. The feasibility and cost of adopting a recommendation, with the benefit of a recommendation outweighing the costs.
- e. Alternative courses for remedial actions.
- f. Effects of the recommendation (positive and negative).

### **1.3.3 Prepare 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.

When preparing a draft audit report, the auditor should:

- a. Delineate the objectives and scope and report within that scope, unless other issues of substance are identified;
- b. Identify all criteria;
- c. Report significant matters – positive or negative;
- d. Describe the context and background of the reported matter only as far as is necessary to provide an understanding of the issue;
- e. State initial findings, management’s comments and team’s rejoinder, if any;
- f. Present the audit findings in a manner that is concise, fair and objective; and
- g. State the recommendations so that they indicate what needs to be done but not how to do it.

### 1.3.4 Update the DS/HoA or GB/AuditCom

The DS/HoA or GB/AuditCom should be updated on the results of the audit engagement.

### 1.3.5 Prepare the Final Audit Report

The draft report may then be finalized integrating the following as parts of the final report:

- a. Table of Contents;
- b. Executive Summary;
- c. Detailed Audit Findings;
- d. Management Comments and Team's Rejoinder;
- e. Monitoring and Feedback on Prior Year's Recommendations;
- f. Recommendations; and
- g. Appendices.

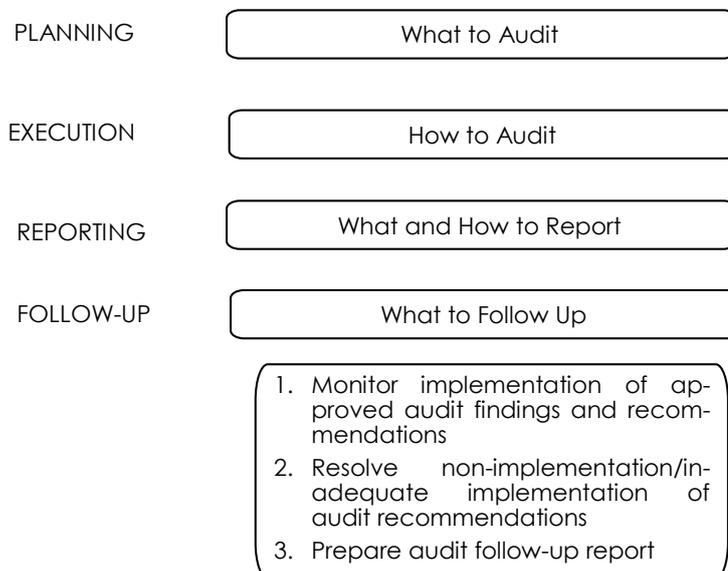
The final audit report should be presented to the DS/HoA or GB/AuditCom who decides on the distribution of the audit report based on the recommendation of the HoA.

The IAS/IAU proceeds to follow-up on the audit recommendations.

## 1.4 Audit Follow-up

Follow-up is a monitoring and feedback activity undertaken to ensure the extent and adequacy of preventive/corrective actions taken by the Management to address the inadequacies identified during the audit. It aims to increase the probability that recommendations will be implemented.

Figure 20 illustrates the Audit Follow-up Flow Diagram



**Figure 20 – Audit Follow-up Flow Diagram**

#### **1.4.1 Monitor Implementation of Approved Audit Findings and Recommendations**

It is a 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.

#### **1.4.2 Resolve Non-Implementation/Inadequate Implementation of Audit Recommendations**

In the event of non-implementation of recommendation/ inadequate action, the IAS/IAU recommends appropriate legal and/or management remedies for non-implementation of recommendation and inadequate preventive/corrective actions.

#### **1.4.3 Prepare Audit Follow-up Report**

Results of the audit follow-up should be recorded and reported in order to apprise the DS/HoA or GB/AuditCom of the status of actions on the approved recommendations. The reasons for the lack of action or non-completion of action on any recommendation should be documented and further action considered on significant recommendations that have not been acted upon. 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 auditee's performance in implementing recommendations have been particularly inadequate; and
- d. Describe the actions, if any, that the auditor intends to take in relation to inadequate auditee's actions.

The HoIA 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 actions taken on the report and the status thereof.

Follow-up of audit recommendations serves four main purposes:

- a. Increase the effectiveness of audits – the prime reason for following-up audit reports is to increase the probability that recommendations will be implemented;
- b. Assist the government – following-up may be valuable in proposing some necessary actions to the DS/HoA or GB/AuditCom and other officials;
- c. Evaluate the IAS/IAU performance – follow-up activity provides a basis for assessing and evaluating the IAS/IAU performance; and
- d. Create incentives for learning and development – follow-up activities may contribute to better knowledge and improved practice.

## **2. Compliance Audit of Statement of Assets and Liabilities and Net Worth (SALN), Disclosure of Business Interests and Financial Connections (DBIFC), and Identification and Disclosure of Relatives (IDR) in Government Service of Public Officials and Employees**

In line with its functions, the IAS/IAU may conduct compliance audit of the submission of the Statement of Assets and Liabilities and Net Worth (SALN), Disclosure of Business Interests and Financial Connections (DBIFC), and Identification and Disclosure of Relatives (IDR) in government service of public officials and employees to determine whether such documents have been properly accomplished pursuant to RA 6713 and its IRR, RA 3019 and other related laws.

### **2.1 Audit Engagement Planning**

- a. The IAS/IAU, when assigned by the DS/HoA or Governing Board/AuditCom to conduct an independent evaluation and/or fact-finding of the SALN, DBIFC and IDR of public officials and employees, shall gather from the Human Resource Management Office (HRMO), or its equivalent, all submitted documents to determine whether or not said documents are in proper form,<sup>135</sup> complete and accomplished in detail<sup>136</sup>.
- b. SALNs, DBIFCs and IDRs that are not in proper form, incomplete, and/or not accomplished in detail shall be subject to further fact-finding by the IAS/IAU.

- c. To facilitate the conduct of fact-finding of the SALNs, DBIFCs and IDRs of public officials and employees, the IAS/IAU may require additional documentation such as:
  - i. Assets and liabilities;
  - ii. Amounts and sources of income;
  - iii. Amounts of personal and family expenses;<sup>137</sup>
  - iv. Amounts of income taxes paid;<sup>138</sup>
  - v. Business interests and financial connections; and/or
  - vi. Relatives in the government.<sup>139</sup>
- d. During the fact-finding, the IAS/IAU may also request for documents readily available from other government offices.<sup>140</sup>
- e. Upon receipt of the SALNs, DBIFCs and IDRs and additional documents, the IAS/IAU shall perform the following:
  - i. Identification of SALNs, DBIFCs and IDRs with incomplete data;
  - ii. Identification of mathematical errors;
  - iii. Identification of:
    - (1) Omission, understatement and/or overstatement of assets, liabilities and net worth;
    - (2) Erroneous disclosure or non-disclosure of:
      - (a) Business interests and financial connections; and
      - (b) Relatives in the government service within the fourth degree of consanguinity.
  - iv. Identification of property manifestly out of proportion to the employee's salary, disposable funds<sup>141</sup> and income taxes paid.
  - v. Identification of personal and family expenses<sup>142</sup> manifestly out of proportion to the employee's salary, disposable funds and income taxes paid.

## 2.2 Audit Execution

The IAS/IAU determines whether the submitted SALN, DBIFC and IDR of the public officials and employees are compliant with the provisions of RA 3019, RA 6713 and RA 1379 and with the internal auditing methods in the identification of assets and/or expenses manifestly out of proportion to the public official's or employee's salary, disposable funds and income taxes paid such as:

- a. Assets to Income Analysis<sup>143</sup> - This method is used to compare the property and business interests and financial connections acquired against the salary and disposable funds. Where the total value of the property acquired during the public official's incumbency or period under review is greater than his/her salary and disposable funds during the said period, the difference may give rise to findings for further investigation.

<b>Computation:</b>		
Real and personal property		P xxx
Business interests and financial connections		xxx
Total Assets acquired by the public officer during the year		P xxx
Less:Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflow	xxx	
Disposable funds		xxx
Discrepancy		P xxx

- b. Expenses to Income Analysis<sup>144</sup> - Under this method, the personal and family expenses, reduction in liabilities, and cash and bank deposits, when allowed, of the public official during the year is compared with his/her salary and disposable funds during the same year. Where the total expenses incurred, reduction in liabilities and cash and bank deposits during the year is greater than his/her salary and disposable funds during the said period, the difference may give rise to findings for further investigation.

<b>Computation:</b>		
Personal and family expenses		P xxx
Reduction in liabilities		xxx
Total		P xxx
Less:Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflow	xxx	
Disposable funds		xxx
Discrepancy		P xxx

- c. Net Worth to Income Discrepancy Analysis<sup>145</sup> - This is a method of reconstructing net worth based on the theory that if the net worth has increased in a given year in an amount larger than his reported salary and disposable funds, the difference may give rise to findings for further investigation of the official or employee.

<b>Computation:</b>		
Assets (Real, personal and other properties)		P xxx
Less: Liabilities		xxx
Net Worth for the Current Year		P xxx
Less: Net Worth over Previous Year		xxx
Increase(Decrease) in Net Worth		P xxx
Less: Salary	P xxx	
Other lawful income	xxx	
Income from legitimately acquired property	xxx	
Other cash/fund inflow	xxx	
Disposable funds		xxx
Discrepancy		P xxx

- d. Cash/Funds Flow Analysis Method<sup>146</sup> - Proceeds from the theory that where the amount of money spent during a given year exceeds the reported salary and disposable funds, and the sources of such fund is otherwise unexplained, the difference may give rise to findings for further investigation of the official or employee.

<b>Computation:</b>		
Sources of Funds		
Declared compensation income per SALN		P xxx
Business income (add back non-cash expenses, e.g., depreciation, bad debts)		xxx
Income of spouse		xxx
Non-taxable receipts such as prizes, royalties		xxx
Receipts subject to final tax such as dividends, donations, inheritance and interest on deposit		xxx
Loans or credits		xxx
Cash at the beginning of the period		xxx
Total Funds		P xxx
Less: Application of Funds		
Personal and family expenses declared	P xxx	
Payments of debts, payables, accruals, and other liabilities	xxx	
Payments of taxes	xxx	
Acquisition of assets – real, personal and other assets	xxx	xxx
Discrepancy		P xxx

- e. Business Interests and Financial Connection to Assets Analysis - Proceeds from the theory that when the public officer or employee has declared business assets, he/she should have likewise declared the corresponding business interest or financial connection he/she has on said asset; or when he/she has declared a business interest or financial connection, he/she must likewise indicate the corresponding business or financial asset in his/her SALN.<sup>147</sup>
- f. Analysis of IDR - For purposes of determining compliance on the filing of IDR, the IAS/IAU should also look into the veracity and/or inconsistencies of the entries in the IDR declared by the public official or employee. To substantiate the same, the IAS/IAU may require from the public official or employee concerned other documents wherein information on relationship, as required by law to be disclosed, may be contained.

## 2.3 Audit Reporting

- a. Criteria. The IAS/IAU will determine whether the submitted SALN, DBIFC and IDR of the public officials and employees are compliant with the provisions of RA 3019, RA 6713 and RA 1379 and with the internal auditing methods in the identification of assets and/or expenses manifestly out of proportion to the public official's or employee's salary, disposable funds and income taxes paid.

- b. Conditions. These conditions may arise in the course of the evaluation of the SALN, DBIFC or IDR of the public officials or employees.
  - i. The SALN, DBIFC and IDR submitted by the public officials and employees are in proper form, complete and detailed.
  - ii. The SALN, DBIFC and IDR submitted by the public officials and employees are not in proper form, incomplete and/or not detailed but after being given the opportunity to correct said documents, the public official or employee concerned complied and corrected the same to be in proper form, complete and detailed.
  - iii. The SALN, DBIFC and IDR submitted by the public officials and employees are not in proper form, incomplete and/or not detailed and after being given the opportunity to correct said documents, the public official or employee concerned failed to comply and correct the same to be in proper form, complete and detailed.
- c. Conclusion. The evaluation and/or fact-finding by the IAS/IAU of the criteria and conditions in the compliance of the SALN, DBIFC or IDR of the public officials or employees could either result in compliance or non-compliance by said officials and employees in the filing of said documents pursuant to RA 6713 and its IRR, RA 3019 and other related laws.
- d. Cause. The IAS/IAU shall determine the probable cause/s of the difference between the criteria and conditions which resulted in non-compliance by the public official or employee to accomplish and file his/her SALN, DBIFC and IDR in proper form, complete and in detail, i.e., more likely than not<sup>148</sup> the public official or employee concerned has unexplained wealth which may warrant the conduct of administrative proceeding by the disciplining authority. "Unexplained" matter normally results from "non-disclosure" or concealment of vital facts.<sup>149</sup> To come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's<sup>150</sup> of the non-disclosure or concealment of vital facts.

## **2.4 Audit Follow-up**

The IAS/IAU shall render assistance to the disciplining body in the conduct of the investigation in the event that there is a finding of probable cause against the public officials and employees who have failed to comply after being given the opportunity to correct, or have failed to justify the property acquired and/or their personal and family expenses are manifestly out of proportion to their salary, disposable funds and income taxes paid.

### **3. Gathering and Analysis of Evidence**

Under the execution phase of the audit, the audit work program 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. Sources of information include sampling results of accounting records (books of entry, checks, invoices, contracts, ledgers, journal entries, etc.); minutes of meetings; analyst reports; controls manual; information obtained from such audit procedures as inquiry, observation, and inspection; and other information developed by, or available to, the auditor that permits him to reach conclusions through valid reasoning.

In executing the annual work program developed during the planning stage, gathering of evidence will be completed to form the audit findings. The process therefore involves the following:

- a. Identify the control tested;
- b. Consider the evidence available to support or contradict;
- c. Select the method of obtaining the necessary evidence; and
- d. Collect and evaluate that evidence to form the audit findings.

#### **3.1 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:

- a. Nature of the control deficiency;
- b. Materiality;
- c. Source of information and evidence;
- d. Prior audit experience; and
- e. Results of other audit procedures.

The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the impact of control deficiencies (the higher the impact, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). If no evidence is obtainable for certain deficiencies, the particular area/topic is not auditable.

Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and reliability in providing support for the audit findings. It should assist in meeting the audit objectives and is credible.

Sufficient and appropriate means that the audit evidence must be substantial enough to influence or convince the DS/HoA or GB/AuditCom to implement the recommended courses of action. “Substantial evidence is more than a mere scintilla of evidence. It means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if other minds equally reasonable might conceivably opine otherwise.”<sup>151</sup>

- a. Relevant evidence is one having value in reason as tending to prove any matter provable in an action.
- b. Direct evidence is that which proves the fact in dispute without the aid of any inference or presumption.
- c. Circumstantial evidence is the proof of a fact or facts from which, taken either singly or collectively, the existence of the particular fact in dispute may be inferred as a necessary or probable consequence.
- d. Corroborative evidence is 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 it has been validated.

Materiality relates to the degree of audit evidence required to obtain a certain level of confidence that the information is reliable and not misstated. Audit evidence is credible if there is consistency of information obtained from two or more sources. This may be the case when, for example, responses to inquiries of management and external sources are consistent, or when responses to inquiries of those in-charge of governance corroborate the responses to inquiries of beneficiaries and other stakeholders.

Admissible evidence is any testimonial, documentary, or tangible evidence that may be introduced in order to establish or bolster a point. In order for a piece of evidence to be admissible, it must be relevant, without being prejudicial, and it must have some signs of reliability. An evidence, whose probative value is outweighed by the risk of confusing the issues to be decided, may be excluded as it may be inadmissible.

## **3.2 Types of Audit Evidence**

Overreliance on any one form of evidence may impact on the validity of the findings. One should gather a wide variety of evidence for purposes of triangulation of multiple forms of diverse and corroborating types of evidence. This is to check the validity and reliability of the findings. Thus, more cross-checks on the accuracy of the decision should be undertaken. Pieces of evidence in support of the findings should be corroborative as a result of triangulation of evidence gathered in at least three approaches.

Triangulation involves employing multiple forms of corroborating diverse types and sources of evidence and perspectives. By using multiple forms of evidence and perspectives, a veritable portrait of the facts and conditions can be developed.

Audit evidence usually falls into the following types:

### **3.2.1 Physical evidence**

Physical evidence is obtained by direct observation. Examples are physical verification of cash, site visits to projects and verification of inventory. This type of evidence can be obtained from the following sources: observation of processes and procedures; site visits to gain personal knowledge of the practicality and the physical state of work as they are at a point in time; and physical verification of assets, etc. Said evidence may require proof of another evidence thus, documentary or photographic evidence can become handy in this situation.

### **3.2.2 Testimonial Evidence**

Testimonial evidence is obtained from others through oral or written statements in response to inquiries or through interview. Testimonial evidence comes from interviews with interested parties. It can be documented in the form of interview notes, recorded conversations, or corroborated evidence or testimonies from other people that have knowledge of the issue at hand.

### **3.2.3 Documentary Evidence**

Documentary evidence consists of files, reports, manuals and instructions. 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. The following are examples of sources where documentary evidence can be obtained: manuals; files; reports; instructions; contracts; invoices; and vouchers.

Documentary evidence may be obtained through solicitation or elicitation. Independent external (third party confirmation) evidence may be more reliable than internally provided evidence. Evidence obtained by the auditor directly (third party confirmation direct to/from auditor) is more reliable than internally provided evidence. Documentary evidence is more reliable than oral representations; internal evidence is more reliable when related internal controls are satisfactory, e.g., elicit – draw, extract, obtain; and solicit – ask for or request.

#### **3.2.4 Analytical Evidence**

Analytical evidence is built up by analyzing the information obtained from other sources. The most common is the 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.

#### **3.2.5 Electronic Evidence**

There are many different types of electronic evidence and these may include: hardware and network diagrams; operating systems software; network and communications software; journal and activity logs; application programs; and flow diagrams. Collecting electronic evidence requires careful planning and execution, preferably by experts. Electronic evidence may be challenged on the basis of unreliability. Such challenges may be countered if it can be shown that controls are in place. Thus, the auditor should exercise due care to document such controls if electronic evidence is going to be used.

### **3.3 Audit Approaches and Techniques in Gathering Audit Evidence**

In selecting the audit techniques to be used, the IA 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 interviews, document reviews, sampling, testing of controls, policy study, review of management information, review of processes, and output-input evaluation.

Generally, an audit will involve a combination of such approaches. The audit approach selected should be the most time and cost-effective given the objectives and scope of the audit. It should aim to collect sufficient and appropriate evidence that enables the auditor to come to well-founded audit findings about the program or activity under review and to 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.

### **3.3.1 Inquiries and Interviews**

An inquiry/interview is basically a question and answer session to elicit specific information. A great deal of audit work is based on inquiries/interviews, and different kinds of interviews are carried out at different stages of the audit.

The entire spectrum of inquiries is used, from fact-finding conversations and discussions, through unstructured interviews (that is, with 'open-ended' questions), to structured interviews that follow a list of closed questions:

- a. Preparatory interviews;
- b. Interviews to collect or validate material information; and
- c. Interviews to generate and assess facts and pieces of evidence.

Inquiry is a way of gathering facts and information and gaining support for a variety of arguments, but one cannot rely solely on interviews.

The results of the interviews must be compiled and documented in a way that facilitates analysis and reliability of information. For example, materials such as problems, causes, consequences, and proposals can be in a separate group. These can be sources of conditions, causes and potential recommendations for the development of audit findings and recommendations.

### **3.3.2 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.

There are various sampling methods available to the auditor. (Please refer to Appendix F for discussions on sampling methods).

### **3.3.3 Computer-Assisted Audit Techniques and Tools<sup>152</sup>**

Computer-Assisted Audit Techniques and Tools (CAATTs) are computer tools and techniques in performing various auditing procedures and improving the effectiveness and efficiency of obtaining and evaluating audit evidence. It provides effective tests of controls and substantive procedures where a wide range of techniques and tools are used to automate the test procedures for evaluating controls, obtaining evidence and data analysis.

The Asian Organization of Supreme Audit Institutions (ASOSAI) identified types of CAATTS into two discrete areas of operations:

- a. CAATTS used to validate programs/systems (functionality of the programmable controls)

Program review involves a detailed examination of program coding. It generally involves a fair degree of programming skill and a thorough knowledge of program specification.

- b. CAATTS used to analyze data files.

These are CAATTS which are primarily used on data files. Of course, results of data analysis can indirectly help the auditor to reach conclusions regarding the quality of programs. However, these CAATTS do not directly test the validity of programs.

### **3.4 Techniques in the Analysis of Evidence**

All audit findings must therefore be based on appropriate analyses and evaluation of the information and/or evidence.

Some of the techniques to be used in the analysis of evidence include: Structured or semi-structured interviews, Delphi Technique, Root Cause Analysis, Fault Tree Analysis (FTA), Cause-Consequence Analysis, Cause and Effect Analysis, Bow Tie Analysis, and Cost/Benefit Analysis. IEC/ISO 31010, Risk management – Risk assessment techniques, may be used as reference on these techniques, although caution should be observed as the discussion is centered on risk assessment. An example using the root cause analysis is the determination of the root cause in case of any difference between the automated and manual count in the conduct of the Random Manual Audit of the Automated Election System (Section 24, RA 9369, Automated Election Law, January 23, 2007).

## **4. Root Cause Analysis**

Root cause analysis (RCA) is a method that is used to address a deficiency to determine the “root cause” of the problem. 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.

The basic steps in conducting the RCA relating to non-compliance of management controls are:

- a. Establishing the scope and objectives of the RCA;
- b. Gathering data and evidence relating to the non-compliance;
- c. Performing a structured analysis to determine the root cause; and
- d. Developing solutions and making recommendations.

#### **4.1 Root Cause Analysis Techniques**

There are various root cause analysis techniques that can be used. Some of these are the: (1) “5 Whys” Technique; (2) Failure Mode and Effects Analysis; (3) Fault Tree Analysis; (4) Fishbone or Ishikawa Diagrams; and (5) Pareto Analysis. These techniques are presented below.<sup>153</sup>

##### **4.1.1 “5 Whys” Technique**

The “5 whys” technique is a simple technique done by repeatedly asking ‘why’ to peel away layers of cause and sub-causes.

##### **4.1.2 Failure Mode and Effects Analysis**

Failure Mode and Effects Analysis (FMEA) is a technique used to identify the ways in which the components, systems or processes can fail to fulfill their design intent.

The **FMEA identifies**

- i. All potential failure modes of the various parts of a system (a failure mode is what is observed to fail or to perform incorrectly, i.e., the deficiency in control design and control operation);
- ii. The effects these failures may have on the system;
- iii. The mechanisms of failure; and
- iv. How to avoid the failures and/or mitigate the effects of the failures on the system.

##### **4.1.3 Fault Tree Analysis**

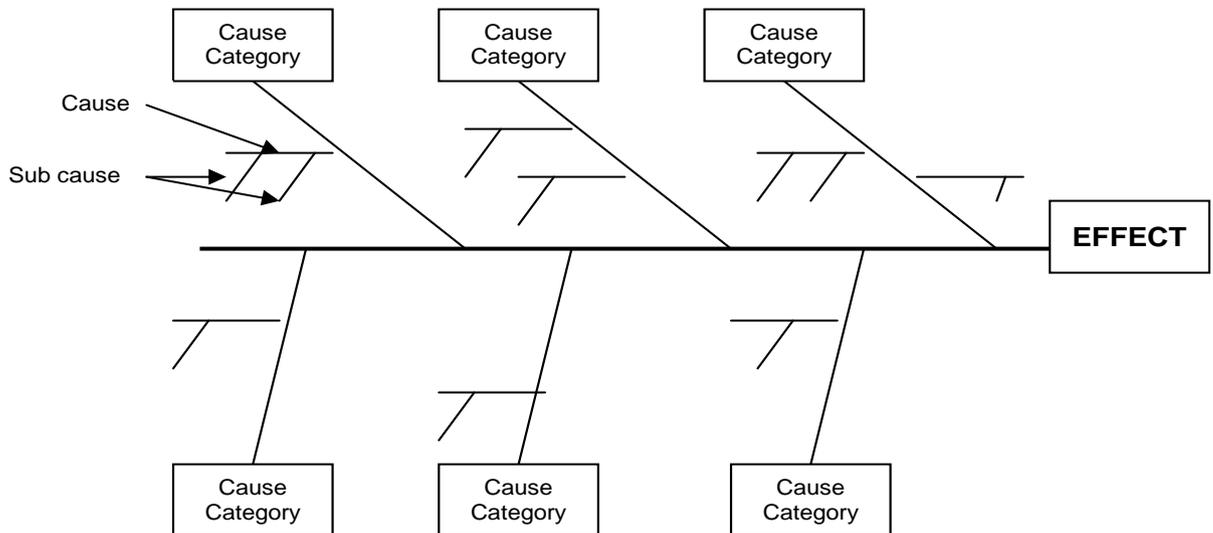
Fault Tree Analysis (FTA) is a technique for identifying and analyzing the factors that can contribute to a specified undesired event (top event). Causal factors are deductively identified, organized in a logical manner and represented pictorially in a tree diagram which depicts the causal factors and their logical relationship to the top event.

##### **4.1.4 Fishbone or Ishikawa Diagrams**

Cause and effect analysis is a structured method to identify the possible causes of an undesirable event or problem. It organizes the possible contributory factors into broad categories so that all possible hypotheses can be considered. It does not, however, by itself point to

the actual causes, since these can only be determined by real evidence and empirical testing of the hypotheses. The information is organized in either a Fishbone (also called Ishikawa) or sometimes a tree diagram.

The Fishbone diagram (Figure 21) is structured by separating causes into major categories (represented by the lines off the fishbone) with branches and sub-branches that describe more specific causes in those categories.



**Figure 21 - Ishikawa Diagram**

#### **4.1.5 Pareto Analysis**

The Pareto Analysis is a method using statistics to discover the most important causes of an effect. The Pareto Principle states that only "vital few" factors are responsible for producing most of the problems. This principle can be applied to quality improvement to the extent that a great majority of problems (80%) are produced by a few key causes (20%). If we correct these few key causes, we will have a greater probability of success.

### **5. Perform Substantive Tests on the Samples**

Performing substantive tests on the samples selected is a comprehensive analysis by using ratios, analytical procedures, inquiries, confirmation, and other tools and techniques. It is the execution of the audit procedures enumerated in the audit work program on samples selected. The procedures seek to provide evidence as to the various control attributes/features established during the planning stage of the audit, e.g., existence, occurrence, completeness, validity, adequacy, efficiency, effectiveness, economy, etc. Where necessary and possible, this process fully quantifies the audit elements such as criteria, cause, and conditions, which include the effects or consequences, of transactions covered in audit.

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

## **6. Use of Work of Other Experts**

When there is a need to make use of other experts' work to corroborate or substantiate the facts/evidence gathered by the internal auditors, they remain responsible for its use. Experts are those who have acquired special knowledge, skill, experience or training in a particular field other than auditing. The auditor may use the work of an expert as evidence but the auditor retains full responsibility for the contents of the audit report.

Expert task in auditing is expertise gained in the course of audit activities. Expert tasks are performed in a way that does not endanger the impartiality of audit activities. Expert tasks include participating in working groups or projects, presenting initiatives to correct observed deficiencies in administration, issuing statements and arranging trainings.

The steps the auditor should take are:

- a. Obtain information on the qualifications, competence or specialization of the experts and the context of their assignment, e.g., in certifying an opinion on hospital operations, a doctor should not just be a general practitioner but a recognized hospital administrator who is able to demonstrate a profound level of expertise; opinions on information technology (IT) process should not just be from a computer science graduate but from a recognized and reputable IT practitioner demonstrating a profound level of expertise;<sup>154</sup>
- b. Consider the nature, complexity and materiality of the matter, assumptions used, and corroborative evidence available;
- c. Consider the objectivity of the expert; and
- d. Advise the expert on what the work is being used for and the purpose.

## **7. Integration and Preparation of Highlights of Audit Findings**

In the preparation of audit findings, the conditions, conclusions and the causes must be supported by sufficient audit evidence. The quantum of evidence required to support an audit finding is substantial evidence. Such substantial evidence would lead to the determination/finding of a probable cause or a prima facie case and would draw a reasonable conclusion that more likely than not, a non-compliance or failure of control/supervision was established, and that an offense may have been committed.

- a. "Substantial evidence is more than a mere scintilla of evidence. It means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if other minds equally reasonable might conceivably opine otherwise."<sup>155</sup>

- b. A finding of probable cause for non-compliance needs only to rest on evidence showing that more likely than not<sup>156</sup> the act/s or omission/s of the person responsible had caused the non-compliance with laws, regulations and managerial policies and operating procedures in the agency, including compliance with accountability measures, ethical standards and contractual obligations, which may warrant the conduct of administrative proceeding by the disciplining authority. It must be noted that to come up with the determination of probable cause/s, the IAS/IAU must be able to establish, not only the facts and circumstances, but also the why's, the what's and the how's<sup>157</sup> of the non-compliance.
- c. "Prima facie requires a degree or quantum of proof greater than probable cause. '[i]t denotes evidence, which, if unexplained or uncontradicted, is sufficient to sustain a prosecution or establish the facts as to counterbalance the presumption of innocence and warrant conviction x x x.'"<sup>158</sup>

This could also give rise to a disputable presumption of non-compliance with a regulation or rule. "A disputable presumption has been defined as a species of evidence that may be accepted and acted on where there is no other evidence to uphold the contention for which may be overcome by other evidence."<sup>159</sup>

The Supreme Court in *Balbastro vs. COA*, G.R. No. 171481, 30 June 2008, found the petitioner guilty on the basis of the audit report which constitutes substantial evidence. The pertinent ruling reads:

"In fine, petitioner's arguments only render more pronounced the correctness of the Ombudsman's decision finding her guilty on the basis of the audit report which constitutes substantial evidence. As *Balbastro v. Junio* held, an administrative case also involving herein petitioner:

As to the findings of the Ombudsman, it is settled that in administrative proceedings, the quantum of proof required for a finding of guilt is only substantial evidence – that amount of relevant evidence which a reasonable mind might accept as adequate to justify a conclusion. x x x."

The audit findings supported by substantial evidence are deemed admitted by the auditee if not controverted by any evidence to overcome the same. In this case, the burden of proof now lies with the auditee. "Burden of proof is the duty of a party to present such amount of evidence on the facts in issue as the law deems necessary for the establishment of his claim."<sup>160</sup>

**CHAPTER III**

**INTERNAL AUDIT  
PERFORMANCE MONITORING  
AND  
EVALUATION**

## **1. Performance Monitoring and Evaluation**

Periodically assessing performance and addressing opportunities for improvement can help maximize the efficiency and effectiveness of the internal audit function. Measuring performance is also the means whereby the internal audit's own performance is judged and internal audit is held accountable for its functions and use of resources. By adopting appropriate indicators, implementing a rigorous performance measurement regime and acting on the results, internal audit can demonstrate that it "practices what it preaches", thus encourage acceptance of its role within the organization.

The DS/HoA or GB/AuditCom is responsible for periodically reviewing the performance of the internal audit. They would normally approve the performance indicators used.

## **2. Steps in Performance Evaluation**

### **2.1 Determine Key Performance Indicators (KPI)**

It is important that the KPIs for internal audit are aligned with the internal audit strategic plan and the annual work plan and help drive the performance that the organization expects from the IAS/IAU.

It is also important that performance is measured over time in order to identify trends, and that performance is measured against both qualitative and quantitative factors.

KPIs include measurements of the IAS/IAU accomplishment per audit engagement, such as:

- a. Timely completion of each audit engagement;
- b. Benefits exceed the cost of audit;
- c. Cost of audit is within the approved budget;
- d. Number of audit findings approved by the Ds/HoA or GB/AuditCom;
- e. Number of recommendations implemented by the auditee;
- f. Number of audit support activities undertaken;
- g. Internal audit staff satisfaction; and
- h. Overall contribution made by the IAS/IAU.

### **2.2 Design Performance Monitoring Reports**

The IAS/IAU should design performance report forms to collect data in between and during each audit engagement and audit support activities, aligned with the KPIs. The report forms should provide for the relevant information regarding the IAS/IAU performance outputs on a per engagement basis summarized on a periodic basis.

## **2.3 Prepare Evaluation Report**

It is good for the IAS/IAU to prepare an evaluation report on its performance after an audit engagement for the information and advice of the DS/HoA or GB/AuditCom.

## **3. Performance Monitoring By the Head of Internal Audit**

The Head of IA shall have primary responsibility over the work performance and discipline of the staff. He/she shall direct the conduct of audit progress assessment based on a monitoring plan utilizing KPIs and conduct two types of performance monitoring, as follows: (1) Review of Progress Assessment Report; and (2) Review of Completion Assessment Report.

### **3.1 Review of Progress Assessment Report**

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, PGIAM and other relevant standards) pursuant to COA and DBM rules and regulations are applied;
- d. Findings and recommendations promote the adequacy of internal control pursuant to COA and 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.

Progress Assessment Report shall be subject to the approval of the HoIA. Audit team leaders shall ensure that audit engagements are assessed at the stage before exit conference.

### **3.2 Review of Completion Assessment Report**

Completion Assessment Report focuses on the:

- a. Overall effectiveness and efficiency of the IAS/IAU in accordance with DBM and COA rules and regulations and the agency's policies and standards;
- b. Findings and recommendations which are based on facts and substantial evidence and in compliance with relevant laws, rules and regulations;
- c. Application of internal auditing standards (NGICS, PGIAM and other relevant standards) pursuant to COA and DBM rules and regulations;

- d. Findings and recommendations which promote the adequacy of internal control pursuant to COA rules and regulations; and
- e. High standards of ethics and efficiency of public officials and employees are observed pursuant to CSC rules and regulations.

Completion Assessment Report shall be subject to the approval of the HoIA. Audit team leaders shall ensure that audit engagements are assessed at the conclusion of the activity.

#### **4. Performance Evaluation by the DS/HoA or GB/AuditCom**

Pursuant to the Administrative Code of 1987, the authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department.

The IAS/IAU is an integral part of the Department which provides assistance to the DS/HoA or GB/AuditCom and performs functions delegated by the DS/HoA or GB/AuditCom.<sup>161</sup>

Work performance of the IAS/IAU is evaluated by the DS/HoA or GB/AuditCom as part of supervision and control.<sup>162</sup> They shall monitor and evaluate the performance of the IAS/IAU either through: (1) Review of the Internal Audit Report, or (2) Review of the IAS/IAU Performance Report.

##### **4.1 Review of the Internal Audit Report**

At the conclusion of each audit engagement, the IAS/IAU submits to the DS/HoA or GB/AuditCom an Internal Audit Memorandum and the Internal Audit Report - prepared in conformity with the standards set by the Commission on Audit, Department of Budget and Management and the Philippine Government Internal Audit Manual.

In the review of the Internal Audit Report, the DS/HoA or GB/AuditCom shall also consider adherence of the IAS/IAU on the following:

- a. The hierarchy of applicable internal auditing standards and practices as discussed in Chapter 1 of PGIAM – Part I are adhered to.
- b. All audit findings are formulated and synthesized based on the 4Cs (criteria, condition, conclusion, probable/root cause) defined as follows:
  - i. Criteria – the standards against which a condition is compared (i.e., laws, regulations, policies);
  - ii. Conditions – a fact, backed up by substantial evidence;

- iii. Conclusion – evaluation of criteria and the conditions that could either result in compliance or non-compliance with laws, regulations and policies as supported by substantial evidence; determination of the adequacy or inadequacy of controls; determination of the efficiency, effectiveness, ethicality, and economy of agency operations; and
  - iv. Cause – 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<sup>163</sup> the act/s or omission/s of the person responsible had caused the non-compliance which may warrant the conduct of administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true cause of the control weaknesses or incidences and the actions necessary to eliminate it.<sup>164</sup>
- c. Findings are supported by sufficient audit evidence and the quantum of evidence required to support an audit finding is substantial evidence. As earlier noted, substantial evidence is more than a mere scintilla of evidence. It means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if other minds equally reasonable might conceivably opine otherwise.<sup>165</sup>
  - d. Its recommendations are feasible, cost-effective and cost-efficient, find sufficient basis in law, evidence-based and classified according to the following:
    - i. Preventive actions – refer to determined actions of the organization to eliminate the causes of potential noncompliance in order to avoid their occurrence;<sup>166</sup> and
    - ii. Corrective actions – refer to an organization’s actions to eliminate the causes of noncompliance in order to avoid recurrence;<sup>167</sup>
  - e. At any point during the audit, when significant risks/issues arise, the IAS/IAU will prepare an Interim Report to the DS/HoA or GB/AuditCom to communicate findings, issues, and problems that may affect the conduct of the audit and may expose the organization to considerable risks. The Interim Report contains the following:
    - i. Gaps or control deficiencies/breakdowns noted during the documentation of the components of the ICS and the key processes in the operating and supports systems;
    - ii. Gaps or control deficiencies/breakdowns found out after the conduct of the review and evaluation of the flowchart and narrative notes or conduct of the walkthrough; and
    - iii. Gaps or control deficiencies/breakdowns after the conduct of the test of controls.

## 4.2 Review of the IAS/IAU Performance Report

At the close of every fiscal year, the DS/HoA or GB/AuditCom shall review the performance of the IAS/IAU through the various reports/outputs (i.e., baseline assessment report, assessment of control significance and materiality and control risk 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 DS/HoA or GB/AuditCom being the head of the agency, as directly responsible for the installation, implementation and monitoring of internal control system (ICS),<sup>168</sup> shall review the adequacy of the internal audit as part of the ICS.

## 5. Oversight over IAS/IAU

In addition to the performance monitoring and evaluation conducted by the HoIA and the DS/HoA or GB/AuditCom, oversight functions over the IAS/IAU are also performed by the COA and the DBM.

**Table 10 - Oversight Over the IAS/IAU by COA and DBM**

	COA	DBM
Oversight	Adequacy of IAS/IAU as part of ICS	Efficiency and effectiveness of IAS/IAU as part of ICS

### 5.1 By the Commission on Audit

- a. The 1987 Constitution<sup>169</sup> and the Administrative Code of 1987<sup>170</sup> provide that the “Commission on Audit shall have the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, and on a post-audit basis”. “However, where the internal control system of the audited agencies is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies.” (*underscoring supplied*)
- b. In a case decided by the Supreme Court, “[A]s can be gleaned from the foregoing provisions of the Constitution, state audit is not limited to the auditing of the accountable officers and the settlement of accounts, but includes accounting functions and the adoption in the audited agencies of internal controls to see to it, among other matters, that the correct fees and penalties due the government are collected.”<sup>171</sup> (*underscoring supplied*)

- c. Under the Administrative Code of 1987, it is a declared policy that “all resources of the government shall be managed, expended or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition 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.”<sup>172</sup>
- d. The Government Accounting and Auditing Manual, Volume III<sup>173</sup> provides that internal audit is part of the internal control system.
- “Sec. 33. Distinction from other systems within the organization. – Except for the Internal Audit Office which is part of the internal control system, internal controls are not separate specialized systems within an agency. They consist of control features interwoven into and made an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls.” (*underscoring supplied*)
- e. Under COA Circular 2009-002<sup>174</sup>, it stressed the need for agencies to evaluate the adequacy and results of the design, implementation, and maintenance of the internal controls, as follows:
- “Subsequent identification of the national government agencies, local government units and government-owned and controlled corporations and their respective transactions that may be included or excluded in pre-audit shall proceed from the results of an evaluation of the internal control system put in place and operating in each agency. x x x”
- f. Pursuant to the aforementioned laws and issuances, the COA performs oversight functions over the internal audit office which is part of the internal control system.
- g. In the course of evaluating the ICS, the COA may request the IAS/IAU, through the DS or GB/AuditCom, to submit documents that will allow them to determine the adequacy of the IAS/IAU as part of the ICS. Among the documents that may be submitted are as follows:
- i. Internal Audit Memorandum;
  - ii. Baseline Assessment of the Internal Control System;
  - iii. Assessment of Control Significance and Materiality and Control Risk;
  - iv. Assessment of Internal Audit Risk;
  - v. Annual Internal Audit Plan;
  - vi. Internal Audit Report;
  - vii. Internal Audit Follow-up Report; and
  - viii. Performance Monitoring Evaluation Report.

## 5.2 By the Department of Budget and Management

a. The DBM is responsible for the efficient and sound utilization of funds and revenues. Pursuant to this mandate, it “shall assist the President in the preparation of a national resources and expenditures budget, preparation, execution and control of the National Budget, preparation and maintenance of accounting systems essential to the budgetary process, achievement of more economy and efficiency in the management of government operations, administration of compensation and position classification systems, assessment of organizational effectiveness and review and evaluation of legislative proposals having budgetary or organizational implications.”<sup>175</sup> (*underscoring supplied*)

b. The Administrative Code of 1987 also empowers the DBM to evaluate agency performance and to monitor budget performance and assess the effectiveness of the agencies’ operations, including the IAS/IAU, to wit:

“**Sec. 51. Evaluation of Agency Performance** – The President, through the Secretary shall evaluate on a continuing basis the quantitative and qualitative measures of agency performance as reflected in the units of work measurement and other indicators of agency performance, including the standard and actual costs per unit of work.

“**Sec. 52. Budget Monitoring and Information System** – The Secretary of Budget shall determine accounting and other items of information, financial, or otherwise, needed to monitor budget performance and to assess effectiveness of agencies’ operations and shall prescribe the forms, schedule of submission, and other components of reporting systems, including the maintenance of subsidiary and other recording which will enable agencies to accomplish and submit said information requirements: xxx.”<sup>176</sup> (*underscoring supplied*)

c. In the case of Gutierrez vs. DBM<sup>177</sup>, the Supreme Court recognized the power of the DBM to make rules and regulations to implement a given legislation and effectuate its policies, to wit:

“Delegated rule-making is a practical necessity in modern governance because of the increasing complexity and variety of public functions. Congress has endowed administrative agencies like respondent DBM with the power to make rules and regulations to implement a given legislation and effectuate its policies.” (*underscoring supplied*)

d. Pursuant to its mandate and the provisions of Administrative Order (AO) No. 119 dated 29 March 1989,<sup>178</sup> the DBM issued Budget Circular No. 2004-04 dated 22 March 2004 which provides for the “Guidelines on the Organization and Staffing of Internal Audit Units (IAUs)”, and Circular Letter No. 2008-5 dated 14 April 2008 which provides for the “Guidelines

in the Organization and Staffing of an Internal Audit Service/Unit [IAS/IAU] and Management Division/Unit [MD/MU] in Departments/Agencies/GOCCs/GFIs Concerned” and providing for the functions of the IAS/IAU and MD/MU.

- e. The DBM reviews the performance of the IAS/IAU by focusing on the evaluation of the effectiveness and efficiency of the Office as part of the ICS. They may request the IAS/IAU, through the DS/HoA or GB/Auditcom, for relevant documents that will aid them in the process, such as:
  - i. Internal Audit Memorandum;
  - ii. Baseline Assessment of the Internal Control System;
  - iii. Assessment of Control Significance and Materiality and Control Risk;
  - iv. Assessment of Internal Audit Risk;
  - v. Annual Internal Audit Plan;
  - vi. Internal Audit Report;
  - vii. Internal Audit Follow-up Report; and
  - viii. Performance Monitoring Evaluation Report.

**6. Request for Opinions/Rulings/Interpretations on Issues Arising from the Approved Internal Audit Findings & Recommendations to COA/ CSC/DBM**

Audit findings and recommendations resulting from the audit conducted by the IAS/IAU shall be submitted to the DS/HoA or GB/AuditCom for approval, pursuant to its authority and responsibility to exercise supervision and control of the Department<sup>179</sup>/Board/Commission/Corporation. Once approved, the same shall be subject for implementation.

Approved audit findings and recommendations for implementation may be appealed by the auditee who has been adversely affected to the DS/HoA or GB/AuditCom. They may also request for opinions/rulings/interpretations on the issues involved from the COA, the CSC and/or the DBM.

**Table 11 - Request for Opinions, Rulings and Interpretations**

	COA	DBM	CSC
Opinion/Rulings/ Interpretations	Matters on COA rules and regulations	Matters on DBM rules and regulations	Matters on CSC rules and regulations

## **6.1 Rule-making Power of COA, CSC and DBM**

The COA, CSC and DBM are bestowed by the Constitution and the law with rule-making powers necessary for the proper discharge and management of its mandated functions. Apart from the rules and regulations upon which the COA, CSC and DBM are authorized to come up with to carry into effect the provisions of a particular law, said agencies are also authorized to promulgate their own rules on matters coming under their special and technical expertise, to wit:

### **6.1.1 Commission on Audit**

The Commission on Audit is empowered under the Constitution to have the exclusive authority to “promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant or unconscionable expenditures, or uses of government funds and properties”.<sup>180</sup>

In keeping with its Constitutional mandate, the COA adheres, among others, to “institute control measures through the promulgation of auditing and accounting rules and regulations governing the receipts disbursements, and uses of funds and property, consistent with the total economic development efforts of the Government”.<sup>181</sup>

### **6.1.2 Civil Service Commission**

Pursuant to EO 292, the Civil Service Commission, as the central personnel agency, is empowered to “promulgate policies, standards and guidelines for the Civil Service and adopt plans and programs to promote economical, efficient and effective personnel administration in government;”<sup>182</sup>

### **6.1.3 Department of Budget and Management**

- a. Under the Administrative Code of 1987, the Department of Budget and Management “shall be responsible for the efficient and sound utilization of government funds and revenues to effectively achieve our country’s development objectives.”<sup>183</sup> It is empowered, among others, to assist the President in the preparation, execution and control of the National Budget and the achievement of more economy and efficiency in the management of government operations.<sup>184</sup>
- b. It is a declared policy of the State that the budget shall be “oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently”.<sup>185</sup> To ensure and implement the same, the DBM issues rules and regulations

through circulars and other issuances on budget and management matters.

## 6.2 Interpretation by COA, CSC and DBM of their own rules

“The Court has consistently yielded and accorded great respect to the interpretation by administrative agencies of **their own rules** unless there is an error of law, abuse of power, lack of jurisdiction or grave abuse of discretion clearly conflicting with the letter and spirit of the law.”<sup>186</sup> (emphasis supplied)

- a. “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.”<sup>187</sup>
- b. In *City Government of Makati vs. Civil Service Commission*<sup>188</sup>, the Supreme Court cited cases where the interpretation of a particular administrative agency of a certain rule was adhered to, viz.:

“The same precept was enunciated in *Bagatsing v. Committee on Privatization*<sup>189</sup> where we upheld the action of the Commission on Audit (COA) in validating the sale of Petron Corporation to Aramco Overseas Corporation on the basis of COA’s interpretation of its own circular that set bidding and audit guidelines on the disposal of government assets –

“The COA itself, the agency that adopted the rules on bidding procedure to be followed by government offices and corporations, had upheld the validity and legality of the questioned bidding. **The interpretation of an agency of its own rules should be given more weight than the interpretation by that agency of the law it is merely tasked to administer.**” (emphasis and underscoring original).

- c. “As properly noted, CSC was only interpreting its own rules on leave of absence and not a statutory provision in coming up with this uniform rule. **Undoubtedly, the CSC like any other agency has the power to interpret its own rules and any phrase contained in them with its interpretation significantly becoming part of the rules themselves.**”<sup>190</sup> (emphasis original)
- d. In the case of *Gutierrez vs. DBM*<sup>191</sup>, the Supreme Court stated that “Congress has endowed administrative agencies like respondent DBM with the power to make rules and regulations to implement a given

legislation and effectuate its policies”. In like manner, the DBM has the power and is in the best position to interpret its own rules.

### 6.3 Request for COA, CSC and DBM Opinions/Rulings/ Interpretations

In the conduct of compliance audit, the IAS/IAU may find some violations by the auditee of compliance with COA and CSC rules and regulations and/or DBM circulars and other issuances. In case of dispute on issues relating to personnel matters and violation of Civil Service rules and regulations, the auditee may elevate the same to the CSC. For issues relating to violations of COA rules and regulations, the same may be elevated to COA. Likewise, for issues concerning budget and management matters, the same may be elevated to the DBM. Vested with the power to promulgate their own rules and regulations, COA, CSC and DBM are in the best position to determine and interpret if a violation of their **own rules** has been committed by an agency.

- a. Relatedly, the Administrative Code of 1987 provides that the CSC shall “render opinions and rulings on all personnel and other Civil Service matters which shall be binding on all heads of departments, offices and agencies and which may be brought to the Supreme Court on certiorari.”<sup>192</sup> In line with this, Section 16 (3), Chapter 3, Subtitle A, Book V of the Administrative Code of 1987 provides that the “the Office of Legal Affairs shall “ x x x; *prepare opinions and rulings in the interpretation and application of the Civil Service Law, rules and regulations*; x x x”.
- b. Pursuant to the 2009 Revised Rules of Procedure of the Commission on Audit, COA’s jurisdiction shall extend over “resolution of novel, controversial, complicated or difficult questions of law relating to government accounting and auditing”.<sup>193</sup> Corollary thereto, COA Memorandum No. 96-010<sup>194</sup> provides that “all queries and requests for advice and opinion concerning any matter germane to the functions of this Commission as well as requests for interpretation of pertinent laws and auditing rules and regulations shall be submitted directly to the Legal Office which shall take cognizance thereof and thereby render legal opinions pursuant to its authority under Section 11<sup>195</sup>, P.D. 1445<sup>196</sup> and Section 7 (7)<sup>197</sup>, Subtitle B, Book V, Executive Order No. 292, otherwise known as the Administrative Code of 1987.

In view of the foregoing, request for opinions/rulings on the results of a compliance audit relating to violations of personnel and other Civil Service matters may be taken to the CSC and matters relating to budget and management, to the DBM. All queries and requests for advice and opinion concerning violation of any matter germane to the functions of the COA, as well as requests for interpretation of pertinent laws and auditing rules and regulations, shall be submitted directly to the Legal Office of the COA in accordance with the guidelines described under COA Memorandum No. 96-010.<sup>198</sup>

## **PGIAM AMENDMENT PROTOCOL**

### **1. Introduction**

The Philippine Government Internal Audit Manual – Guidelines and Practices **(PGIAM I and II)** are the definitive policy resource guiding the operations of internal audit in the Philippine public sector.

Both documents reflect the policy, legal and institutional arrangements governing internal audit in the Philippine public sector. The PGIAM I and II shall be reviewed regularly to ensure they are still current.

The need to amend any or both documents may be prompted by feedback from Departments and Agencies on the implementation of the PGIAM; Department-specific and sector-based internal audit implementation insights; changes in laws, policies, guidelines and regulations; and requisites for enhancing work practices.

A proposal for amendment of any provision, standard, procedure and/or policy in PGIAM I and II needs to be submitted to the Department of Budget and Management and OP-IAO, and after initial review, said agencies will submit the same to the Inter-Agency Reference Panel for discussion and endorsement to the DBM Secretary for approval.

### **2. New Policy/Major Revisions**

The DBM is the main policy approval body.

When submitting a new or significantly revised policy statement to the DBM, it must be accompanied by a statement outlining:

- a. The rationale for the preparation or review of the policy;
- b. Impact of implementation (including obvious resource implications, effects on staffing and other issues, changes to delegations for decision-making); and
- c. Policies or provisions to be rescinded.

### **3. Minor Amendments**

Minor amendments (e.g., to reflect changes in position titles or nomenclature of organizational units) which do not otherwise affect the policy content can be incorporated in another amendment to the document in the near future.

### **4. Periodic Review of Policies**

In order to enhance the Philippine Government internal audit management standards, including policies, procedures and ethical pronouncements, a periodic review of policies and practices will be undertaken. In addition to requiring new policy statements or major revisions to include a specified date of the next review, routine alerts to review a certain policy will be sent periodically and as appropriate to all Departments and Agencies.

Notification that a certain policy is due for periodic review will be sent three months prior to the review date. The expectation is that a timely review of the policy will be undertaken, generally within three to six months following notification.

Where review will result in a major overhaul of a policy, development of a brief review and approval plan may be advisable. The plan should outline relevant steps associated with the review, including consultation, review by relevant committees, and target dates for final approval by the designated "approving authority".

At the end of the review, an Amendment History table will be completed and made part of the PGIAM Manual and Practices.

### 5. Amendment History

1. xxxxxxxxxxxxxxxxxxxxxxxxxxxx
2. xxxxxxxxxxxxxxxxxxxxxxxxxxxx
3. xxxxxxxxxxxxxxxxxxxxxxxxxxxx
4. xxxxxxxxxxxxxxxxxxxxxxxxxxxx

Contact Officer	
Approval Date	
Updated to New Standard	
Improvement and Clarification	
Approval Authority	
Date of Next Review	
Printed Copy	
Electronic Copy	

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# APPENDICES

## **Appendix A : Summary of Generic Manuals on Controls in the Human Resource Management System (HRMS), Quality Management System (QMS) and Risk Management System (RMS)**

### **Briefer on NGICS Modules**

The National Guidelines on Internal Control Systems (NGICS) was formulated by incorporating Constitutional provisions; existing laws, policies, rules and regulations; relevant or applicable standards and best practices, as well as standards set by intergovernmental organizations on internal control in one convenient and useful document. It will serve as a guide to the heads of departments and agencies in designing, installing, implementing and monitoring their respective internal control systems taking into consideration the requirements of their organization and operations.<sup>1</sup> The NGICS was issued by the Department of Budget and Management (DBM) thru DBM Circular Letter 2008-8 dated 23 October 2008 which will be implemented in all National Government Agencies (NGAs), including State Universities and Colleges (SUCs), Government-Owned and/or -Controlled Corporations (GOCCs), Local Government Units (LGUs), and all others concerned. The Commission on Audit (COA), in a memorandum<sup>2</sup>, required COA officials concerned to monitor adherence by the audited agencies to the provisions of DBM Circular Letter 2008-8.

To facilitate the roll-out of the implementation of the NGICS, it is imperative to develop generic modules to identify and strengthen internal controls in the management support systems, specifically on Human Resource Management (HRM), Quality Management (QM) and Risk Management (RM). The learning modules will be used for the capacity-building of agencies in designing, installing, implementing and monitoring internal controls in their support services units/systems and operating units/systems to achieve agency objectives. Specifically, the learning modules and sets of instructions are intended to:

- 1) Emphasize understanding of the concepts of internal control among public officials and employees required in the support services units/systems, as well as operating units/systems to meet the agency objectives;
- 2) Develop relevant expertise and competence among target audiences in installing and updating internal controls in the management systems, particularly in the areas of human resource management, quality management and risk management; and
- 3) Foster continual improvement in government characterized by citizen-driven agencies by integrating internal controls in their support and operating units/systems.

The Training Manuals and Sets of Instructions (SOIs) will contain minimum guidelines and requirements that will focus on the internal controls that are built into and made an integral part of each system that management uses to regulate and guide its

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<sup>1</sup> Par. 1.1, DBM Circular Letter 2008-8, "National Guidelines on Internal Control Systems (NGICS)", 23 October 2008.

<sup>2</sup> Commission on Audit (COA) Memorandum No. 2009-004, "DBM Circular Letter No. 2008-8 dated October 23, 2008 entitles "National Guidelines on Internal Control Systems (NGICS), dated 16 February 2009.

operations to meet its objectives.<sup>3</sup> The built-in controls in the support system such as HRMS, QMS and RMS interfaces with that of the operations' own controls to come up with stronger accountability; efficient, effective, ethical, and economical operations; improved ability to address risks to achieve general control objectives; better systems of responding to the needs of citizens; and quality outputs and outcomes and effective governance.<sup>4</sup> The Learning modules will serve as guide for trainers and reference material for target audiences.

### **Generic Module on Controls in the Human Resource Management System**

The Human Resource Management System (HRMS) forms part of the coordinated methods and measures of every agency. Based on the guidelines provided in the NGICS, the HRM 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. These processes have built-in controls to ensure 4Es (efficient, effective, ethical and economical) of operations to meet agency objectives.

The module is focused on the internal controls that must be in place within the Human Resource Management System (HRMS). It is intended to develop individual competencies of the target audience in determining internal controls in the area of human resource management. At the end of the module, the target audiences are expected to:

- 1) Understand the application of internal controls in the concept of public accountability;
- 2) Enhance the skills of the target audience in the establishment, administration and maintenance of clearly stated position descriptions and strong qualification standards as important controls in the HRMS ; and
- 3) Uphold and promote a well designed personnel performance measurement and discipline as a control to link employees' performance to that of the agency performance in meeting agency objectives.

The module consists of three sub-modules.

#### **Sub-Module 1. The Nature of Public Office as a Public Trust**

Sub-Module 1 discusses the concept of public accountability and public trust which promotes responsibility, integrity, loyalty, professionalism and the 4Es (efficient, effective, ethical and economical) of operations in the government. This is provided under pertinent provisions of the 1987 Philippine Constitution, the Administrative Code of 1987 and the Code of Conduct and Ethical Standards for Public Officials and Employees. Government officials and employees should always remember that public service is public trust which means that "[t]he powers so delegated to the officer are held in trust for the people and are to be exercised in behalf of the government or of all citizens who may need the intervention of the officers. Such trust extends to all matters within the range of duties pertaining to the office. In other

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<sup>3</sup> National Guidelines on Internal Control Systems (NGICS), 23 October 2008.

<sup>4</sup> Ibid.

words, public officers are but the servants of the people, and not their rulers.”<sup>5</sup> They are duty bound to maintain their integrity and fitness to discharge their functions.

### Sub-Module 2. The Position Description and Qualification Standards (QS)

Sub-Module 2 focuses on the establishment of accurate and adequate written description of duties and responsibilities for every position, as well as the qualification standards required by the job to ensure that public officials and employees satisfactorily perform their duties with the highest degree of excellence, professionalism, intelligence and skill. The QS expresses the minimum requirements for a class of positions in terms of education, training and experience, civil service eligibility, physical fitness, and other qualities required for the successful performance of the duties and responsibilities to achieve organizational objectives. The qualification requirements should conform with the approved qualification standards of the positions involved and not the qualifications of the appointee.<sup>6</sup>

### Sub-Module 3. Performance Measurement and Discipline

Sub-Module 3 emphasizes the controls in measuring the effectiveness and efficiency of public officials and employees in the performance and discharge of their duties by setting standards and targets as basis for evaluation. The performance evaluation should be designed and administered to (a) continually improve employee performance and efficiency; (b) enhance organizational effectiveness and productivity; and (c) provide an objective performance rating which shall serve as a basis for incentives and rewards, promotion, training and development, personnel actions and administrative sanctions.<sup>7</sup> Officials and employees who commit infractions are subject to discipline and administrative sanctions wherein the governing principle is that “when an officer or employee is disciplined, the object sought is not the punishment of such officer or employee but the improvement of the public service and the preservation of the public's faith and confidence in the government.”<sup>8</sup>

## **Generic Module on Controls in the Quality Management System**

The Quality Management System (QMS) is one way in which a public sector organization can direct and control its activities in order to satisfy the needs and expectations of the citizens.<sup>9</sup> To develop a culture of quality and integrity in governance, the government mandated policy on quality service provides that “the State shall encourage all sectors of the economy to aim for optimum productivity and improved quality and shall recognize their contribution to raising the quality of life for all, especially the underprivileged.”<sup>10</sup> Agencies use the process approach as a control measure to meet citizens' requirements.

<sup>5</sup> Sabio vs. Gordon, G.R. No. 174340, 17 October 2006.

<sup>6</sup> IV, Guidelines, Procedures and Requirements in the Preparation and Submission of Appointments, Omnibus Rules Implementing Book V of Executive Order 292 and other Pertinent Civil Service Laws, May 2007).

<sup>7</sup> Rule IX Performance Evaluation Promotion, Omnibus Rules Implementing Book V of Executive Order No. 292 and other Pertinent Civil Service Laws, 2007.

<sup>8</sup> Remolana vs. CSC, G.R. No. 137473, 2 August 2001.

<sup>9</sup> Clause 0, Government Quality Management Systems Standards (GQMSS), 21 June 2007.

<sup>10</sup> Sec. 2, Republic Act (RA) No. 9013, “An Act Establishing the Philippine Quality Award in Order to Encourage Organizations in Both the Private and Public Sectors to Attain Excellence in Quality in the Production And/OR Delivery of Their Goods and Service,” 28 February 2001.

The module is focused on the internal controls that must be in place within the agencies' support and operating processes to enable them to identify and meet the needs, expectations and requirements of the citizens. It aims to promote organizational capabilities in revitalizing internal controls, particularly in the area of quality management. At the end of the module, the target audiences are expected to be able to:

- 1) Ensure the adequacy and effectiveness of controls in meeting citizens' requirements in the support, as well as operating units/systems;
- 2) Operationalize the process approach by creating and understanding the network of processes and their interactions to improve performance to achieve the desired results; and
- 3) Promote continual improvement as a control to ensure continual delivery of efficient service and meet citizens' requirements

The module consists of three sub-modules.

### Sub-Module 1. Understanding and Meeting Citizens' Requirements

Sub-Module 1 guides the support services and operating units/systems in identifying their respective clients and other interested parties, as well as their requirements, needs and expectations, to define the organization's intended outputs.<sup>11</sup> The sub-module assists organizations in understanding requirements specified by the citizens; requirements not stated by the citizens but necessary for specified or intended use; statutory and regulatory requirements; and any additional requirement determined by the organization. In addition, the sub-module discusses the integration and alignment of internal controls in the support systems with those of the operating systems towards the realization of agency objectives.

### Sub-Module 2. The Process Approach

Sub-Module 2 promotes the adoption of the process approach<sup>12</sup> in obtaining desired results. The approach involves a set of interrelated or interacting activities, which transforms inputs (policies, resources, citizens needs and expectations, etc.) into outputs/outcomes (the products and services provided to the citizens)<sup>13</sup>. In order to use the process approach, it is necessary that the sub-module clearly defines the parts. The sub-module likewise covers the control of the interactions between these processes and the interfaces in the support and operating systems. The primary step in the process approach requires the organization to identify its customers and other interested parties, as well as their requirements, needs and expectations as inputs to define the organization's intended outputs.<sup>14</sup>

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<sup>11</sup> 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, 15 October 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.

<sup>12</sup> Clause 0.2, ISO 9001:2008 Quality Management System – Requirements, 15 November 2008 "Process approach refers to the application of a system of processes within an organization, together with the identification and interactions of these processes, and their management to produce the desired outcome."

<sup>13</sup> Clause 3.5., Government Quality Management System Standards (GQMSS), the "Quality Management Systems - Guidance Document for the Application of ISO 9001:2000 in Public Sector Organizations," 21 June 2007; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.

<sup>14</sup> Clause 5.1.1, ISO 9000 Introduction and support Package: Guidance on the Concept and Use of the Process Approach for management systems.

### Sub-Module 3. The Continual Improvement

Sub-Module 3 accentuates the need for continual improvement to be integrated in the support, as well as in the operating systems to deal with the changing citizens' needs, expectations and requirements. The sub-module likewise incorporates methods to identify and implement potential improvements in their operations to meet the organization's objectives.

### **Generic Module on Controls in the Risk Management System**

As a Member State of the United Nations, the government is required to take appropriate measures on effective and efficient systems of risk management and internal control to promote transparency and accountability in the bureaucracy.<sup>15</sup> Among the elements of risk management, risk assessment and risk treatment plays an important role to ensure that risks in the organization are managed efficiently and effectively in order to meet the diverse needs of citizens. ISO 31000:2009 Risk Management System (RMS) – Principles and Guidelines together with ISO 31010:2009 Risk Management-Risk Assessment Techniques serve as guides in the conduct of risk assessment to arrive at an appropriate response that could lead to the successful achievement of agency objectives.

The module is focused on internal controls such as risk assessment and risk treatment that are integrated in the organizational processes and decision making process. Risk treatment, which forms part of the risk management process, is a risk response that also falls under the control activity. It is discussed in this sub-module on RMS. At the end of the module, the target readers are expected to:

- 1) Understand the concept of risk assessment in the public service sector as an important control that provides input to decisions;
- 2) Be capacitated in the conduct of risk assessment in the support services and operating units; and
- 3) Be capacitated in the development and implementation of risk response in the support services and operating units to meet agency objectives.

The module consists of three sub-modules.

### Sub-Module 1. Understanding Risk Assessment in the Public Service Sector

Sub-Module 1 provides the readers an improved understanding of risk assessment in the support services and operating units/systems that could affect the achievement of objectives since “the output of risk assessment is an input to the decision-making processes of the organization.”<sup>16</sup>

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<sup>15</sup> Article 9 *Public Procurement and Management of Public Finances*, Chapter II, *Preventive Measures*, United Nations Convention Against Corruption (UNCAC), 31 October 2003.

<sup>16</sup> Clause 5.1, ISO 31010 – Risk management – Risk assessment techniques, 13 November 2009.

### Sub-Module 2. Risk Assessment: Process and Techniques

Sub-Module 2 attempts to promote the enhancement of risk assessment as a control measure covering risk identification, risk analysis and risk evaluation. The sub-module provides organizational capability in the of conduct risk assessment to provide evidence-based information in making informed decisions on how to treat particular risks and how to select between options.<sup>17</sup>

### Sub-Module 3. Risk Modification Option or Risk Response

Sub-Module 3 focuses on the organizational capabilities in developing and implementing the risk response (risk treatment, risk transfer, risk tolerance and risk termination) as a control to ensure 4Es in its operations. Controls include any process, policy, device, practice, or other actions which modify the risk.<sup>18</sup> In addition, the sub-module helps in developing appropriate skills in installing risk response in agencies.

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<sup>17</sup> Ibid.

<sup>18</sup> Clause 3.8.1.1, ISO Guide 73:2009 “Risk management – vocabulary”, 13 November 2009.

## Appendix B : Skills, Related Knowledge, Attributes and Other Competencies of an Internal Auditor

Competency “is a set of skills, related knowledge and attributes that allow an individual to perform a task or an activity within a specific function or job.”<sup>19</sup>

- a. **Related knowledge** “relates to information, cognitive domain.” These are the related theories, concepts and ideas necessary to perform a task or job.
- b. **Set of skills** “relates to the ability to do, physical domain” of performing the task. The set of skills are the applied knowledge needed for the tasks.
- c. **Attributes** “relate to the qualitative aspects, characteristics or traits of the competency.” These are the characteristics or traits required in performing the task.

The following are the types of competencies that an individual must possess to perform a task.

- a. **Generic.** “Competencies which are considered essential for all staff, regardless of their function or level, i.e., communication, execution, processing tools, linguistics, etc.”
- b. **Technical/Functional.** “Specific competencies which are considered essential to perform any job within a defined technical or functional area of work”, i.e., positions being unique and highly technical as they involve investigatorial, quasi-judicial, prosecutorial<sup>20</sup> and auditorial functions.
- c. **Managerial.** “Competencies which are managerial or supervisory in any service. Managerial competencies are applied horizontally across the organization, i.e., analysis and decision-making, team leadership, change management, etc.”

In PNS ISO 19011:2002<sup>21</sup>, the competence of auditors is defined as the demonstration of “the personal attributes...and ability to apply the knowledge and skills... gained through education, work experience, auditor training and audit experience x x x” (underscoring supplied).

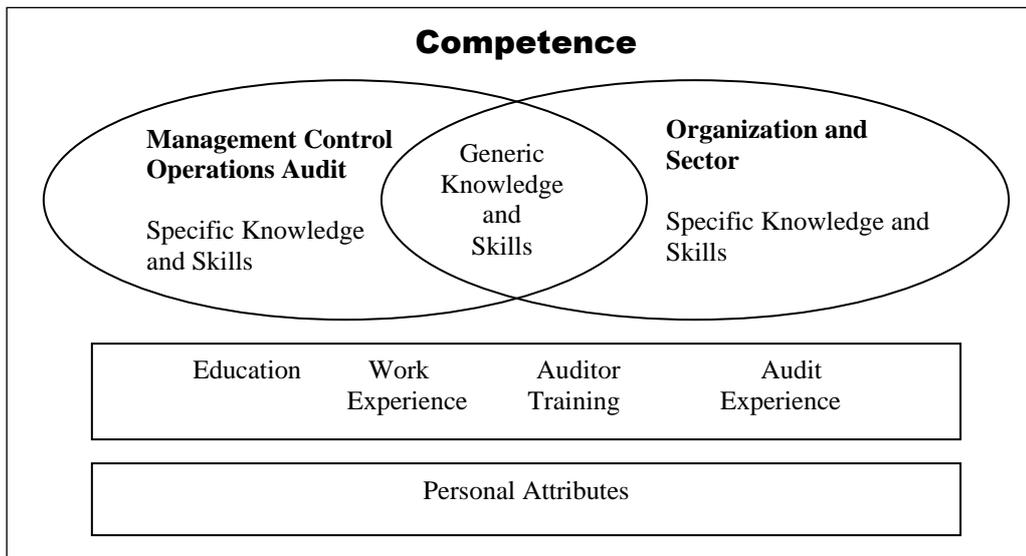
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<sup>19</sup> United Nations Industrial Development Organization (UNIDO) Competencies.

<sup>20</sup> Office of the Ombudsman vs. Civil Service Commission, G.R.No.159940, 16 February 2005.

<sup>21</sup> Guidelines for Quality and/or Environmental Management Systems Auditing.

The concept of competence of auditors under PNS ISO 19011:2002 is adopted to provide competency in management control and operations audit.



- a. Examples of the generic knowledge and skills essential for all government employees regardless of function and position include those provided under the 1987 Constitution, Civil Service Rules and Regulations, RA 6713 or the "Code of Conduct and Ethical Standards for Public Officials and Employees and the General Principles Governing Public Officers and Employees under the Administrative Code of 1987.
- b. Organizational and sectoral specific knowledge and skills include:
  - i. Organizational mandate and objectives, programs and projects, systems and processes.
  - ii. Organization and sectoral situations that enable the auditor to comprehend the organization's operational context.
  - iii. Applicable laws, regulations and other requirements: to enable the auditor to work within, and be aware of the requirements that apply to the organization and sector.
- c. The specific knowledge and skills of management control, operations audit and compliance audit include:
  - i. Internal control components (control environment; risk assessment; control activities; information and communication; and monitoring).
  - ii. Internal control objectives (safeguard assets; check accuracy and reliability of accounting data; adherence to managerial policies; comply with laws, rules and regulations; and ensure economical, ethical, efficient and effective operations).
  - iii. Management audit, operations audit and compliance audit principles, processes, methodologies and techniques.

- iv. Operating systems, management support systems and reference international best practices.
- d. The personal attributes of public officials and employees essential in the discharge and execution of duties include the norms of conduct of public officials and employees provided under Section 4 of RA 6713, herein provided as follows:

**“Section 4. Norms of Conduct of Public Officials and Employees.** - (A) Every public official and employee shall observe the following as standards of personal conduct in the discharge and execution of official duties:

- (a) Commitment to public interest. - Public officials and employees shall always uphold the public interest over and above personal interest. All government resources and powers of their respective offices must be employed and used efficiently, effectively, honestly and economically, particularly to avoid wastage in public funds and revenues.
- (b) Professionalism. - Public officials and employees shall perform and discharge their duties with the highest degree of excellence, professionalism, intelligence and skill. They shall enter public service with utmost devotion and dedication to duty. They shall endeavor to discourage wrong perceptions of their roles as dispensers or peddlers of undue patronage.
- (c) Justness and sincerity. - Public officials and employees shall remain true to the people at all times. They must act with justness and sincerity and shall not discriminate against anyone, especially the poor and the underprivileged. They shall at all times respect the rights of others, and shall refrain from doing acts contrary to law, good morals, good customs, public policy, public order, public safety and public interest. They shall not dispense or extend undue favors on account of their office to their relatives whether by consanguinity or affinity except with respect to appointments of such relatives to positions considered strictly confidential or as members of their personal staff whose terms are coterminous with theirs.
- (d) Political neutrality. - Public officials and employees shall provide service to everyone without unfair discrimination and regardless of party affiliation or preference.
- (e) Responsiveness to the public. - Public officials and employees shall extend prompt, courteous, and adequate service to the public. Unless otherwise provided by law or when required by the public interest, public officials and employees shall provide information of their policies and procedures in clear and understandable language, ensure openness of information, public consultations and hearings whenever appropriate, encourage suggestions, simplify and systematize policies, rules and procedures, avoid red tape and develop an understanding and appreciation of the socio-economic conditions prevailing in the country, especially in the depressed rural and urban areas.
- (f) Nationalism and patriotism. - Public officials and employees shall at all times be loyal to the Republic and to the Filipino people, promote the use of locally produced goods, resources and technology and encourage appreciation and pride of country and people. They shall endeavor to maintain and defend Philippine sovereignty against foreign intrusion.

- (g) Commitment to democracy. - Public officials and employees shall commit themselves to the democratic way of life and values, maintain the principle of public accountability, and manifest by deeds the supremacy of civilian authority over the military. They shall at all times uphold the Constitution and put loyalty to country above loyalty to persons or party.
- (h) Simple living. - Public officials and employees and their families shall lead modest lives appropriate to their positions and income. They shall not indulge in extravagant or ostentatious display of wealth in any form. “

In addition, government auditors should possess the following personal attributes relevant to management control, operations audit and compliance audit:

- (a) open-minded, i.e., willing to consider alternative ideas or points of view;
- (b) diplomatic, i.e., tactful in dealing with people;
- (c) observant, i.e., actively aware of the physical surroundings and activities;
- (d) perceptive, i.e., instinctively aware of and able to understand situations;
- (e) versatile, i.e., adjusts readily to different situations;
- (f) tenacious, i.e., persistent, focused on achieving objectives;
- (g) decisive, i.e., reaches timely conclusions based on logical reasoning and analysis; and
- (h) self-reliant, i.e., acts and functions independently while interacting effectively with others.<sup>22</sup>

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<sup>22</sup> Adopted from the personal attributes of auditors under PNS ISO 19011:2002, Guidelines for Quality and/or Environmental Management Systems Auditing

**Appendix C : Qualification Standards and Functions of the Head and Staff of the IAS/IAU**

The table hereunder provides for the qualification standards and functions of each position in the IAS/IAU. It reflects the minimum competency required in the areas of: a) Education; b) Experience; c) Training; and d) Eligibility that will enable auditors to perform in a competent manner, the functions so desired by the IAS/IAU.

Position	Qualification Standards <sup>23</sup>	Functions <sup>24</sup>
<p><b>Director IV</b> (Head of Internal Audit)</p>	<ol style="list-style-type: none"> <li>1. Education: any of the following: Master's Degree in Accounting, Public Administration, Criminology, Information Technology/Computer Science, and other related disciplines relevant to the Department/Agency where he/she may be assigned; Bachelor's Degree in Law would be an advantage</li> <li>2. Experience: 4 years of relevant experience in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems, and other related disciplines)</li> <li>3. Training: 40 hours of training in one or a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems, and other related disciplines)</li> <li>4. Eligibility: Any of the following: CESO III; CESO III and Lawyer or CESO III and CPA-Lawyer would be an advantage</li> </ol>	<p>Administrative Functions</p> <ol style="list-style-type: none"> <li>1. Submits work and financial plan;</li> <li>2. Submits annual procurement report;</li> <li>3. Submits accomplishment reports; and</li> <li>4. Submits performance evaluation, targets and ratings of staff.</li> </ol> <p>Operational Functions</p> <ol style="list-style-type: none"> <li>1. Establishes the annual goals, objectives and performance targets of the internal auditing unit;</li> <li>2. Establishes internal auditing standards, guidelines and procedures for the guidance of the internal audit staff;</li> <li>3. Determines the extent of coordination with the Commission on Audit to avoid duplication of audit report;</li> <li>4. Ensures support of management in the conduct of internal audit;</li> <li>5. Responsible for work performance and discipline of the staff;</li> <li>6. Reviews and approves internal audit plans;</li> <li>7. Discusses internal audit scope and objectives with agency/unit or personnel to be covered prior to the conduct of audit;</li> <li>8. Reviews and approves internal audit reports;</li> <li>9. Discusses audit results with auditee/s before the report is finalized;</li> <li>10. If necessary, discusses the conclusions and recommendations in the audit report with the appropriate level of management;</li> <li>11. Follows up actions to determine if audit recommendations have been carried out or not and inquires for the reasons for non-implementation;</li> </ol>

<sup>23</sup> Civil Service Commission Memorandum Circular No. 12, s. 2006.

<sup>24</sup> DBM Budget Circular No. 2004-4, Guidelines on the Organization and Staffing of Internal Auditing Units (IAUs), 22 March 2004.

Position	Qualification Standards <sup>23</sup>	Functions <sup>24</sup>
		<p>12. Investigates anomalies discovered in audit and submits reports and recommendations on investigations completed;</p> <p>13. Reviews and approves recommendations for enhancement of the internal audit functions; and</p> <p>14. Does related work.</p>
Internal Auditor V	<ol style="list-style-type: none"> <li>1. Education: Master's Degree in Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned, preferably Bachelor's Degree in Law.</li> <li>2. Experience: 4 years in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines); Management and Supervisory experience</li> <li>3. Training : 24 hours of training in Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines); Management and Supervision</li> <li>4. Eligibility: Career Service (Professional)/Secondary Level Eligibility, preferably Bar/CPA, (RA 1080 or both Lawyer and CPA)</li> </ol>	<ol style="list-style-type: none"> <li>1. Under direction, supervises a division tasked with internal audit functions;</li> <li>2. Establishes the annual goals, objectives and performance tar-gets;</li> <li>3. Establishes internal auditing standards, guidelines and procedures for the guidance of the internal audit staff;</li> <li>4. Does final review of internal audit plans;</li> <li>5. Recommends approval of internal audit plans;</li> <li>6. Reviews internal audit report;</li> <li>7. Determines training needs of internal audit staff;</li> <li>8. Responsible for work performance and discipline of audit staff; and</li> <li>9. Does related work.</li> </ol>
Internal Auditor IV	<ol style="list-style-type: none"> <li>1. Education : Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned)</li> </ol>	<ol style="list-style-type: none"> <li>1. Under direct supervision, assists in supervising a division tasked with internal audit functions;</li> <li>2. Reviews internal audit plans;</li> <li>3. Discusses internal audit plans with the concerned staff;</li> <li>4. Reviews written internal audit reports;</li> <li>5. Trains new internal auditors;</li> <li>6. Rates performance of audit staff; and</li> <li>7. Does related work.</li> </ol>

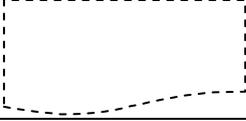
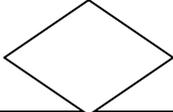
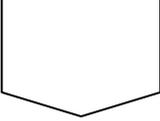
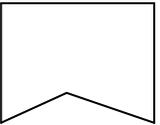
Position	Qualification Standards <sup>23</sup>	Functions <sup>24</sup>
	<ol style="list-style-type: none"> <li>2. Experience : 3 years of relevant experience involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</li> <li>3. Training: 16 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</li> <li>4. Eligibility : Career Service (Professional)/Secondary Level Eligibility or Bar/ board passer on disciplines related to the abovementioned</li> </ol>	
Internal Auditor III	<ol style="list-style-type: none"> <li>1. Education: Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned)</li> <li>2. Experience: 2 years in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</li> <li>3. Training : 8 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</li> </ol>	<ol style="list-style-type: none"> <li>1. Under general supervision, reviews agency organizational structure, staffing, administrative systems and procedures;</li> <li>2. Drafts audit plans for review of immediate supervisor,</li> <li>3. Follows-up actions to determine if audit recommendations have been carried out;</li> <li>4. Performs difficult auditing work; and</li> <li>5. Does related work.</li> </ol>

Position	Qualification Standards <sup>23</sup>	Functions <sup>24</sup>
	<p>4. Eligibility : Career Service (Professional)/Secondary Level Eligibility or board passer on disciplines related to the abovementioned</p>	
Internal Auditor II	<p>1. Education : Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned)</p> <p>2. Experience : 1 year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/ or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p> <p>3. Training : 4 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p> <p>4. Eligibility : Career Service (Professional)/ Secondary Level Eligibility</p>	<p>1. Under general supervision, conducts researches to obtain background information on the activities to be audited;</p> <p>2. Discusses research findings with the leader of the auditing team;</p> <p>3. Performs simple auditing work;</p> <p>4. Drafts report on the results of audit; and</p> <p>5. Does related work.</p>
Internal Auditor I	<p>1. Education : Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/Computer Science and other disciplines related to the abovementioned)</p> <p>2. Experience : 1 year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p>	<p>1. Under general supervision, conducts researches to obtain background information on the activities to be audited;</p> <p>2. Discusses research findings with the leader of the auditing team;</p> <p>3. Performs simple auditing work;</p> <p>4. Drafts report on the results of the audit completed;</p> <p>5. Does related work.</p>

Position	Qualification Standards <sup>23</sup>	Functions <sup>24</sup>
	<p>3. Training : 4 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p> <p>4. Eligibility : Career Service (Professional)/ Secondary Level Eligibility</p>	
Internal Auditing Assistant	<p>1. Completion of 2 years of study in college</p> <p>2. Experience : 1 year in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p> <p>3. Training : 4 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization [ISO] Management Systems and other related disciplines)</p> <p>4. Eligibility: Career Service (Sub-professional)/First level eligibility</p>	<p>1. Under immediate supervision, assists internal auditors in the conduct of internal audit; and</p> <p>2. Does related work.</p>

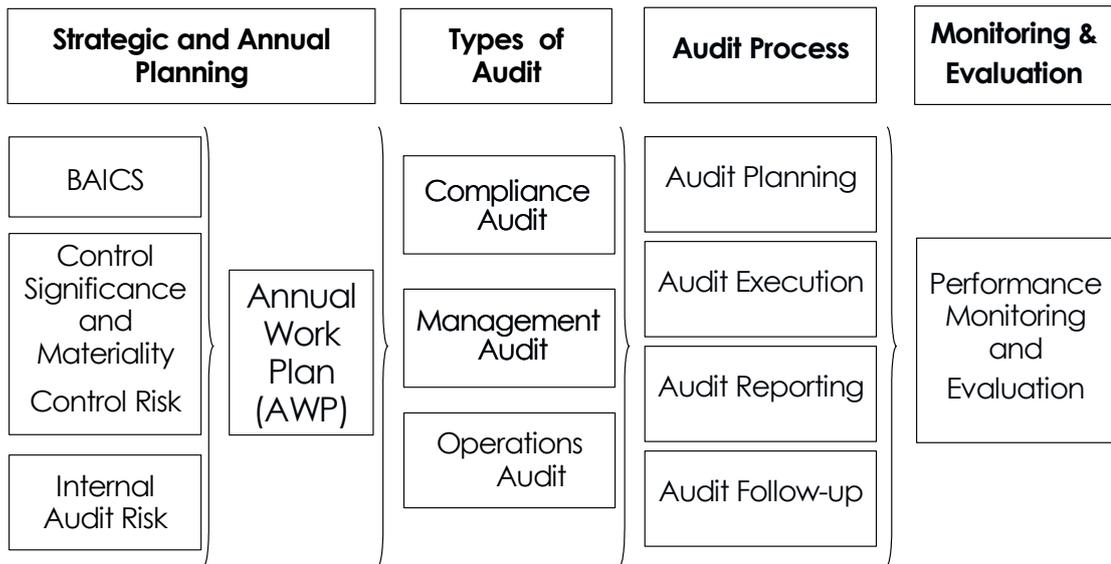
## Appendix D : Diagram and Flowcharts of Internal Audit Key Process

### D.1 Flowcharting symbols<sup>25</sup>

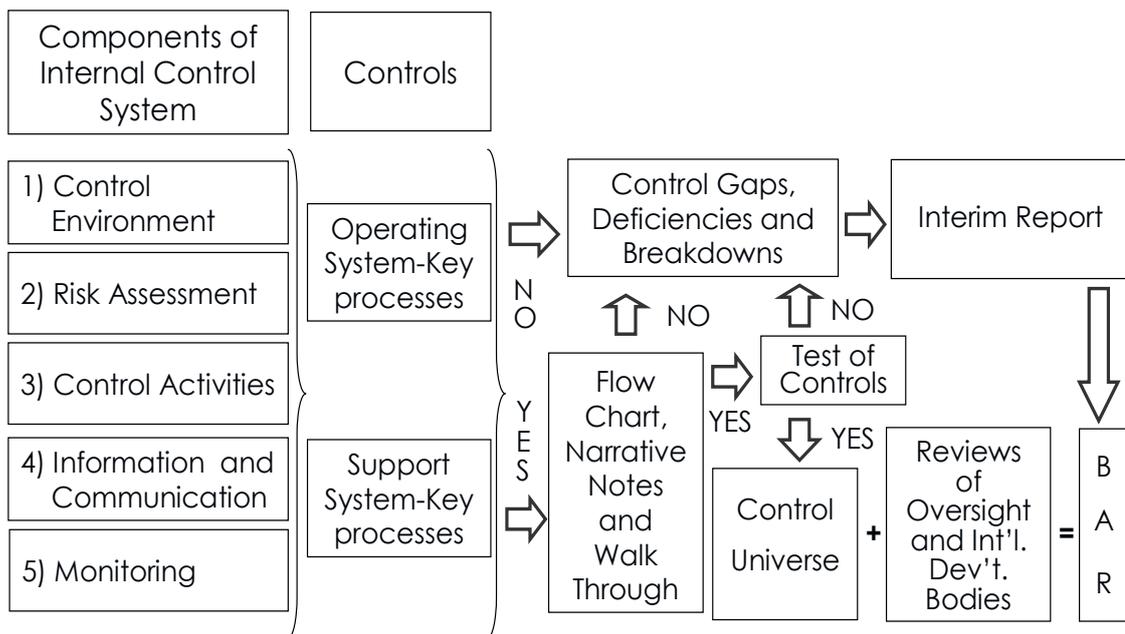
	Start/end of audit process
	Description of process
	Document
	Reference document
	Decision box
	Process flow direction
	Link to reference document
	Link to document
	Off-page reference
	Incoming reference

<sup>25</sup> PNS ISO 5807:2004 – “Information processing – Documentation symbols and conventions for data, program and system flowcharts, program network charts and system resources charts”; UN Audit Manual, Internal Audit Division, Office of Internal Oversight Services, March 2009.

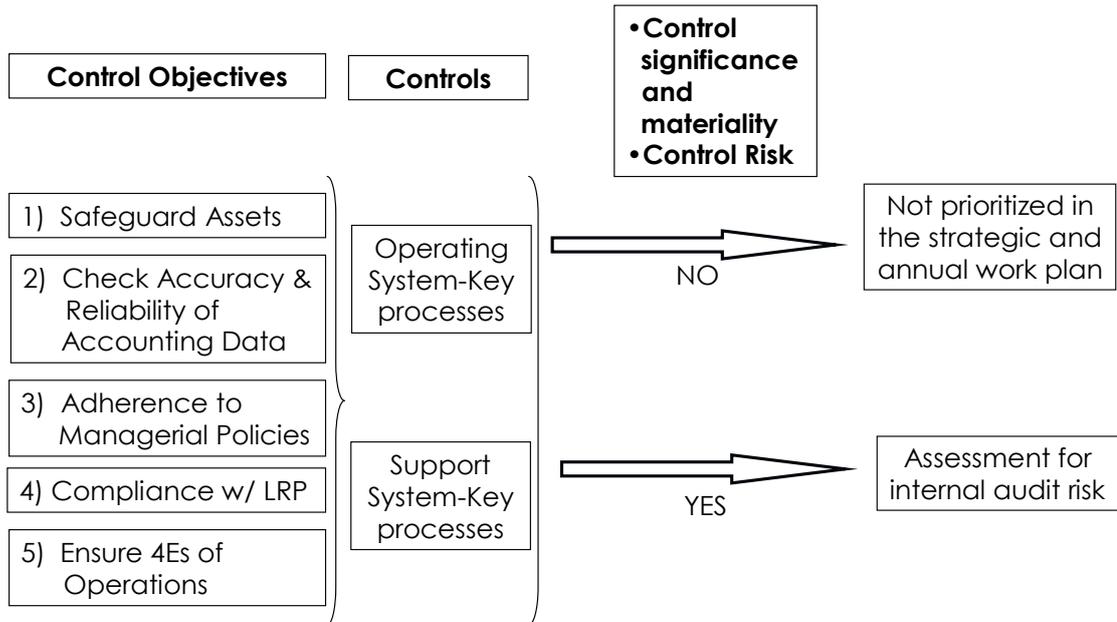
### D. 2 Internal Audit Key Processes Diagram



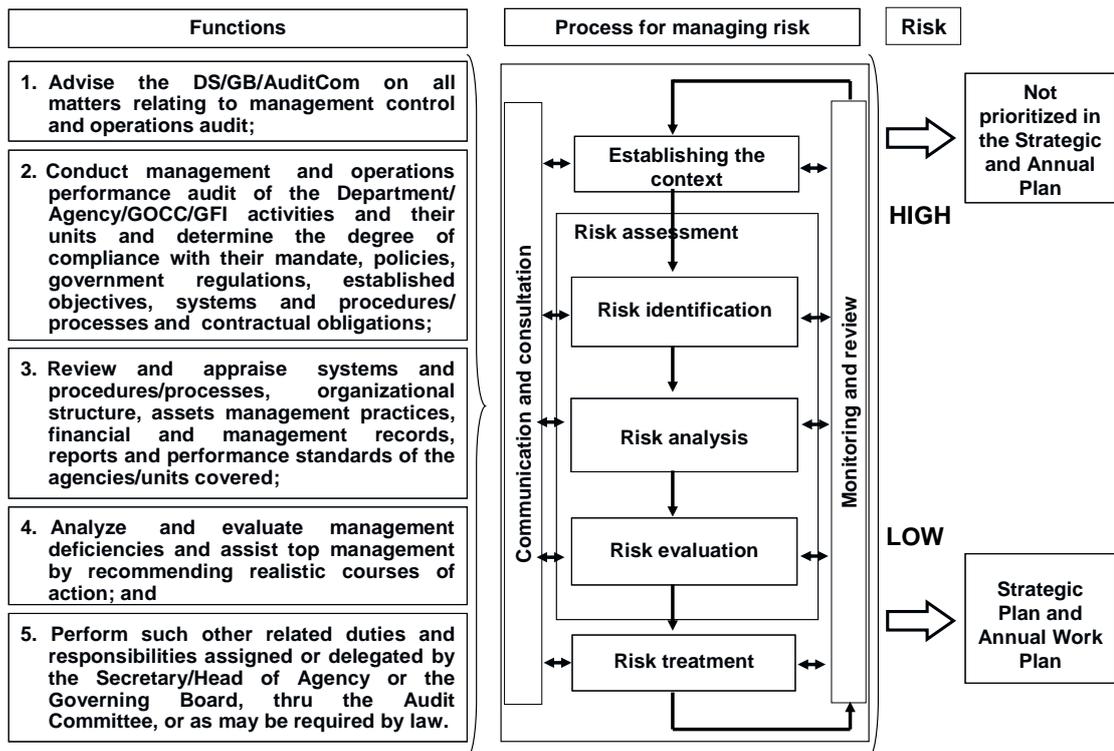
### D. 3 Baseline Assessment of internal Control Flow Diagram



#### D. 4 Control Significance and Materiality and Control Risk Flow Diagram

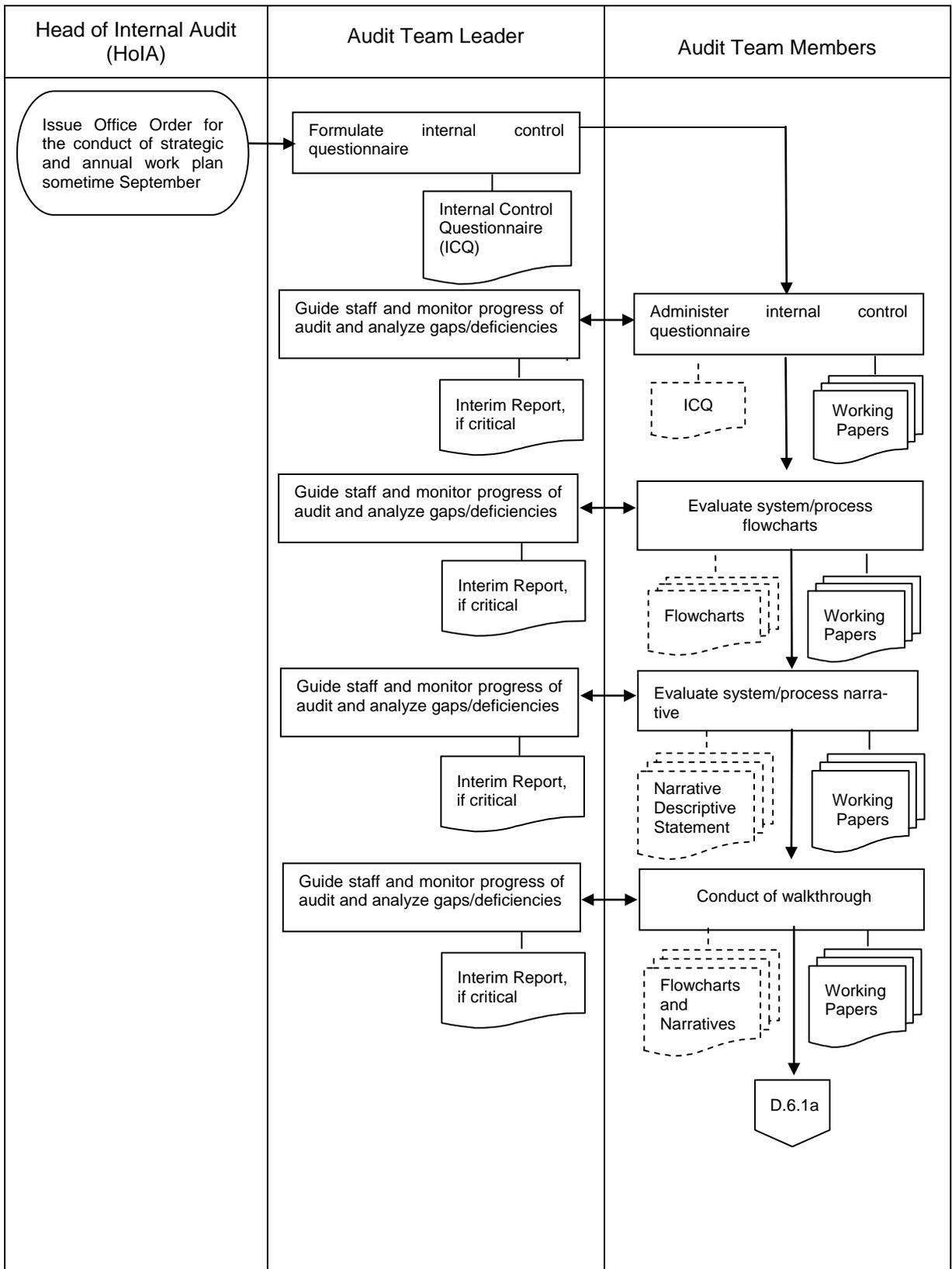


#### D. 5 Internal Audit Risk Assessment Flow Diagram



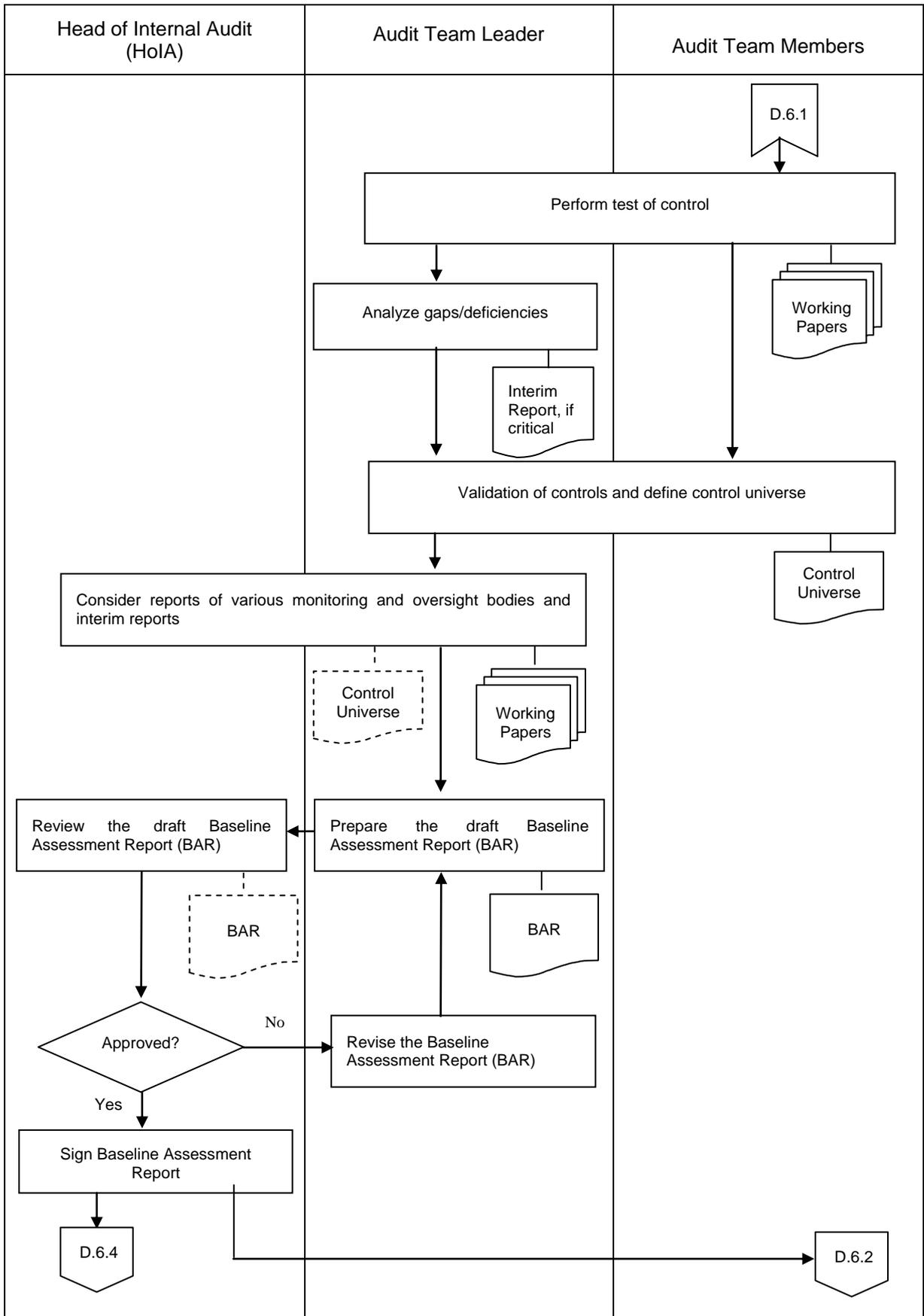
## D. 6 Flowchart of Strategic Audit Planning

### D.6. 1 Conduct of Baseline Assessment of Internal Control System



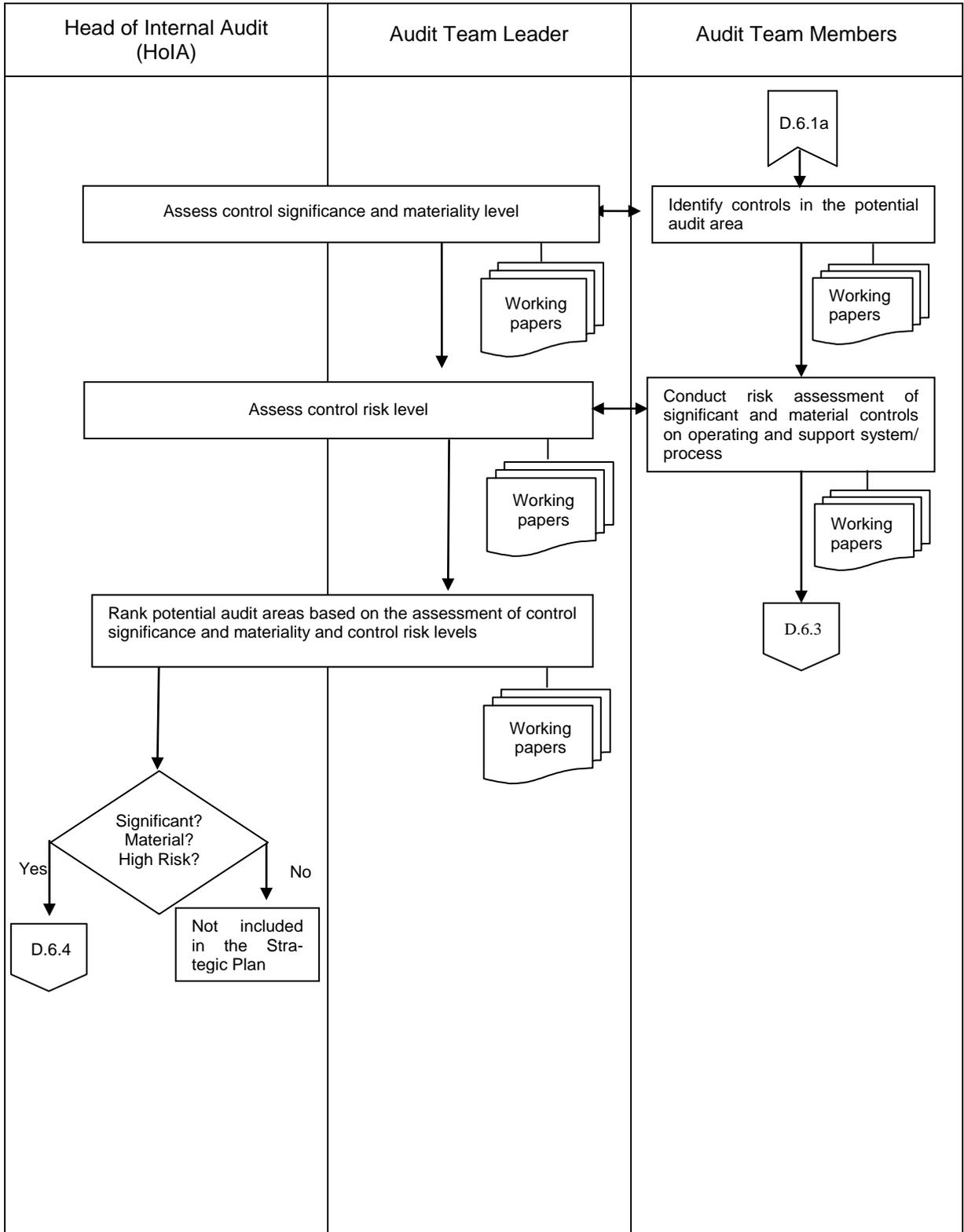
**D.6 Strategic Audit Planning**

**D.6.1a Conduct of Baseline Assessment of Internal Control System (continuation)**

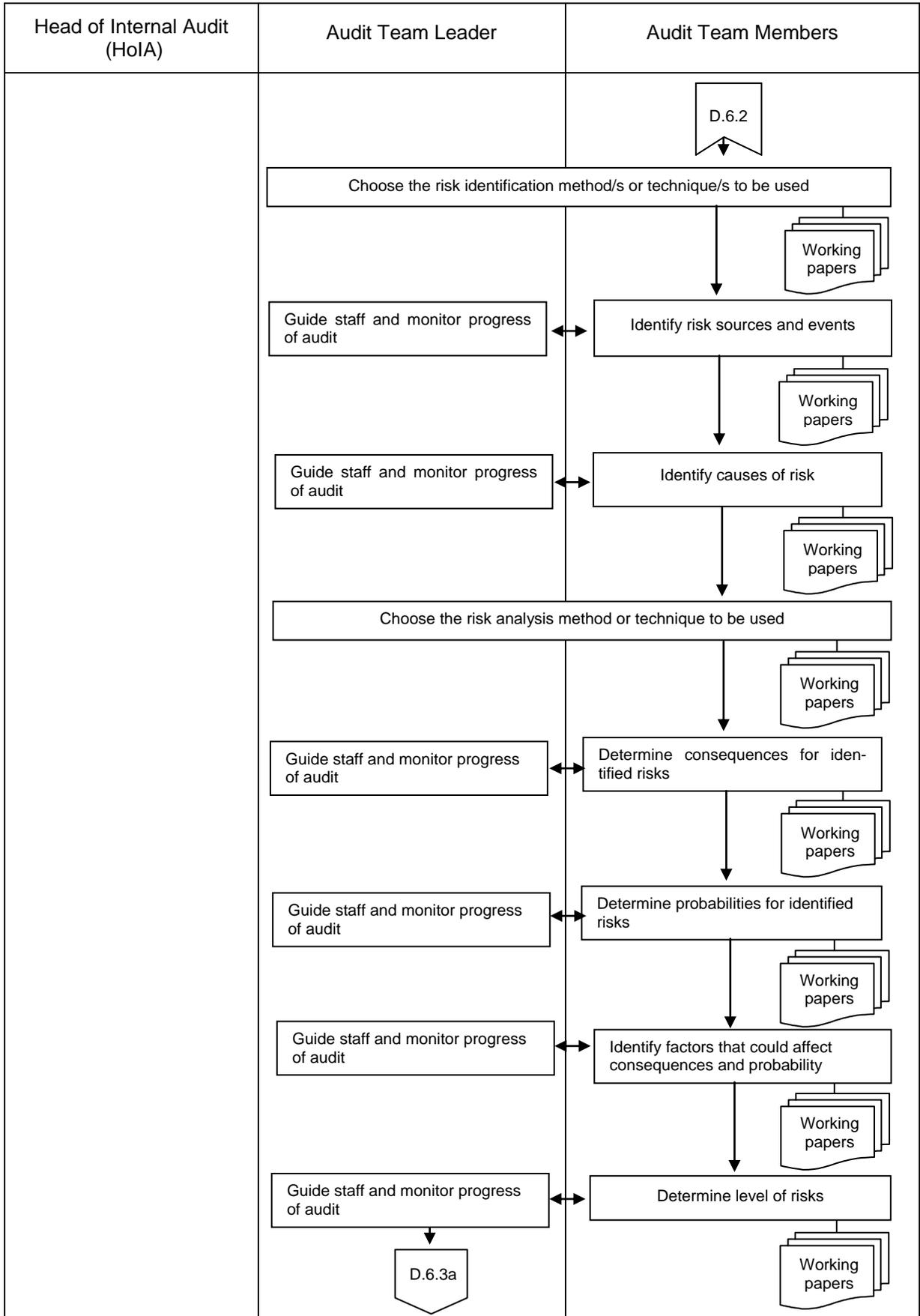


**D.6 Strategic Audit Planning**

**D.6.2 Assessment of Control Significance and Materiality and Control Risk**

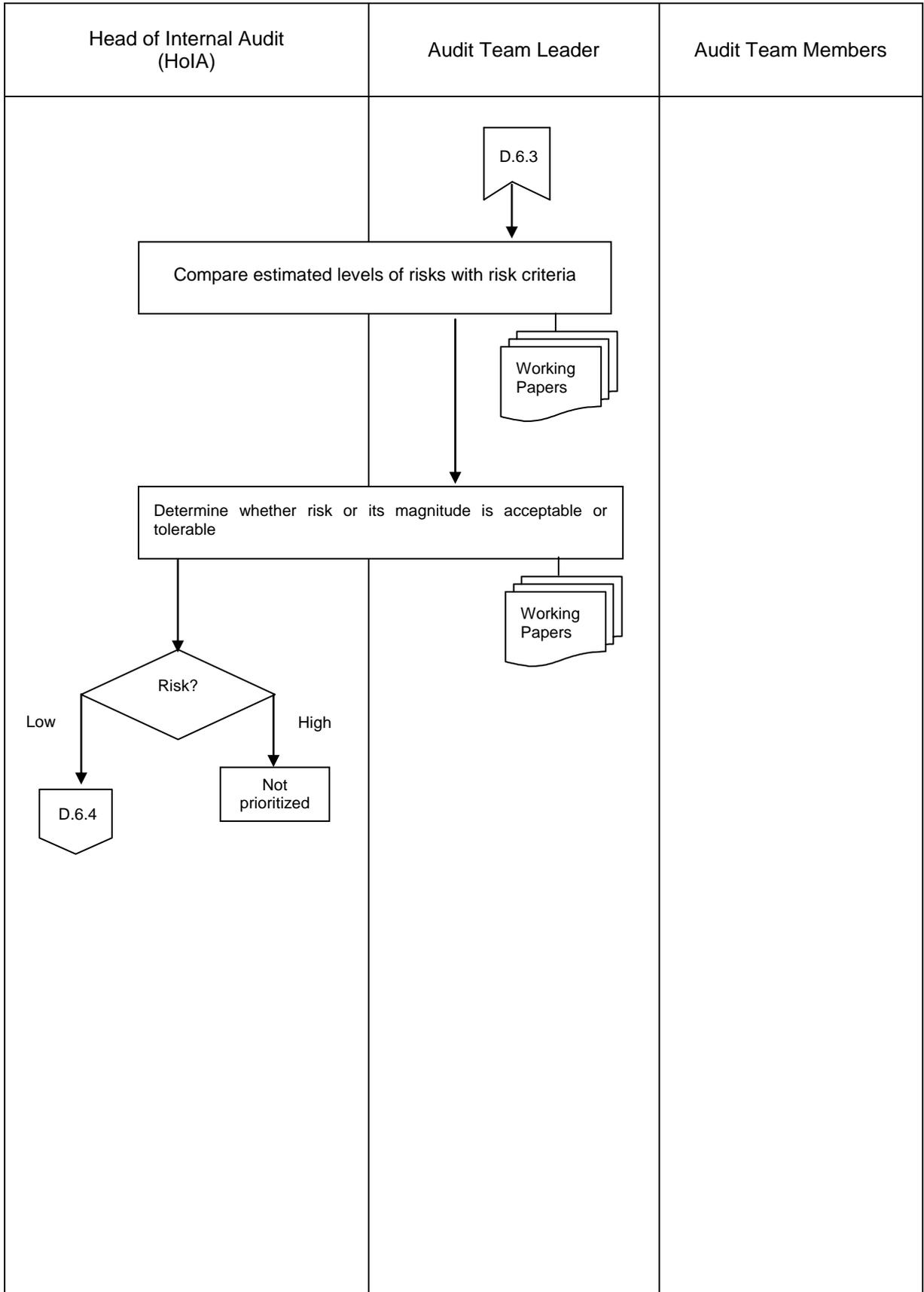


**D.6 Strategic Planning**  
**D.6.3 Assessment of Internal Audit Risk**

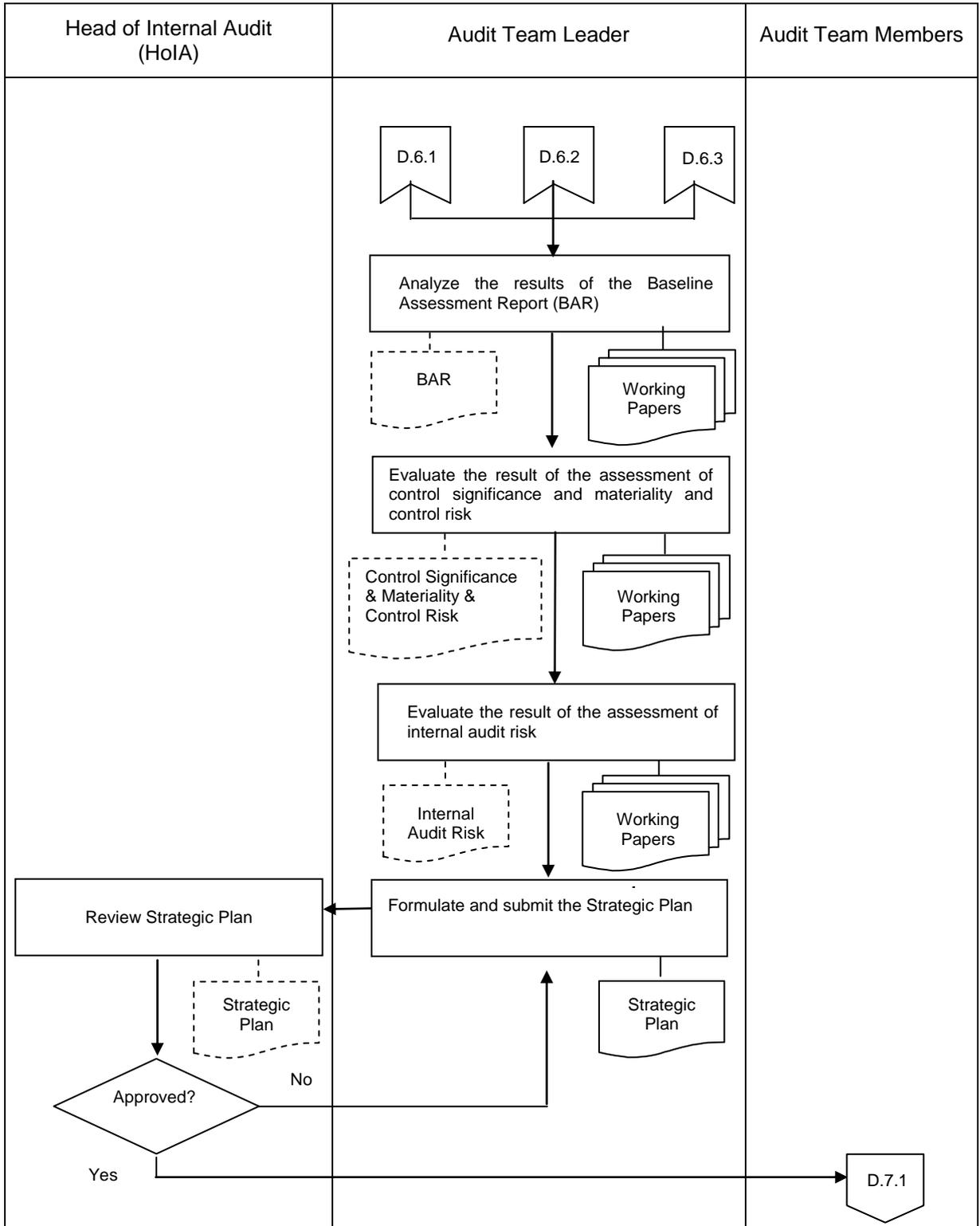


**D.6 Strategic Planning**

**D.6.3a Assessment of Internal Audit Risk (continuation)**

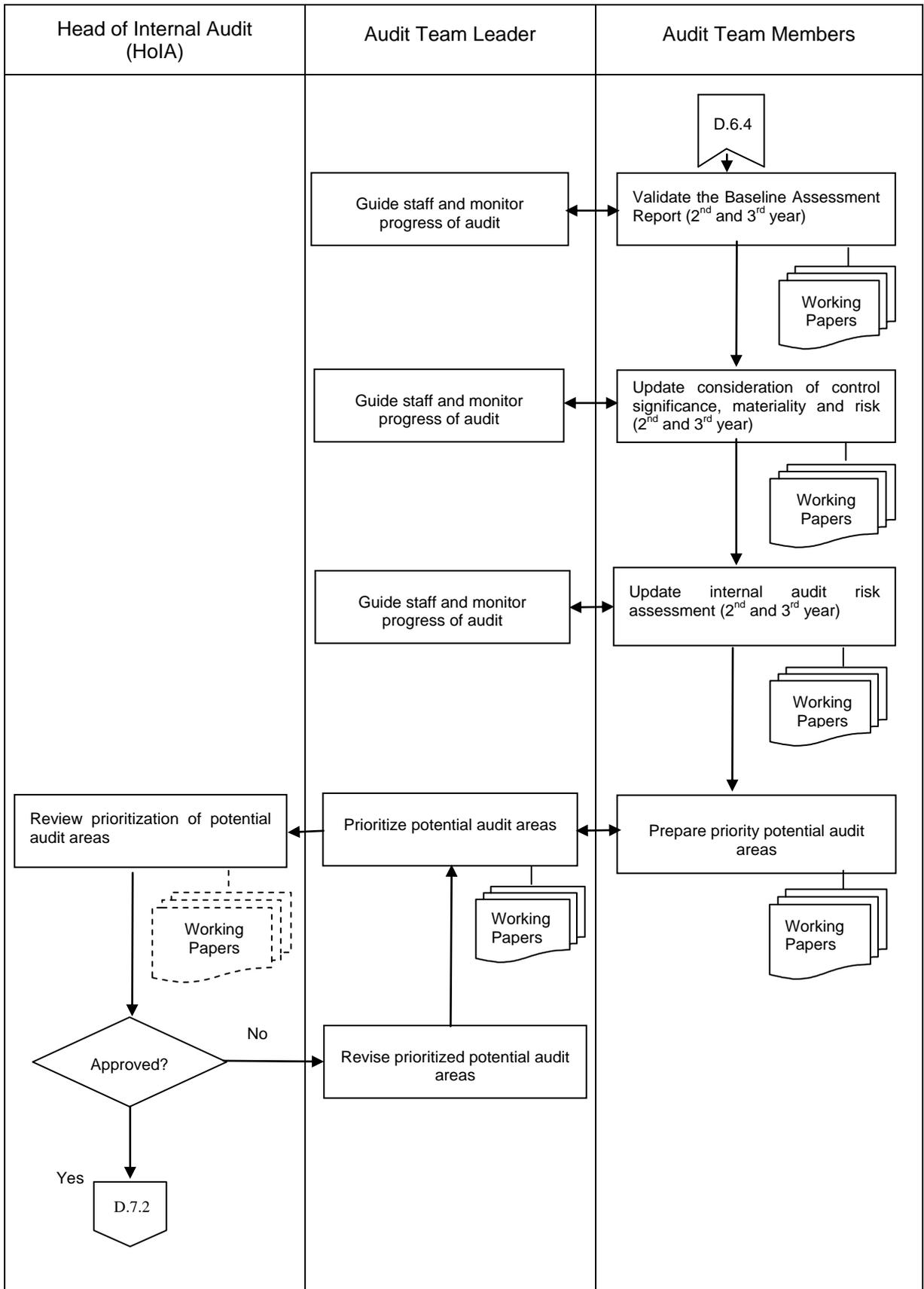


**D.6 Strategic Planning**  
D.6. 4 Formulation of Strategic Plan

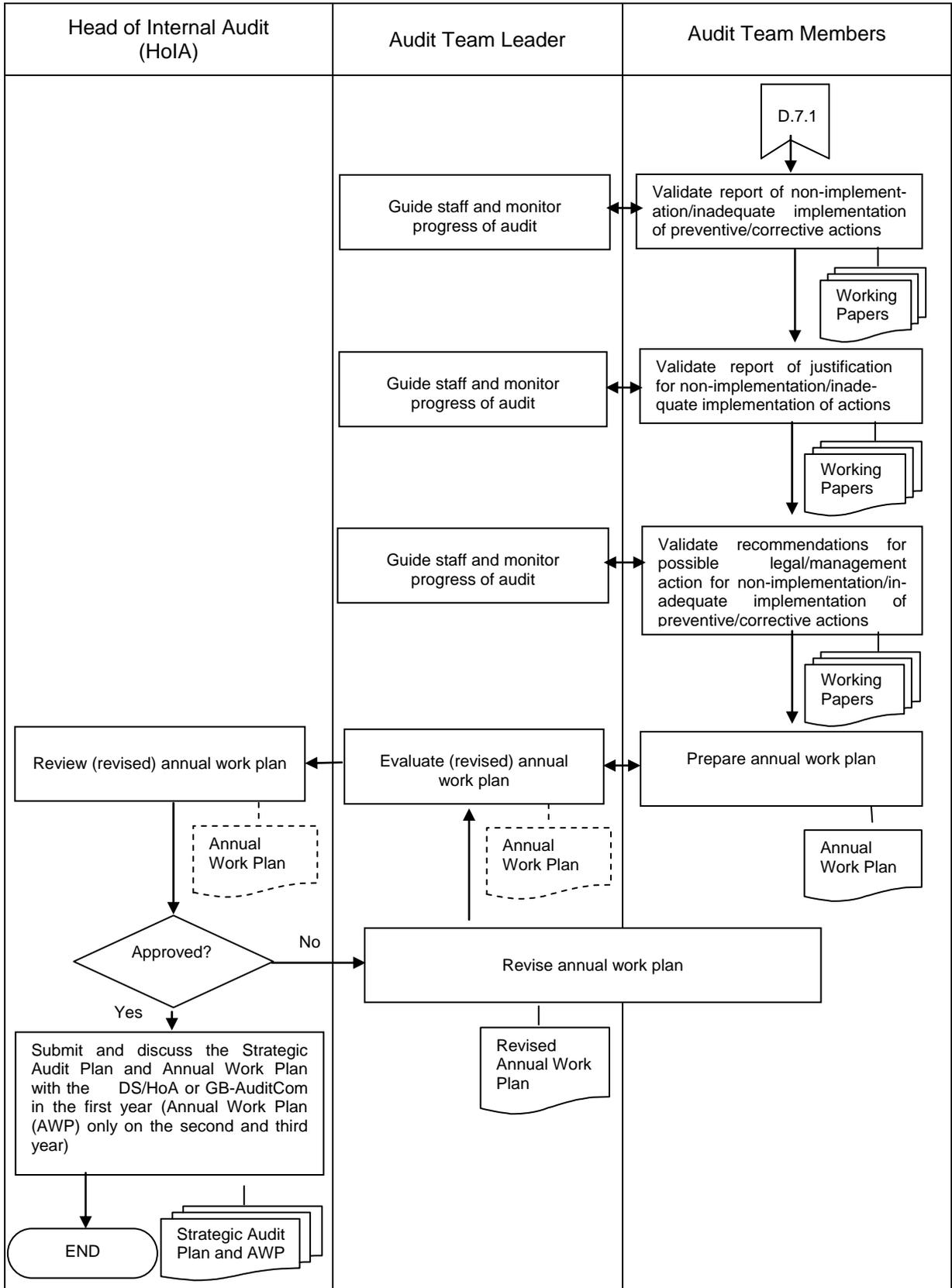


**D.7 Preparation of Annual Work Plan**

**D.7.1 Prioritize, by Process, the Control Methods and Measures into Potential Audit Areas**

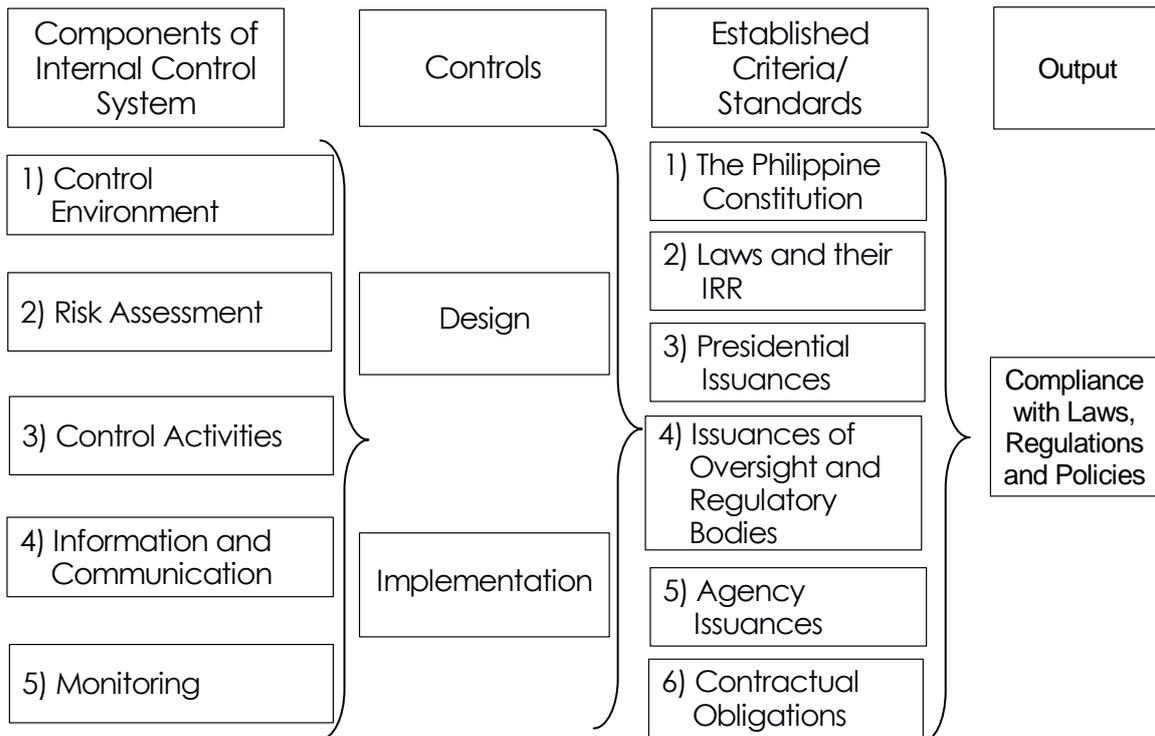


**D.7 Preparation of Annual Work Plan**  
**D.7.2 Validate Previous Audit Follow-up Report**



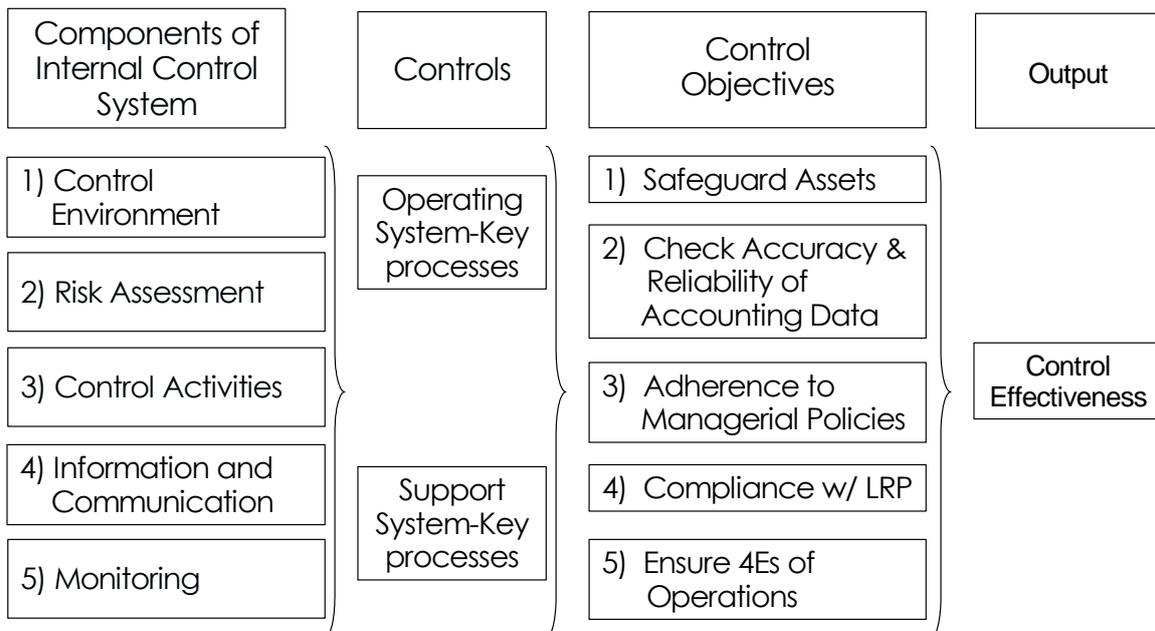
**D. 8 Flow Diagram of Compliance, Management and Operations Audit**

**D.8. 1 Compliance Audit Flow Diagram**

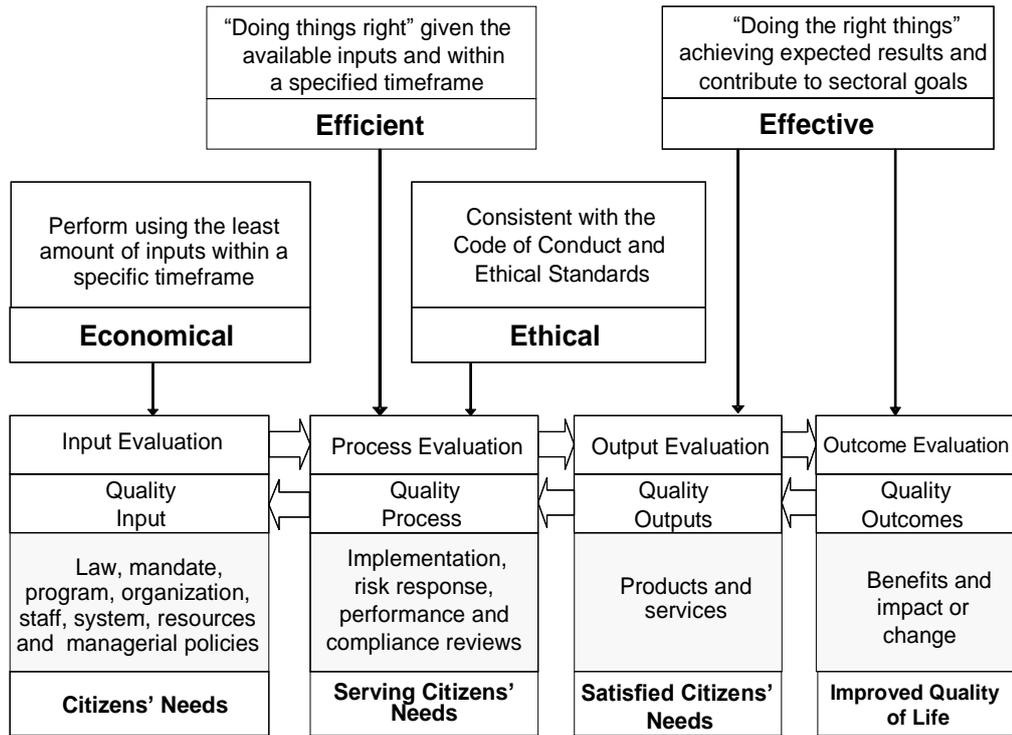


**D.8 Flow Diagram of Compliance, Management and Operations Audit**

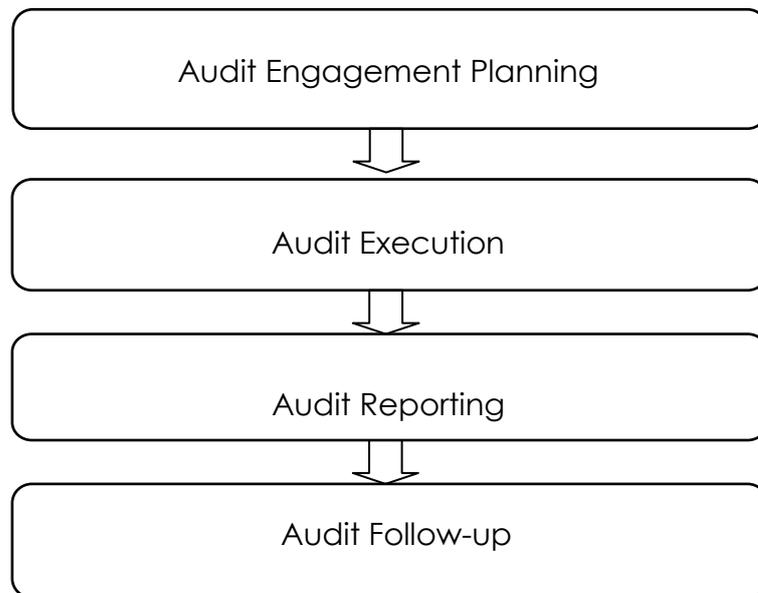
**D.8. 2 Management Audit Flow Diagram**



**D.8 Flow Diagram of Compliance, Management and Operations Audit**  
D.8. 3 Operations Audit Flow Diagram

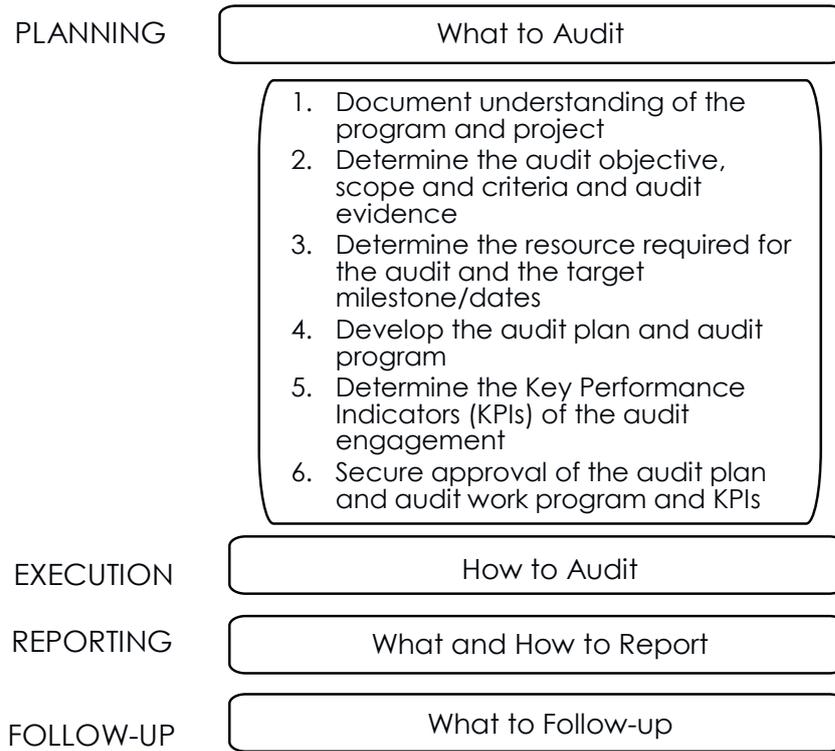


**D. 9 Audit Process Flow Diagram**



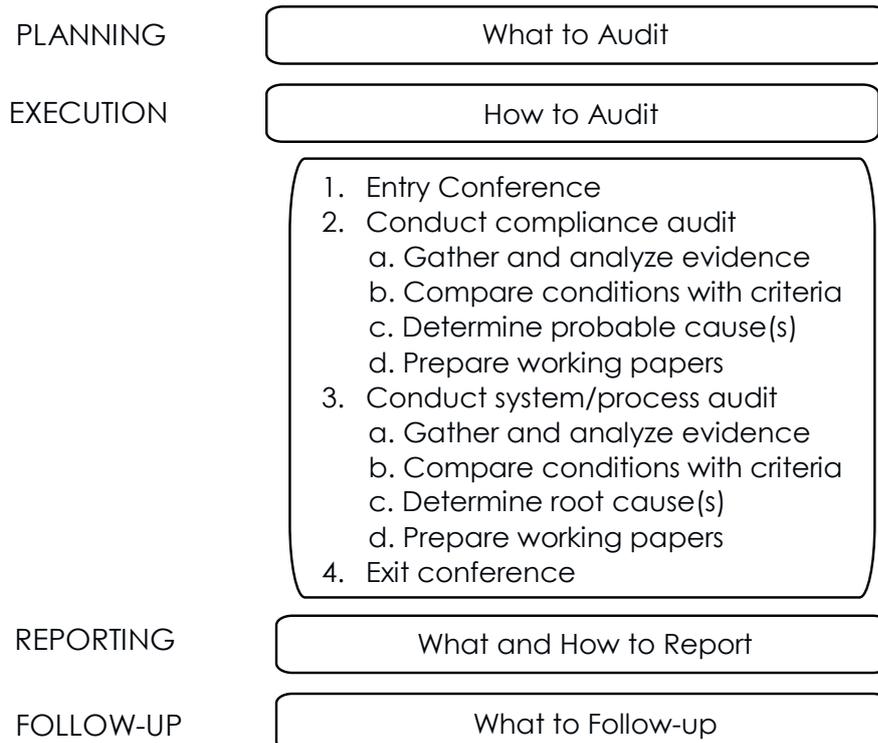
## D.9 Audit Process Flow Diagram

### D.9.1 Audit Engagement Planning Flow Diagram



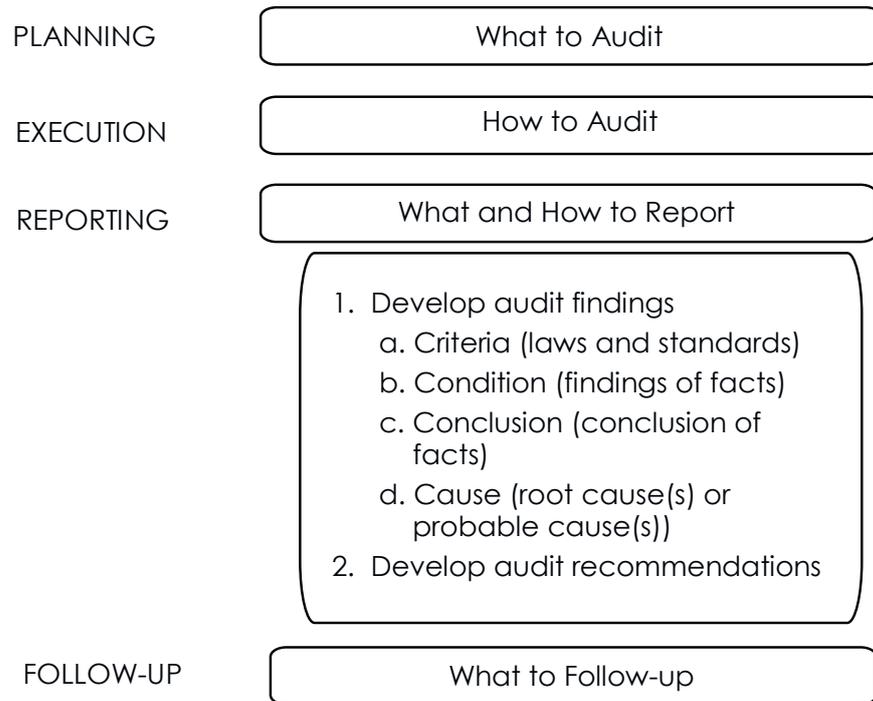
## D.9 Audit Process Flow Diagram

### D.9.2 Audit Execution Flow Diagram



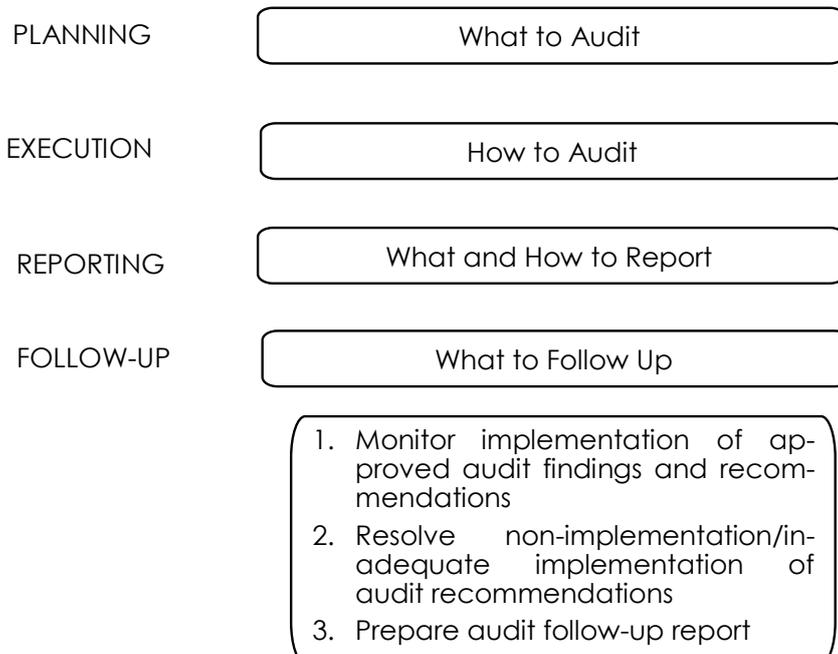
**D.9 Audit Process Flow Diagram**

**D.9. 3 Audit Reporting Flow Diagram**

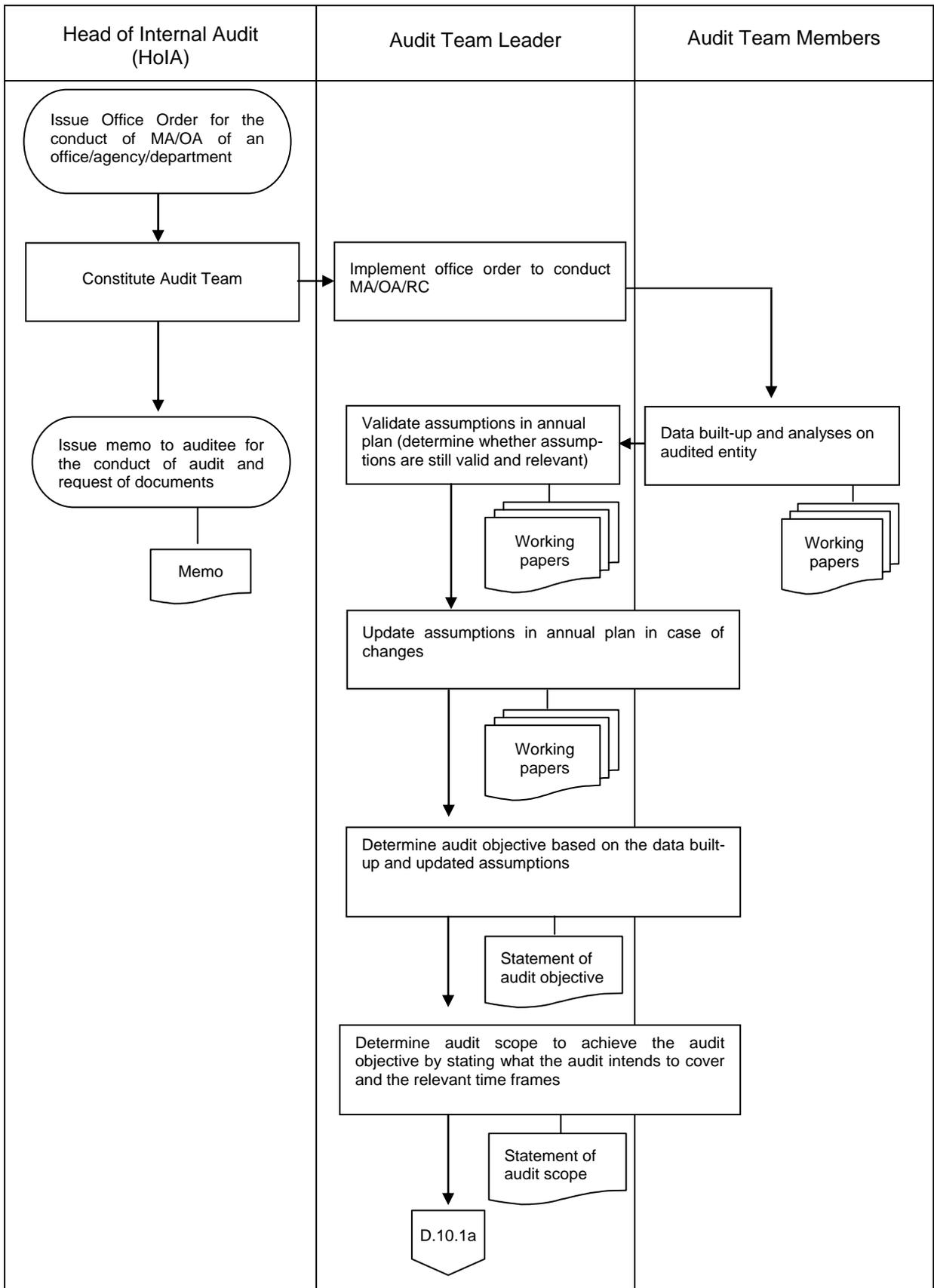


**D.9 Audit Process Flow Diagram**

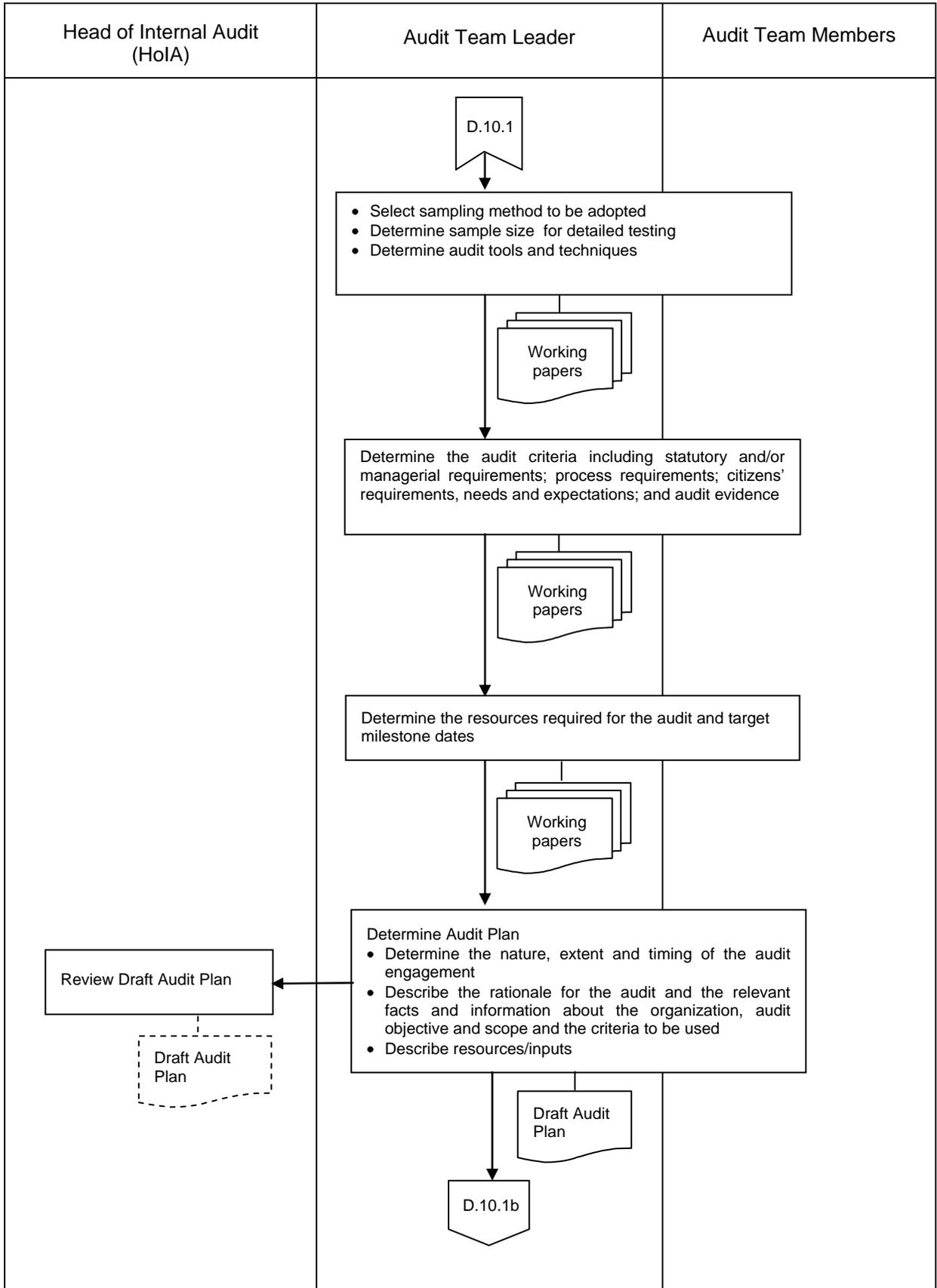
**D.9. 4 Audit Follow-up Flow Diagram**



**D. 10 Flowchart of Audit Process**  
D.10. 1 Flowchart of Audit Engagement Planning



**D.10 Flowchart of Audit Process**  
D.10.1a Flowchart of Audit Engagement Planning (continuation)

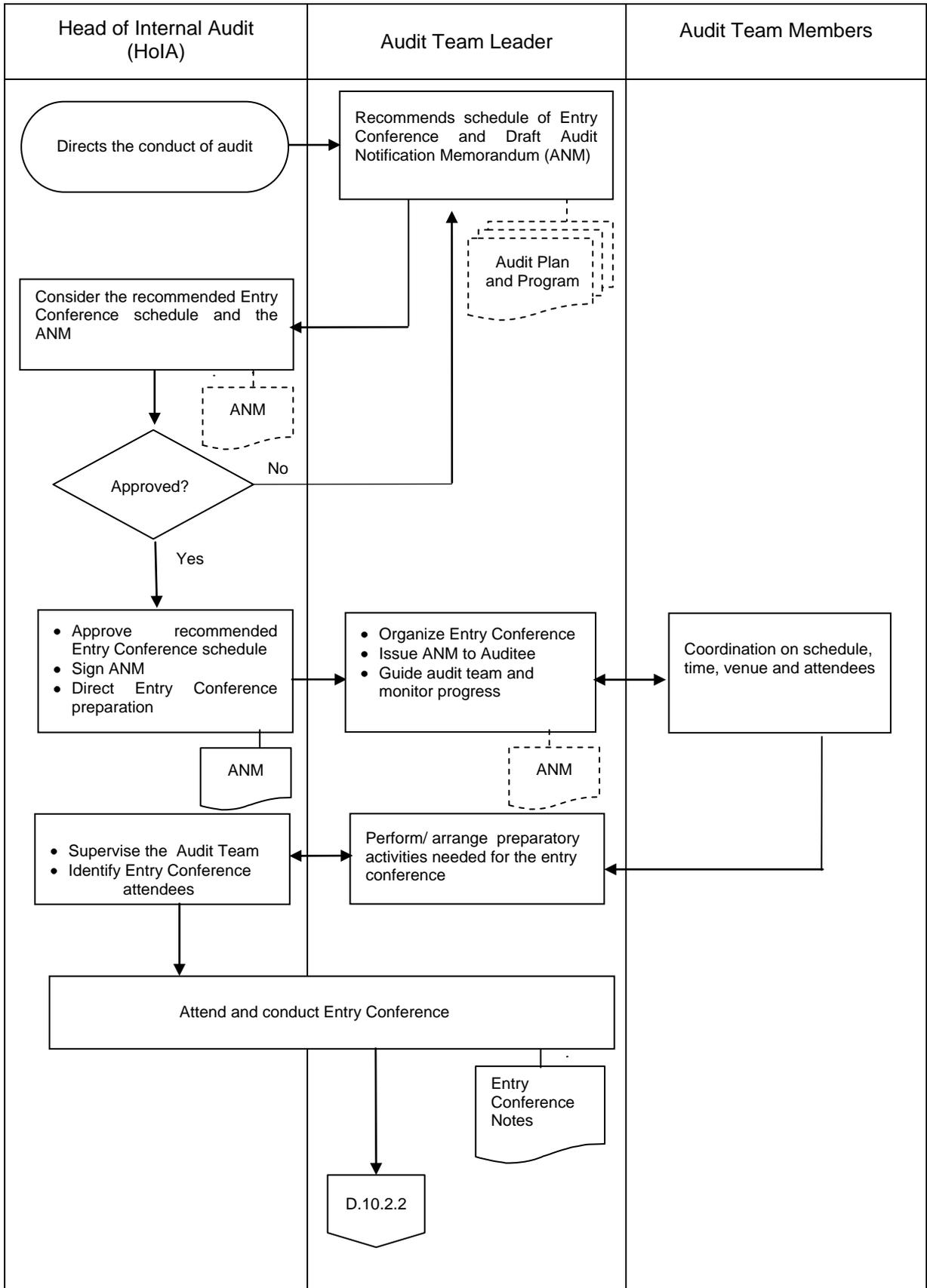




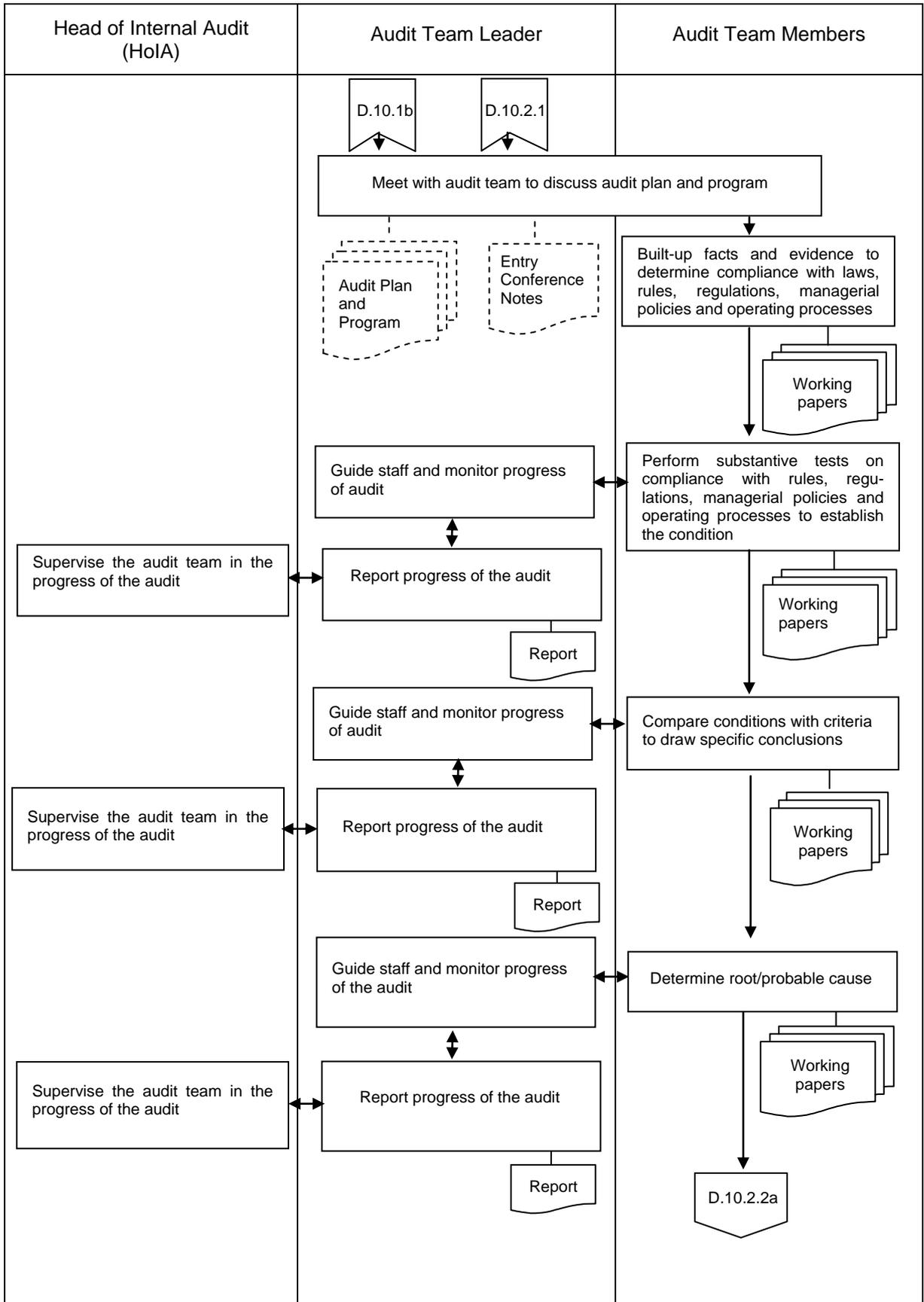
**D.10 Flowchart of Audit Process**

D.10.2 Flowchart of Audit Execution

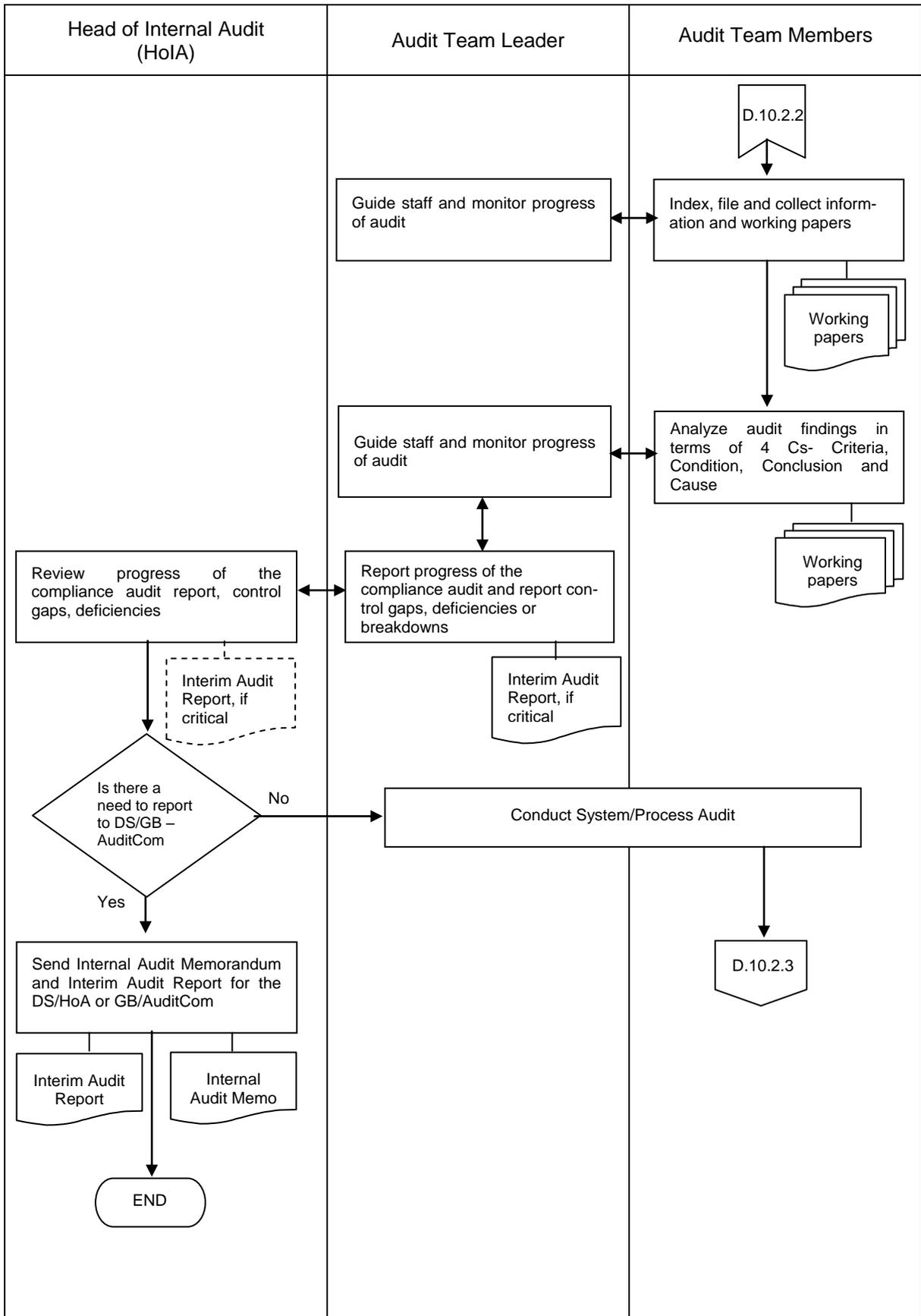
D.10.2.1 Entry Conference



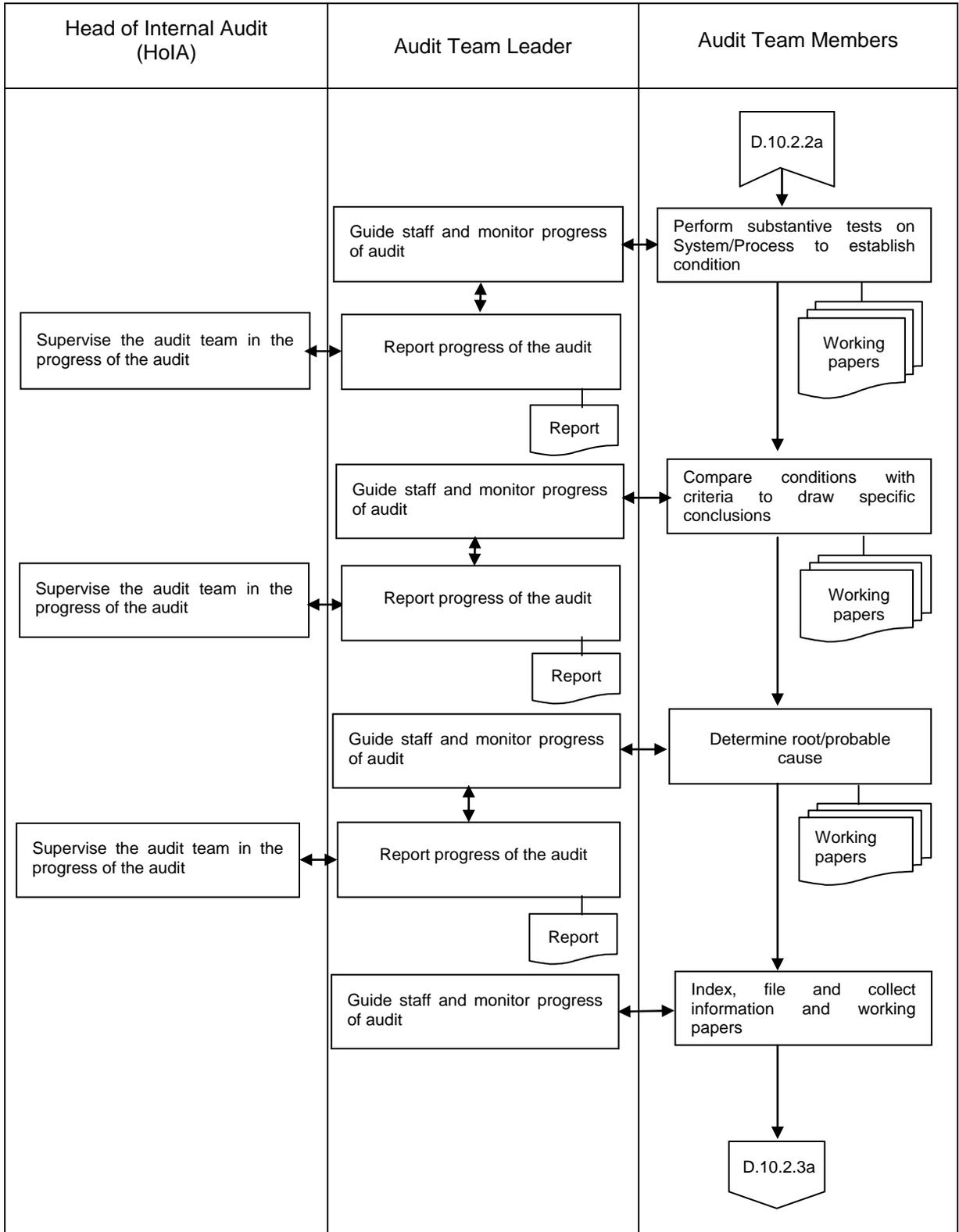
**D.10 Flowchart of Audit Process**  
D.10.2 Flowchart of Audit Execution  
D.10.2.2 Compliance Audit



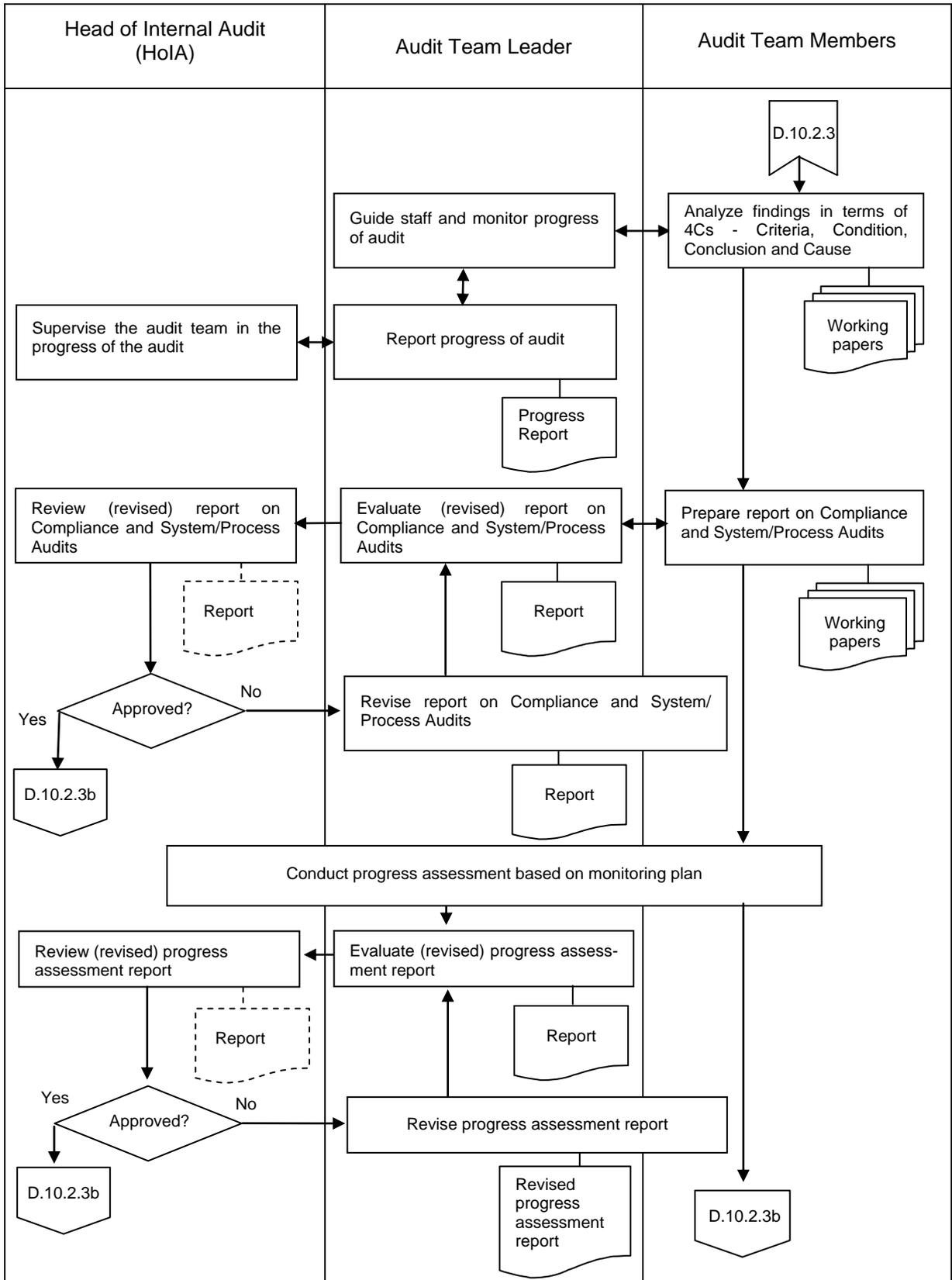
**D.10 Flowchart of Audit Process**  
 D.10.2 Flowchart of Audit Execution  
 D.10.2.2a Compliance Audit (continuation)



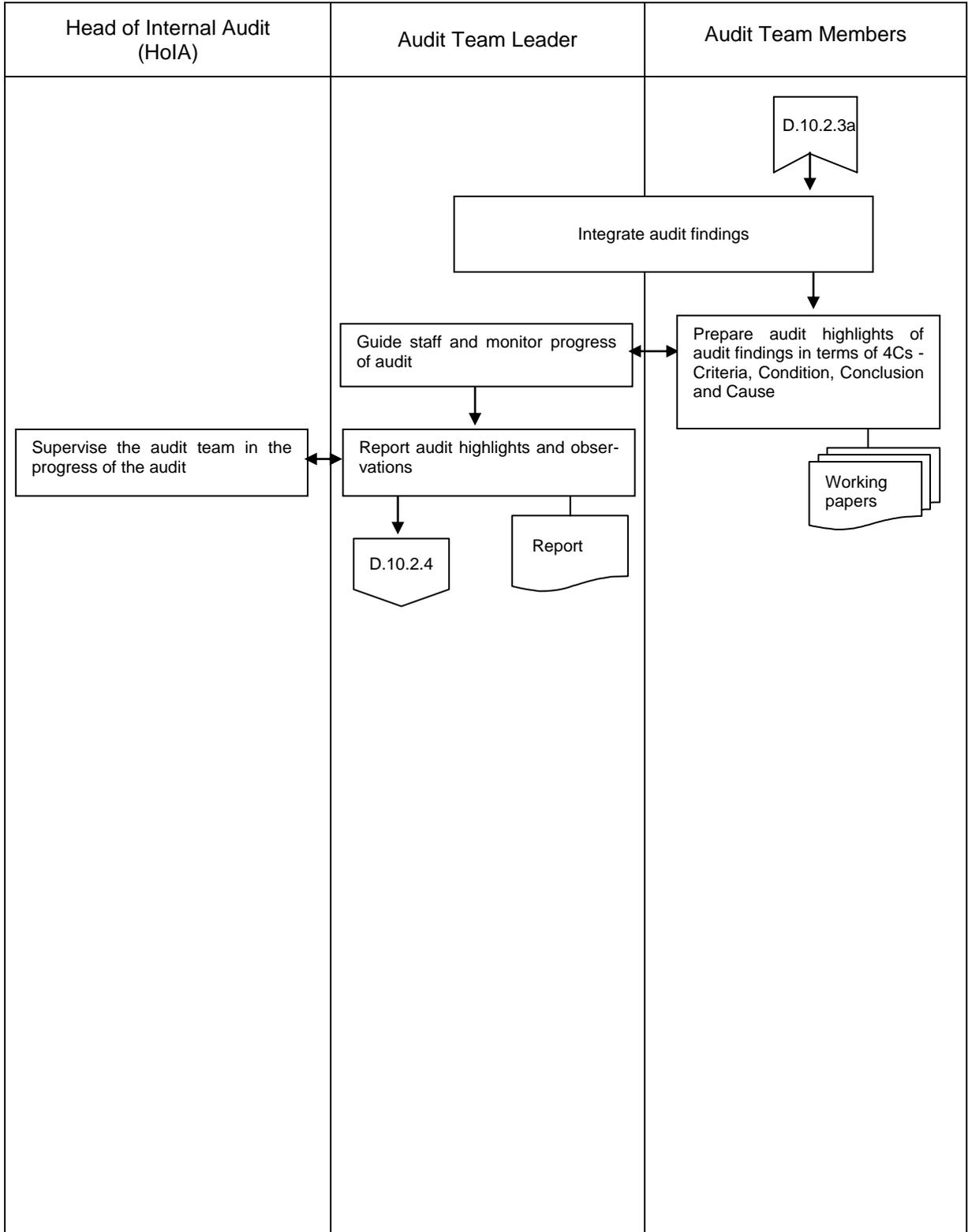
**D.10 Flowchart of Audit Process**  
D.10.2 Flowchart of Audit Execution  
D.10.2.3 System/Process Audit



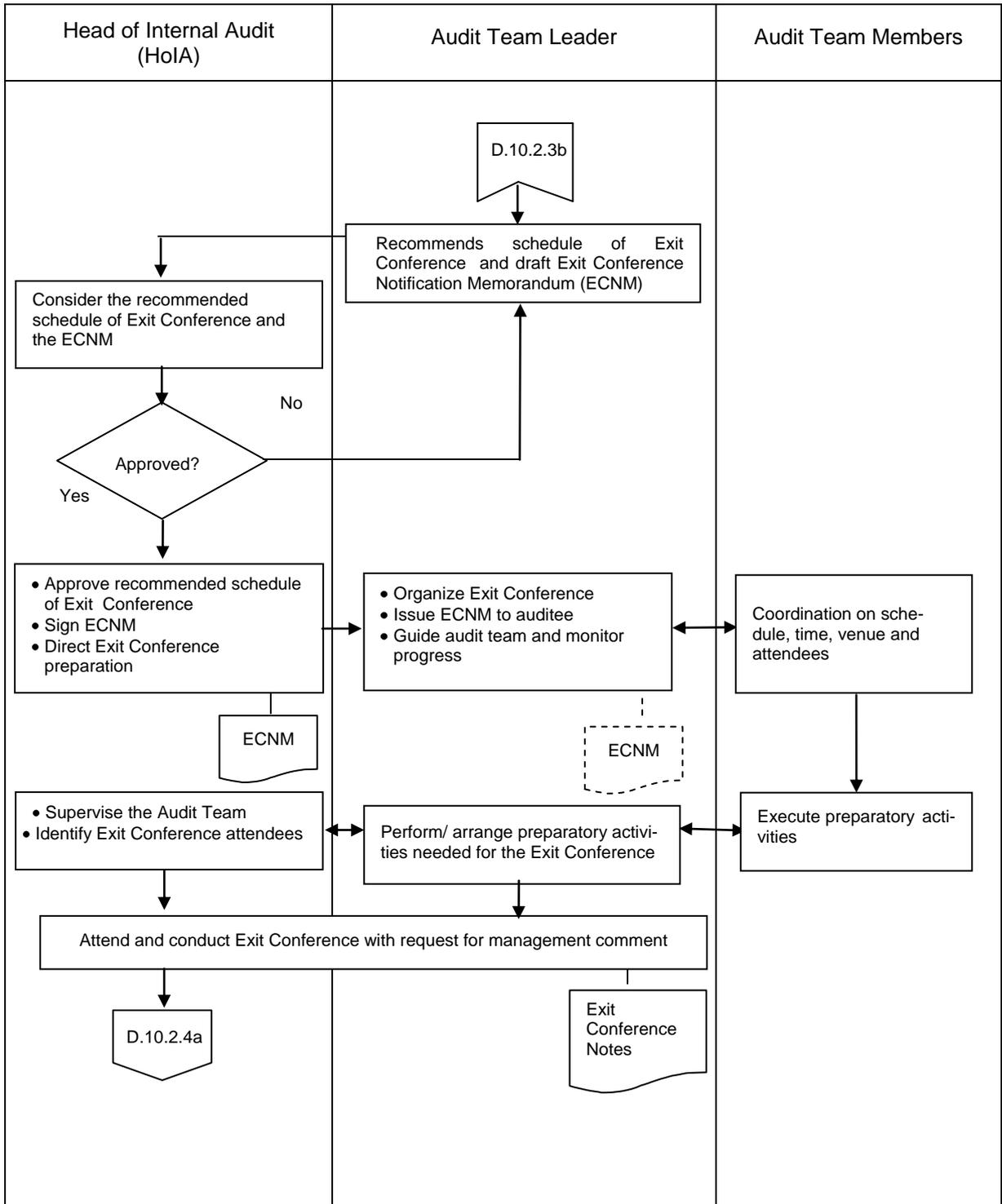
**D.10 Flowchart of Audit Process**  
 D.10.2 Flowchart of Audit Execution  
 D.10.2.3a System/Process Audit (continuation)



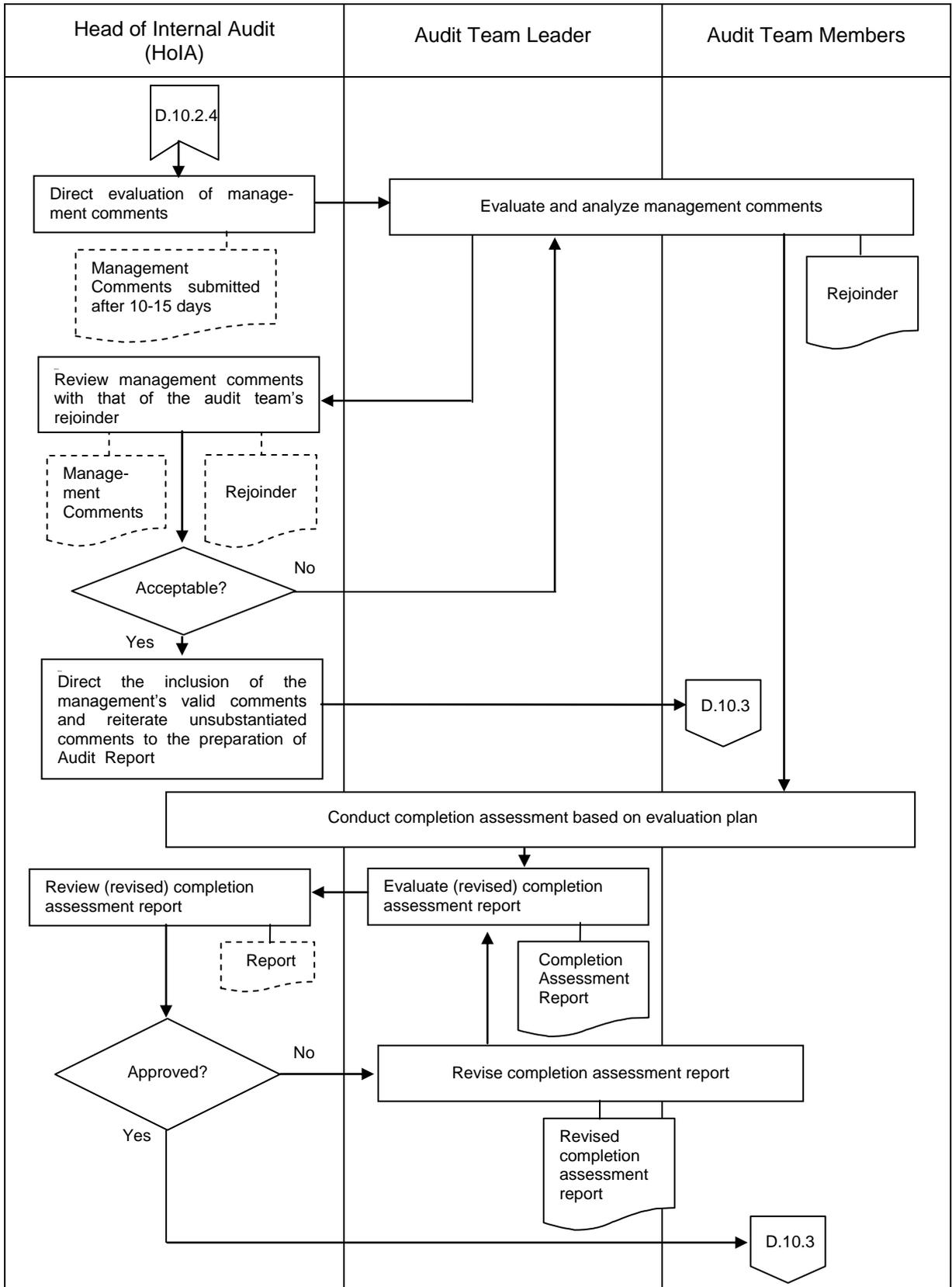
**D.10 Flowchart of Audit Process**  
D.10.2 Audit Execution  
D.10.2.3b System/Process Audit (continuation)



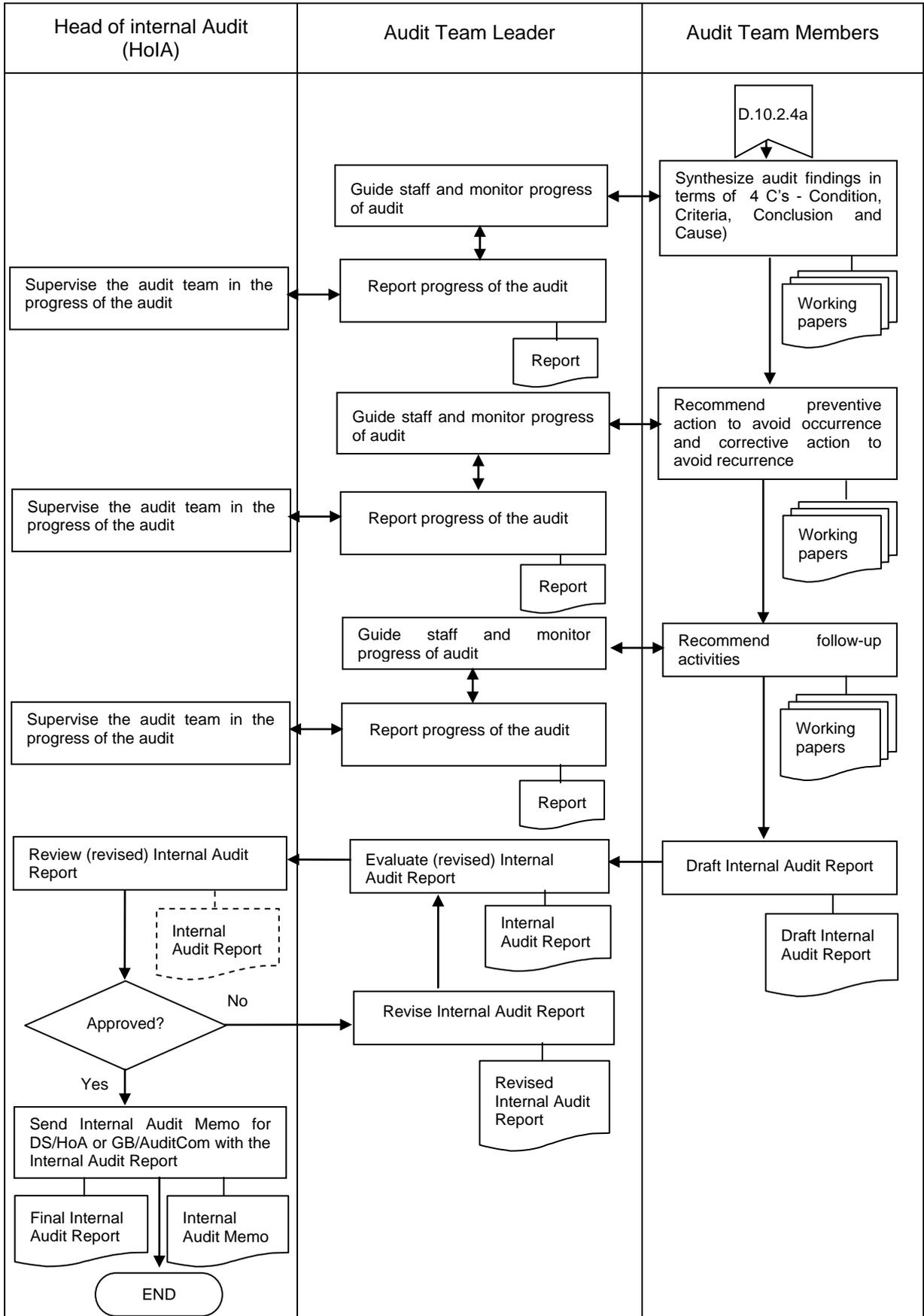
**D.10 Flowchart of Audit Process**  
D.10.2 Flowchart of Audit Execution  
D.10.2.4 Exit Conference



**D.10 Flowchart of Audit Process**  
 D.10.2 Flowchart of Audit Execution  
 D.10.2.4a Exit Conference (continuation)



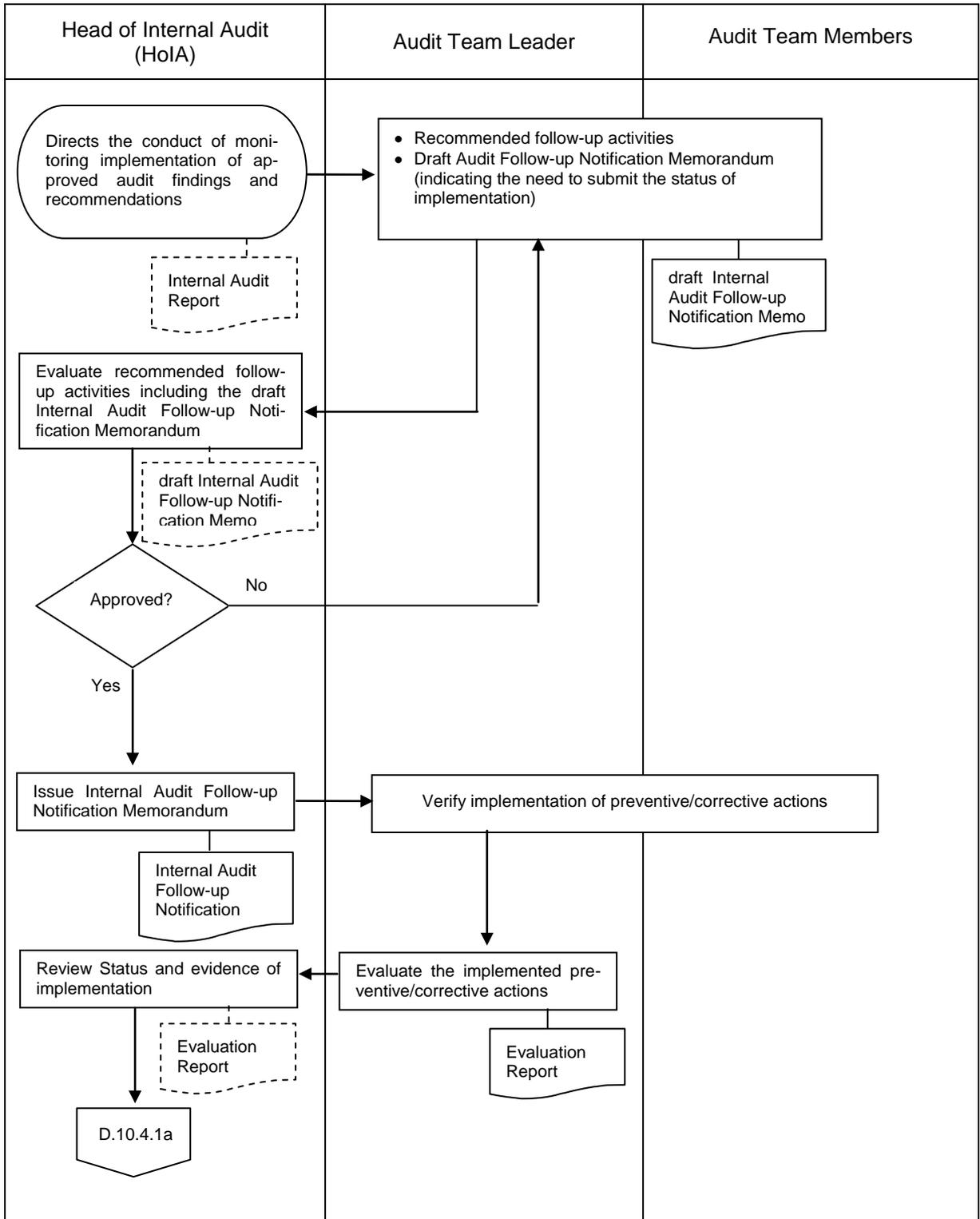
**D.10 Flowchart of Audit Process**  
D.10.3 Flowchart of Audit Reporting



**D.10 Flowchart of Audit Process**

**D.10. 4 Flowchart of Audit follow-up**

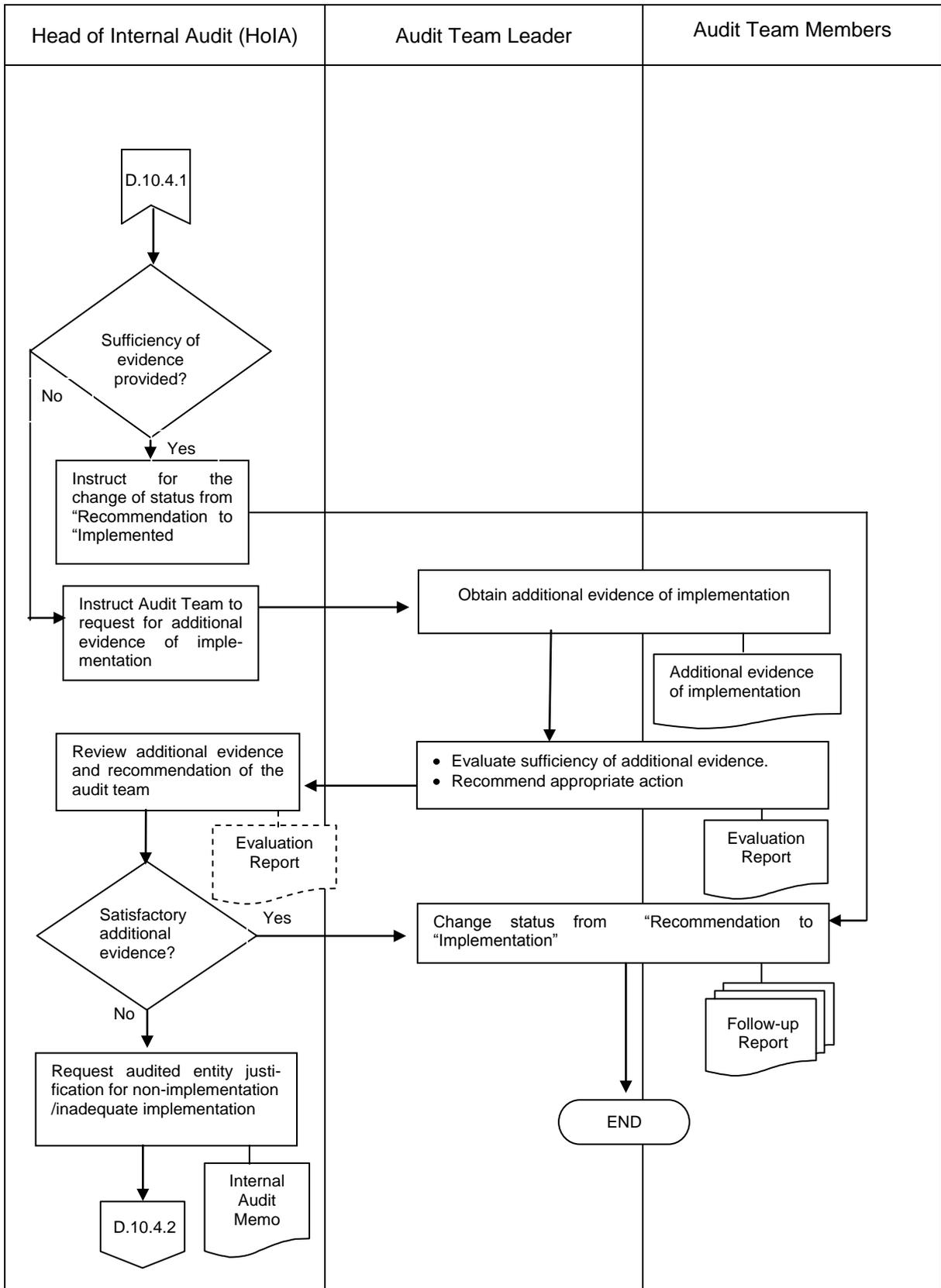
**D.10.4. 1 Monitoring Implementation of Approved Audit Findings and Recommendations**



**D.10 Flowchart of Audit Process**

D.10.4. Flowchart of Audit follow-up

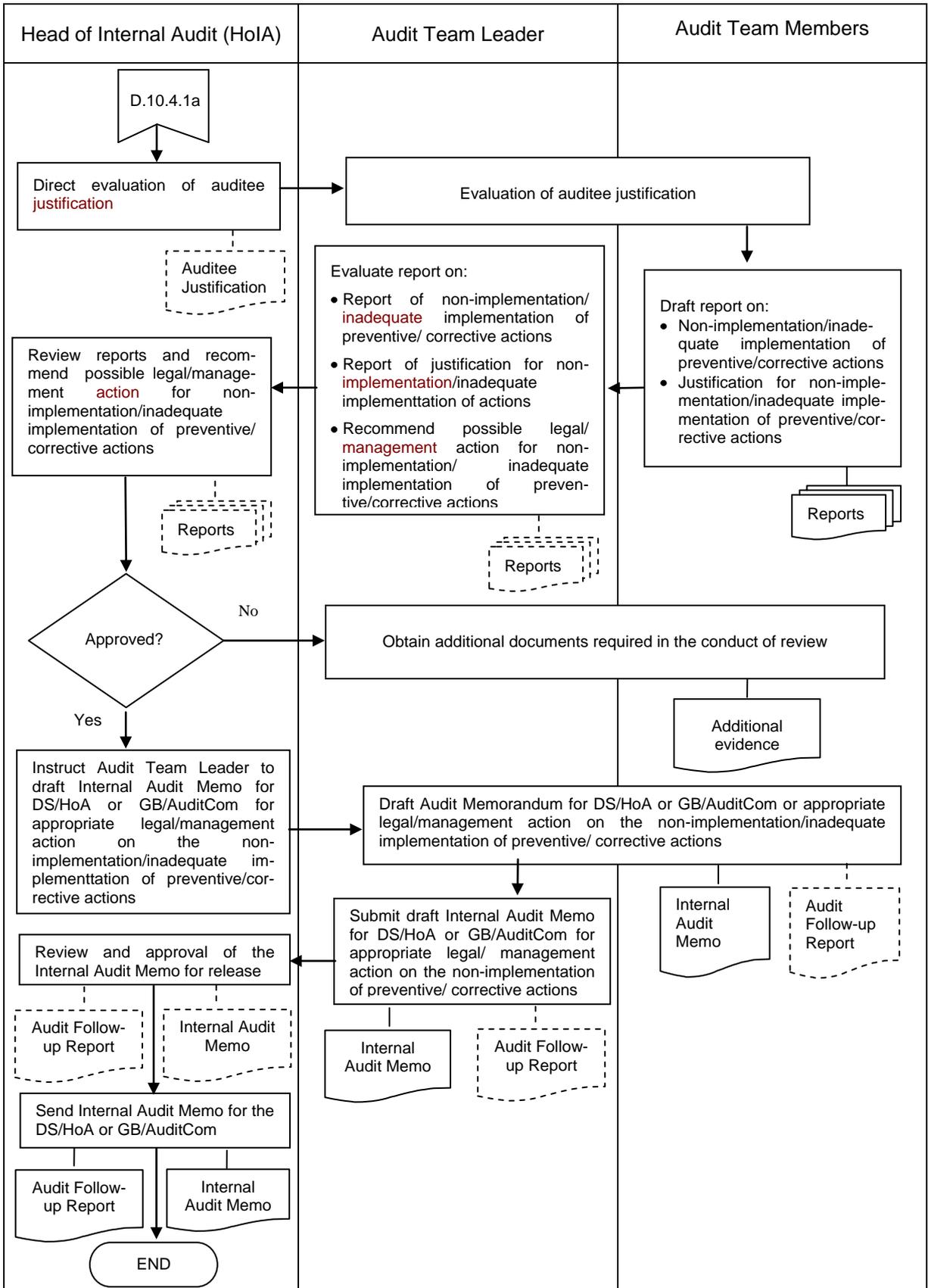
D.10.4.1a Monitoring Implementation of Approved Audit Findings and Recommendations (continuation)



**D.10 Flowchart of Audit Process**

D.10.4. Flowchart of Audit Follow-up

D.10.4. 2 Resolving Non-implemented/Inadequate Implementation of Recommendations

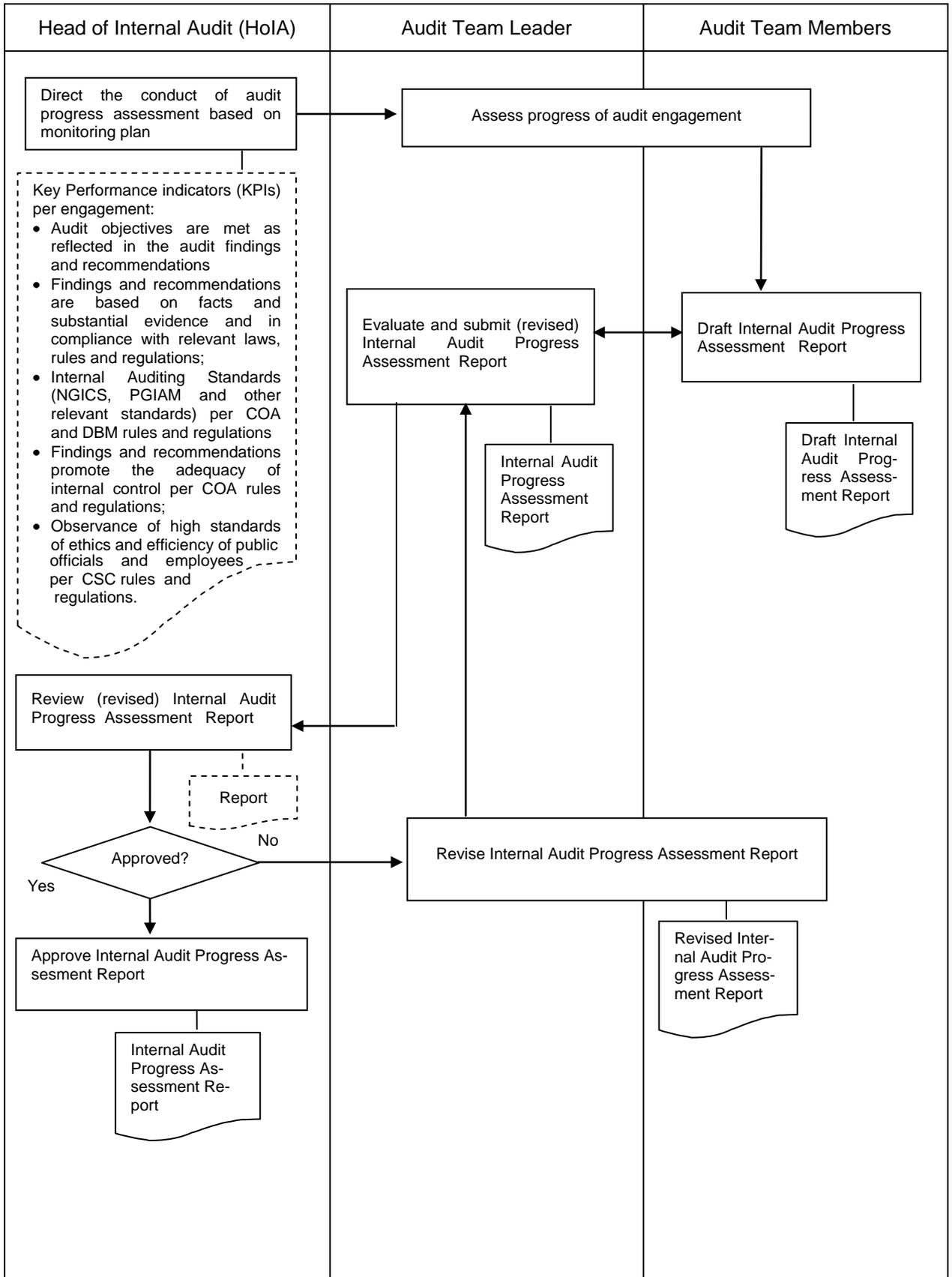


D. 11 Performance Monitoring and Evaluation

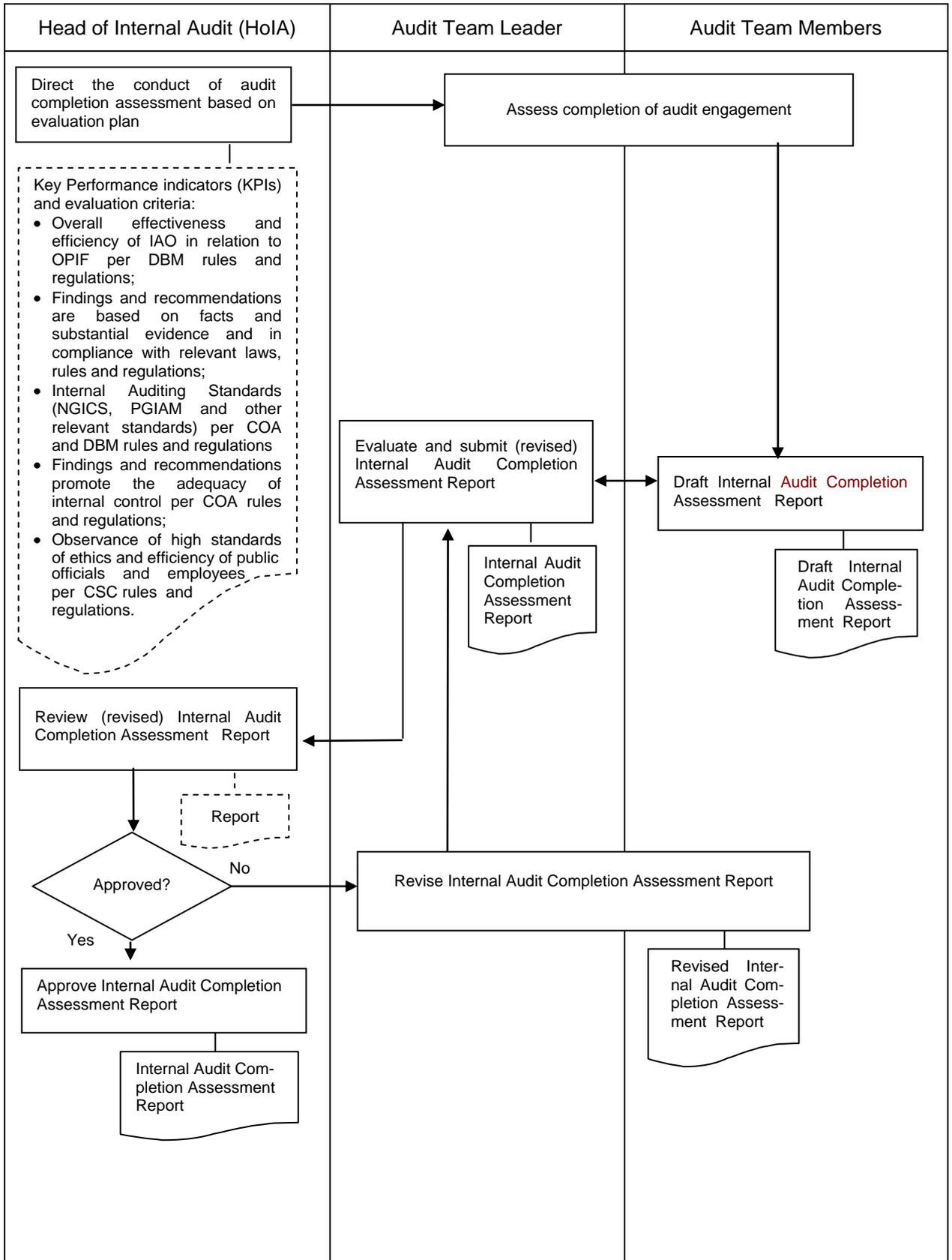
	Monitoring	Evaluation
By DS/HoA or GB/AuditCom	Review of Internal Audit Report	Review of IAS/IAU Performance Report
By Head of IAS/IAU	Review of Progress Assessment Report	Review of Completion Assessment Report

	COA	DBM	CSC
Oversight	Adequacy of IAS/IAU as part of ICS	Efficiency and effectiveness of IAS/IAU as part of ICS	—
Opinion/ Ruling/ Interpretation	Matters on COA rules and regulation	Matters on Budget and Management	Matters on CSC rules and regulations

**D.11 Performance Monitoring and Evaluation**  
 D.11.1 Performance Monitoring by Head of Internal Audit (HoIA)  
 D.11.1.1 Review of Progress Assessment Report



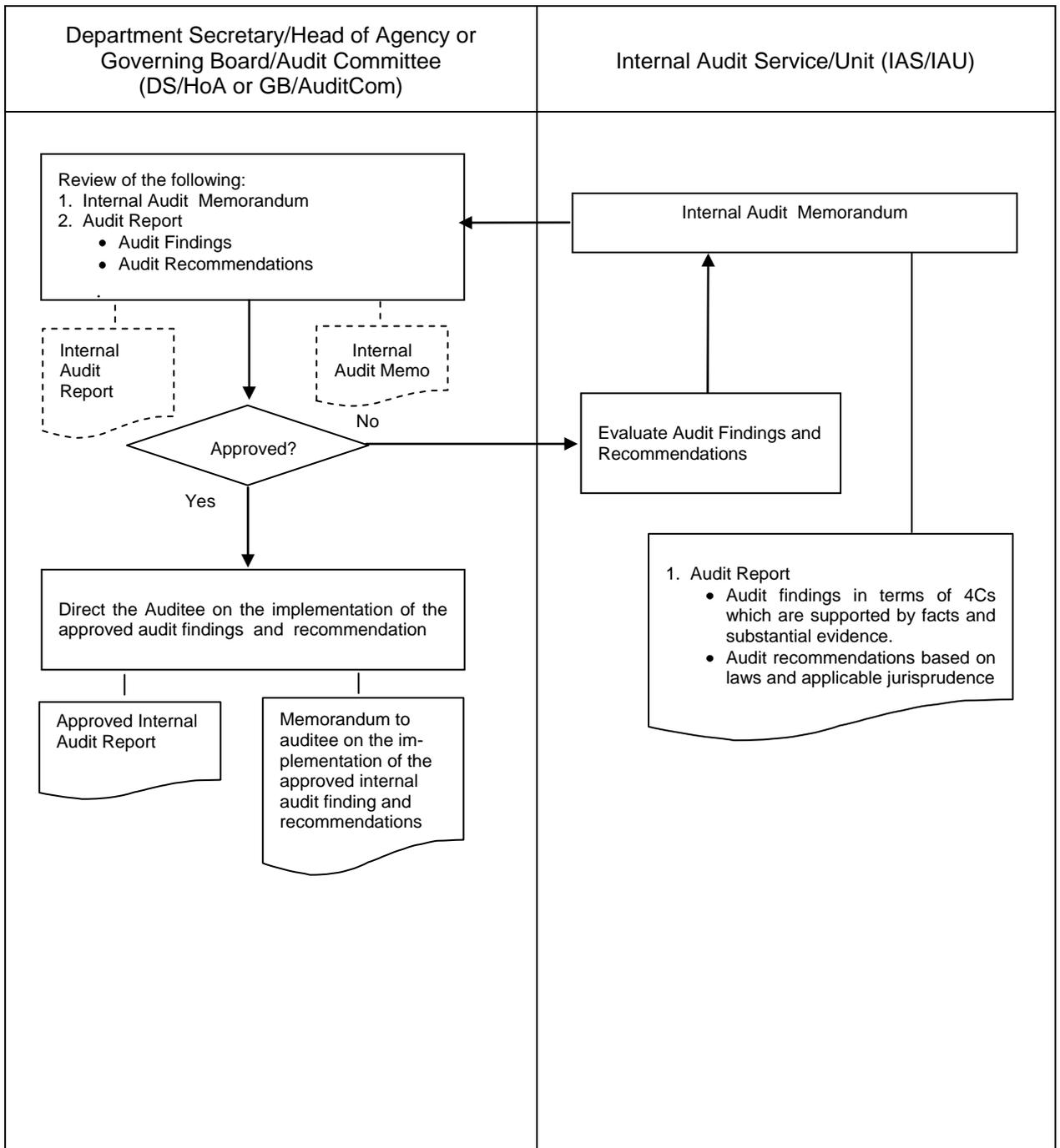
**D.11 Performance Monitoring and Evaluation**  
D.11.1 Performance Monitoring by Head of Internal Audit (HoIA)  
D.11.1.2 Review of Completion Assessment Report



**D.11 Performance Monitoring and Evaluation**

**D.11.2 Performance Evaluation by the Department Secretary/Governing Board – Audit Committee**

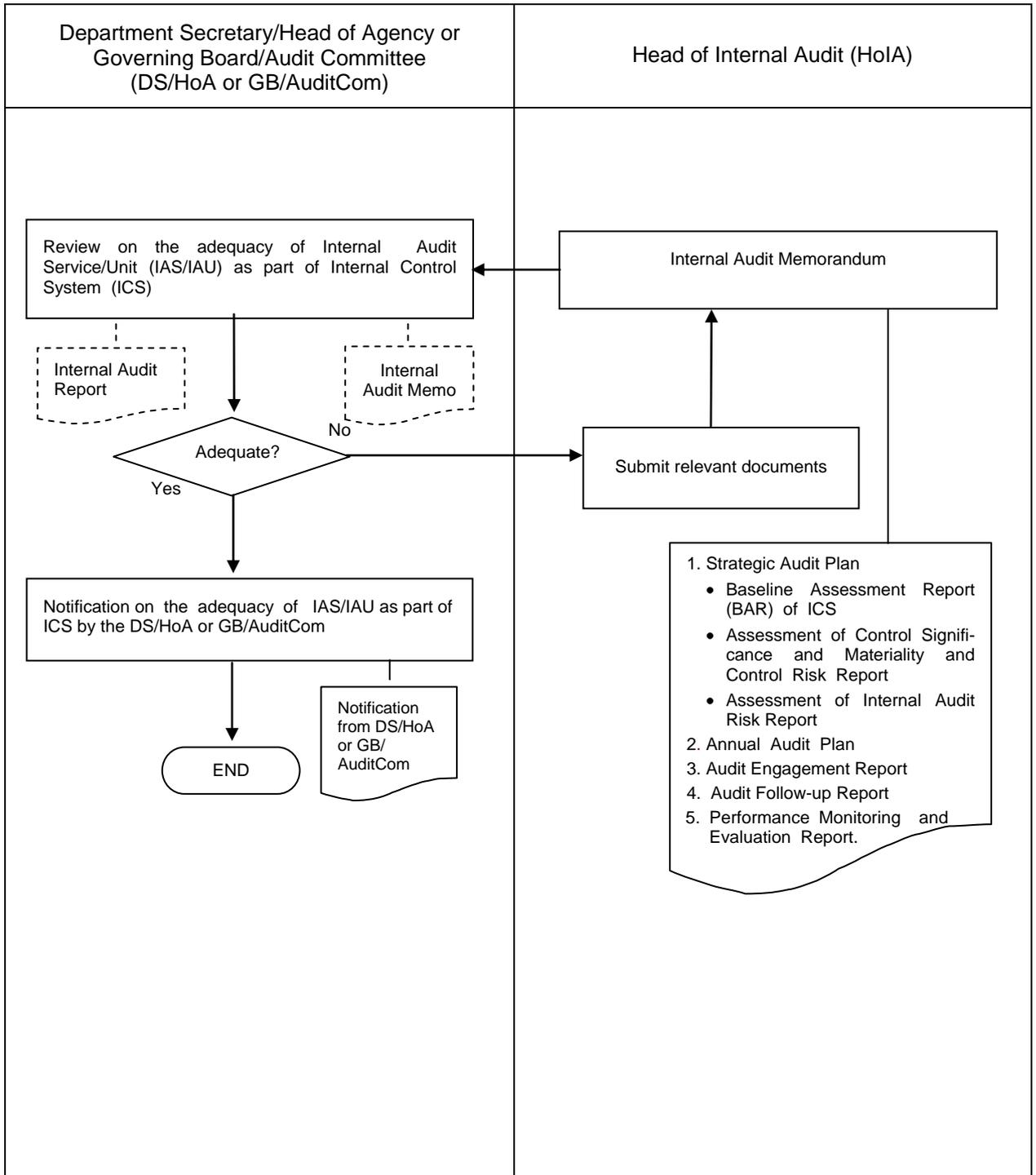
**D.11.2.1 Review of Internal Audit Report**



**D.11 Performance Monitoring and Evaluation**

D.11.2. Performance Evaluation by the Department Secretary/Governing Board – Audit Committee

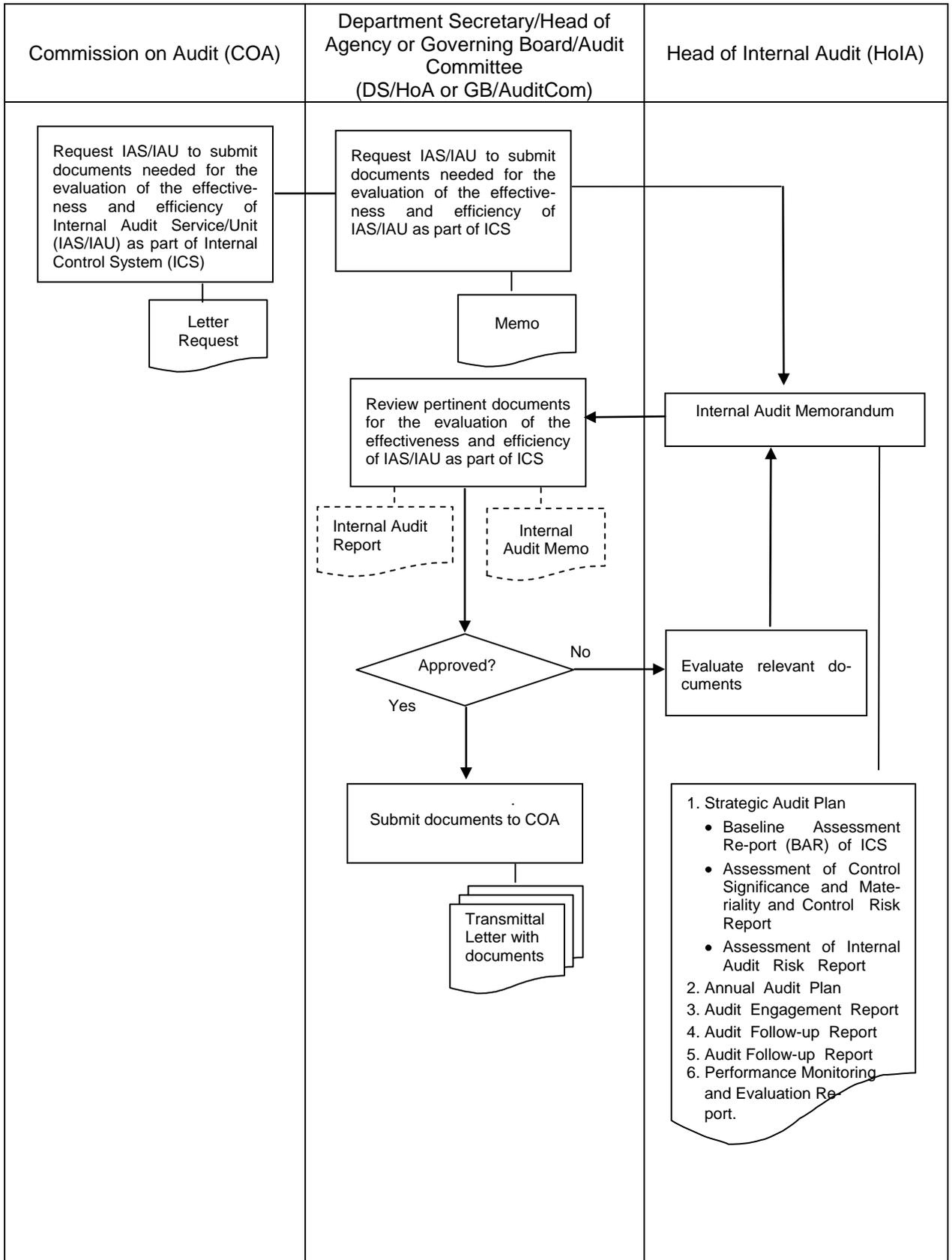
D.11.2. 2 Review of Internal Audit Service/Unit (IAS/IAU) Performance Report



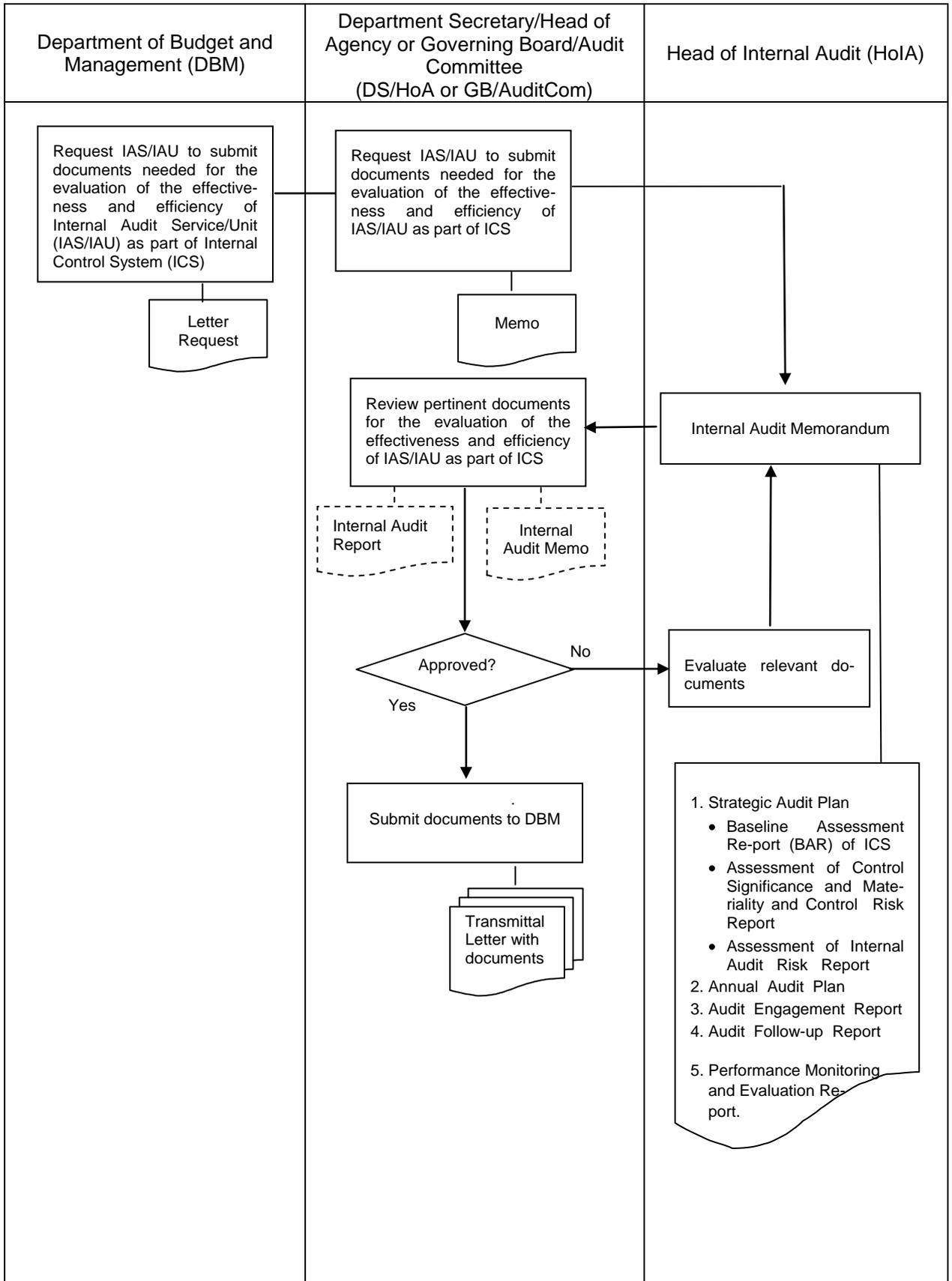
**D.11 Performance Monitoring and Evaluation**

**D.11.3 Oversight**

**D.11.3.1 Oversight by Commission on Audit (COA)**



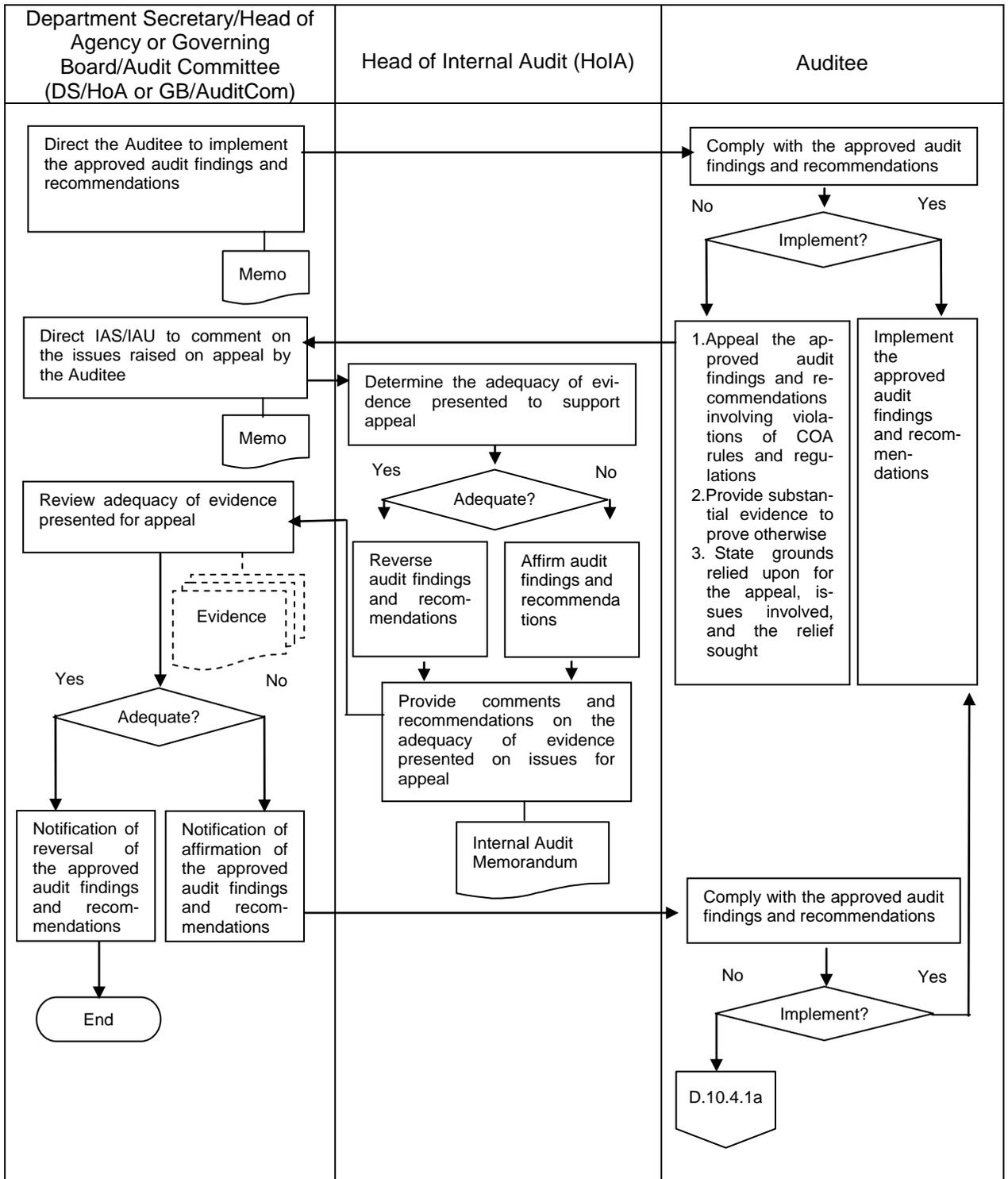
**D.11 Performance Monitoring and Evaluation**  
 D.11.3 Oversight  
 D.11.3.2 Oversight by Department of Budget and Management (DBM)



**D.11 Performance Monitoring and Evaluation**

**D.11. 4 Request for Opinion**

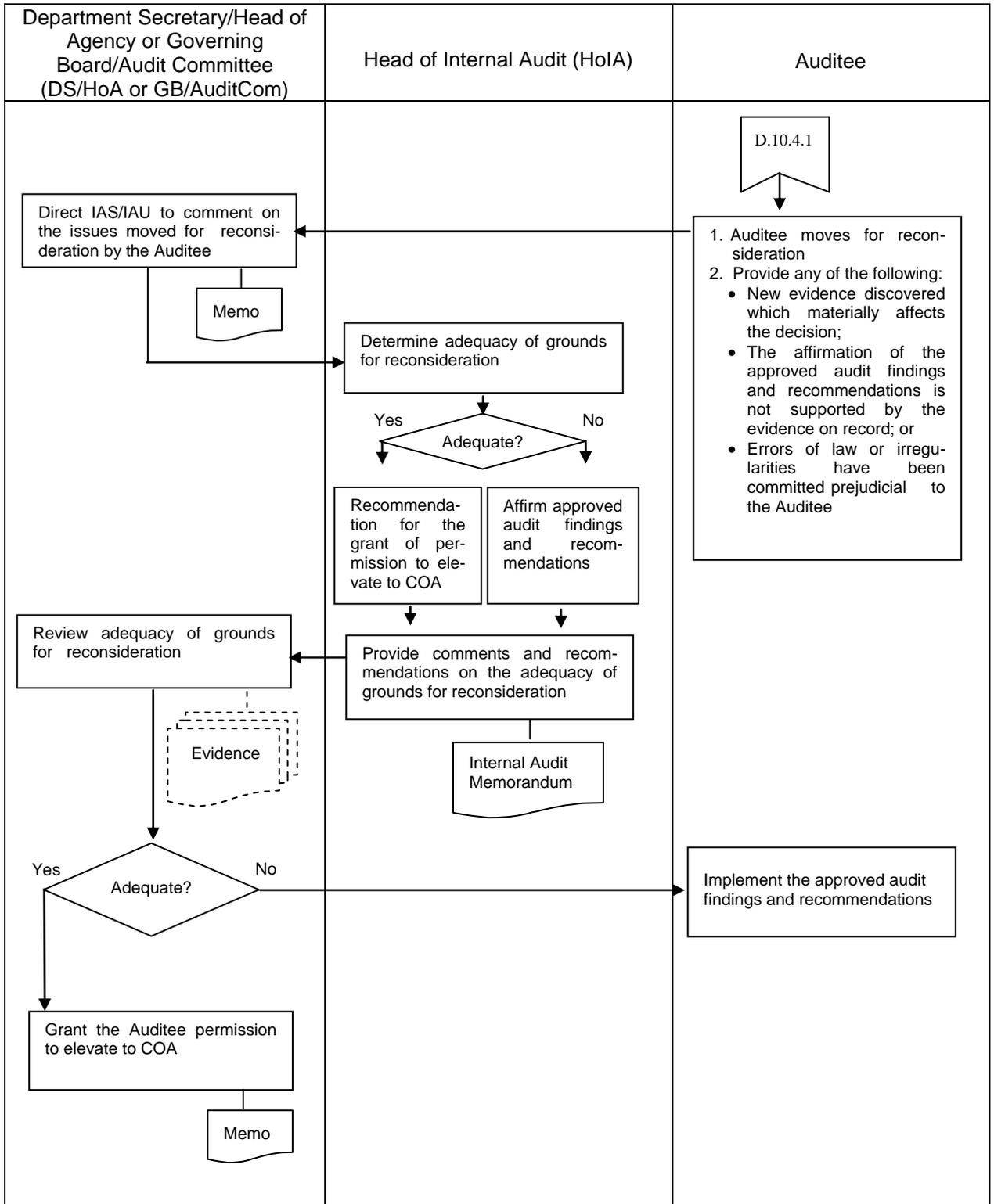
**D.11.4. 1 Commission on Audit (COA) on Matters of COA Rules and Regulations**



**D.11 Performance Monitoring and Evaluation**

D.11.4 Request for Opinion

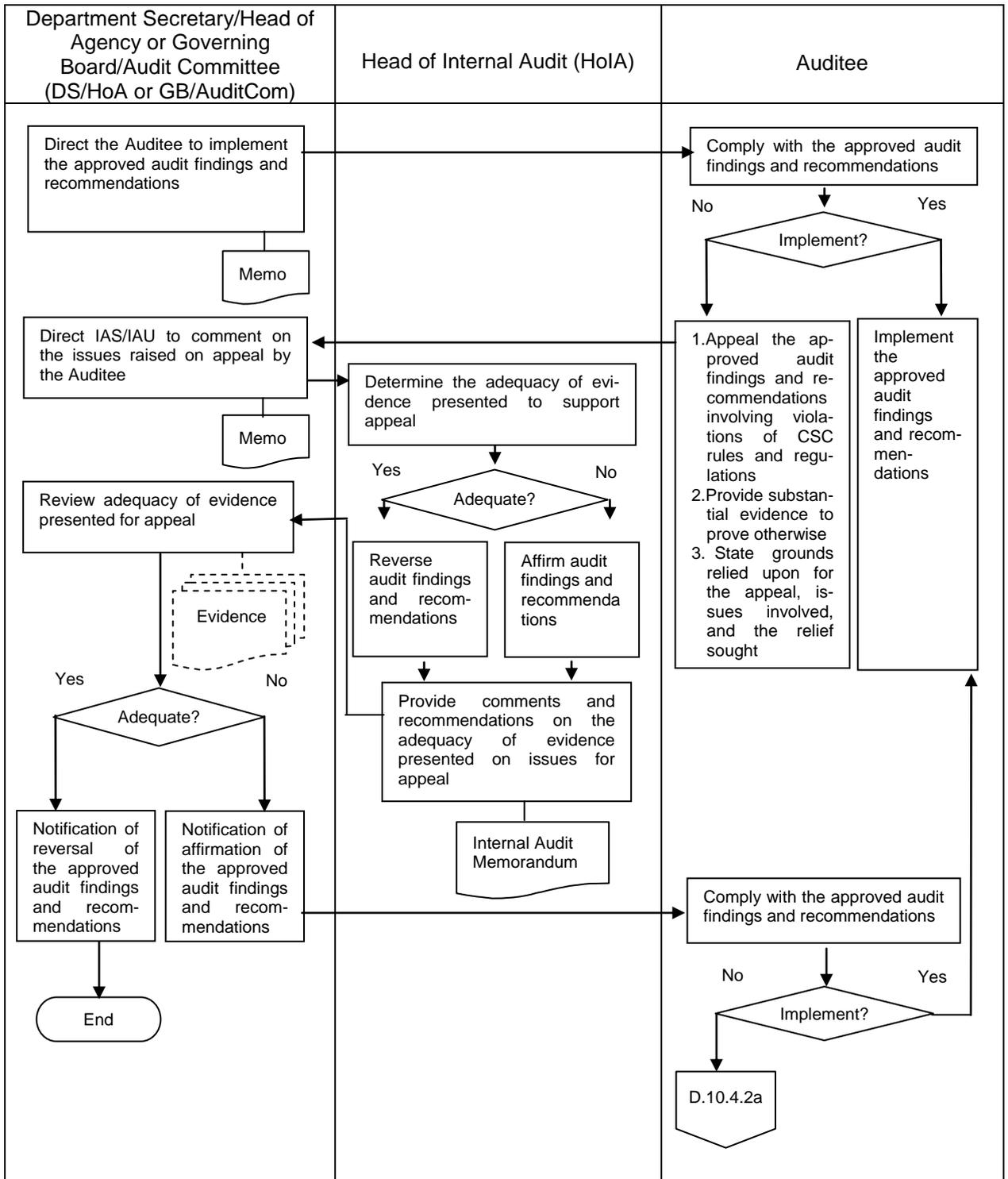
D.11.4.1a Commission on Audit (COA) on Matters of COA Rules and Regulations (continuation)



**D.11 Performance Monitoring and Evaluation**

**D.11.4 Request for Opinion**

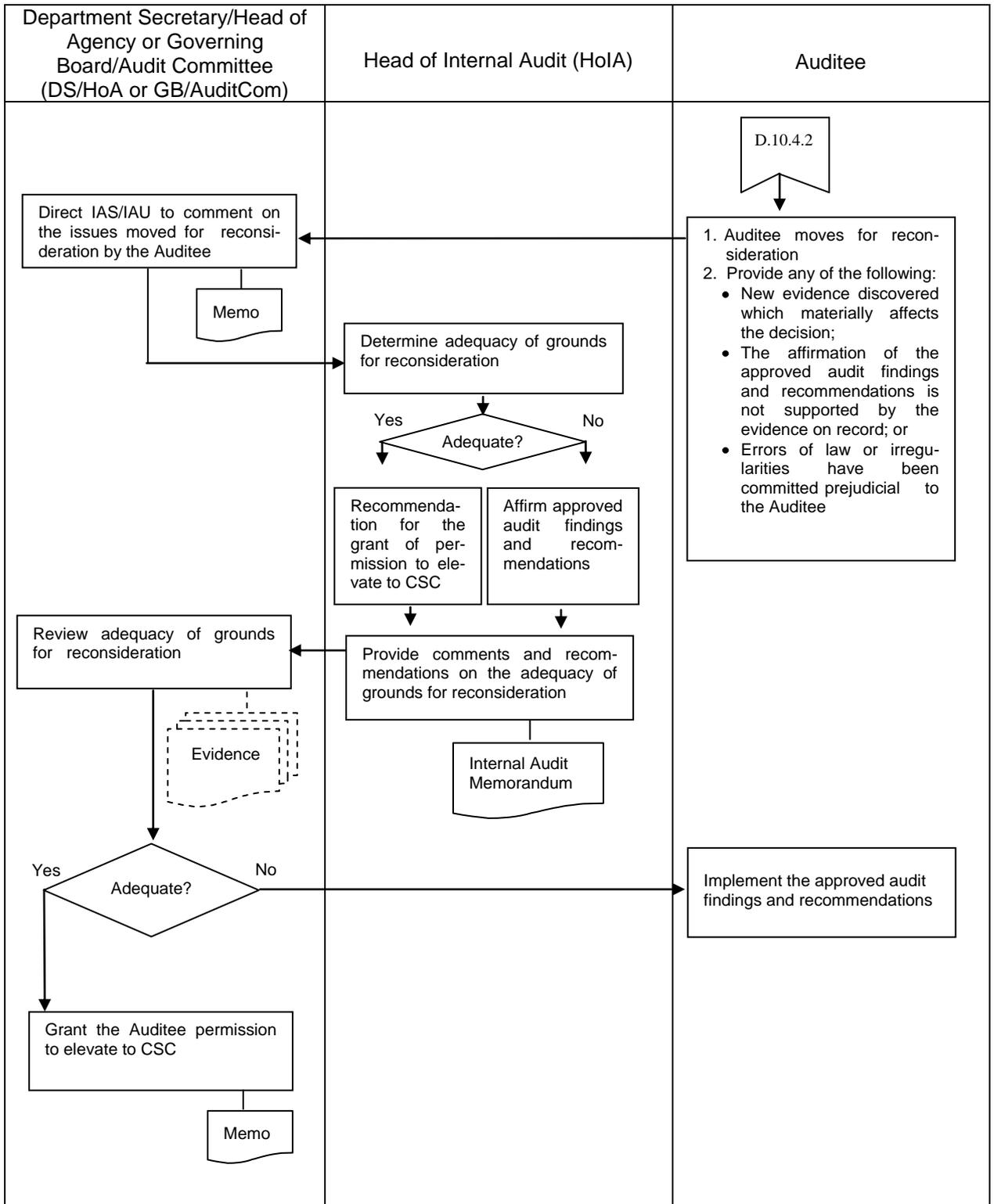
**D.11.4. 2 Civil Service Commission (CSC) on Matters of CSC Rules and Regulations**



**D.11 Performance Monitoring and Evaluation**

D.11.4 Request for Opinion

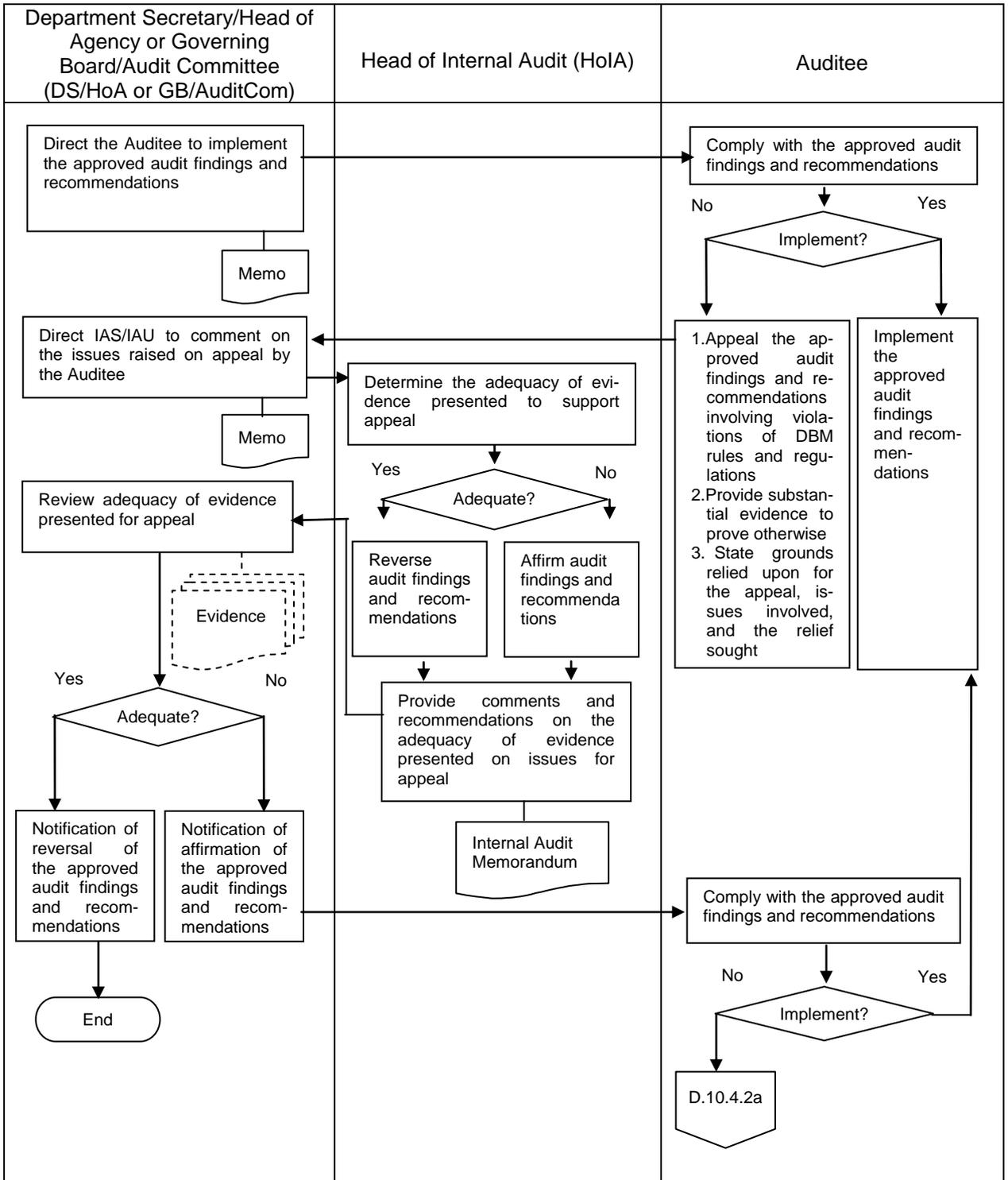
D.11.4.2a Civil Service Commission (CSC) on Matters of CSC Rules and Regulations (continuation)



**D.11 Performance Monitoring and Evaluation**

**D.11.4 Request for Opinion**

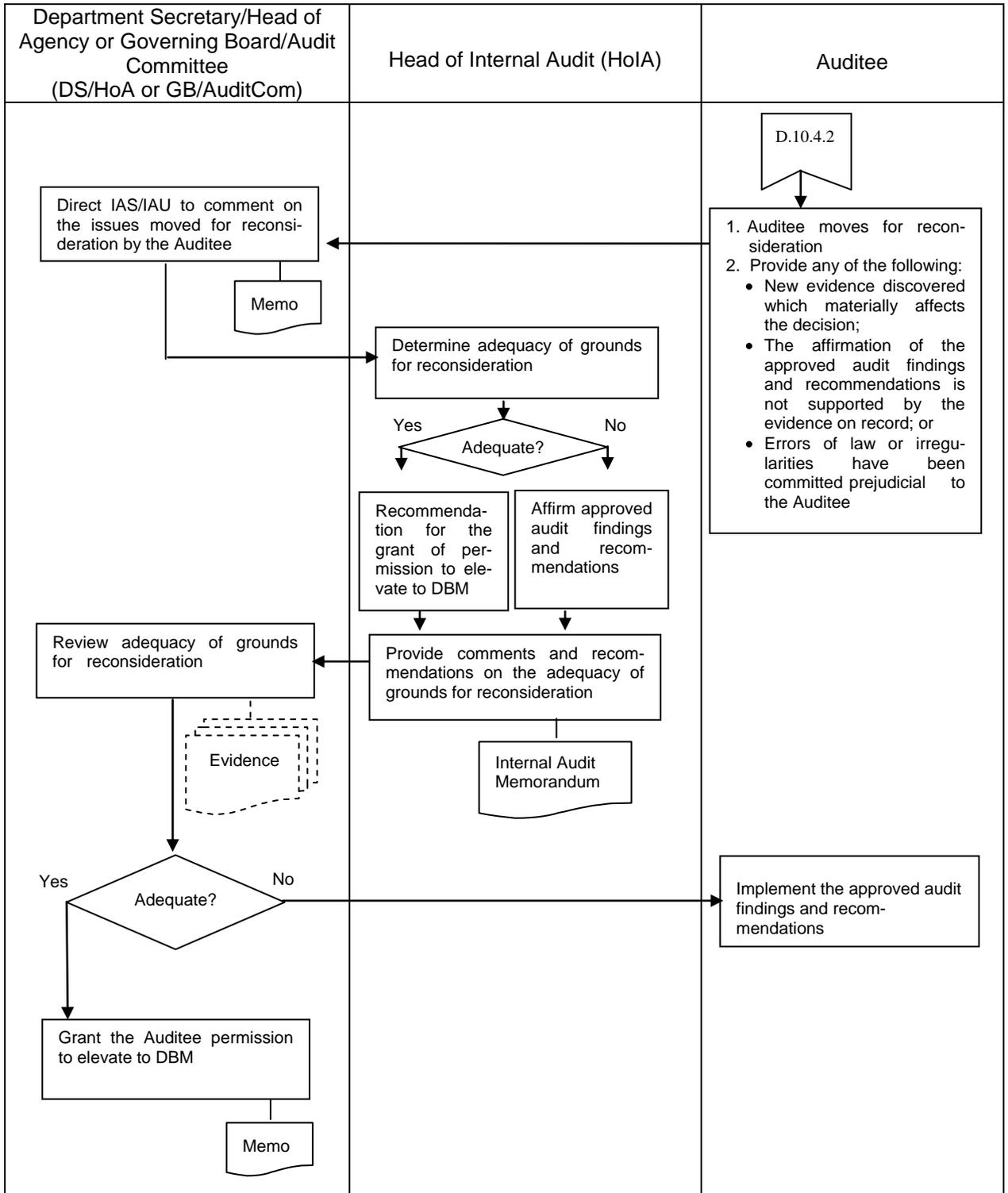
**D.11.4. 3 Department of Budget and Management (DBM) on Matters of Budget and Management**



**D.11 Performance Monitoring and Evaluation**

**D.11.4 Request for Opinion**

**D.11.4.3 Department of Budget and Management (DBM) on Matters of Budget and Management (continuation)**



## Appendix E : Internal Control Questionnaire

### E. 1 Instructions for Completion

#### I. 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 to 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.

#### II. For the Respondents

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

This questionnaire is divided into five interrelated components that make up the agency’s/organization’s internal control system:

- |             |   |                               |
|-------------|---|-------------------------------|
| 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. For questions which require reference documents, cite the same in the space provided.
  - d.** 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.
- \* The questionnaires provided are meant to serve as a guide. The control questions below may be revised to customize to the conditions of the agency/organization.
- \* 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).

## E. 2 Section I – Control Environment

<p><b>OBJECTIVE:</b> To obtain sufficient knowledge of the control environment in the public sector context and understand the agency’s/organization’s approach, attitude and perspectives.</p> <p>These questions involve ways on how the agency/organization can inform public officers and employees of their roles, responsibilities, accountabilities, and authorities. They also include ways by which the agency/organization 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.</p>		
QUESTIONS	YES or NO	Cite Reference Documents
1. Are the agency’s/organization’s administrative structures and procedures designed to serve the people? (4 <sup>th</sup> whereas clause EO 292, “Administrative Code of 1987”)		
2. Are the agency’s/organization’s major functional, procedural and structural principles and rules of governance in accordance with the Administrative Code of 1987 or the law creating the agency/organization? (3 <sup>rd</sup> whereas clause EO 292, “Administrative Code of 1987”)		
3. a. Does the Department Secretary (DS)/Head of Agency (HoA)/Governing Board (GB) ensure adherence to the principle of public office is a public trust? b. Do the public officers and employees: 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? (Sec. 32, Chapter 9, Book I, EO 292, “Administrative Code of 1987”)		
4. Is the agency/organization structured and maintained to insure their capacity to plan and implement programs in accordance with established national policies? (Sec. 2(1), Chapter 1, Book IV, EO 292, “Administrative Code of 1987”)		

QUESTIONS	YES or NO	Cite Reference Documents
5. Do the major staff units of the agency/organization include the Planning, Financial and Management, Administrative and when necessary, Technical and Legal Services? (Sec. 3 (4), Chapter 1, Book IV, EO 292, "Administrative Code of 1987")		
6. Does the agency's/organization's Planning Service provide economical, efficient and effective services relating to planning, programming, and project development, and discharge such other functions as provided by law? (Sec. 13, Chapter 3, Book IV, EO 292, "Administrative Code of 1987")		
7. Does the agency's/organization's Administrative Service provide economical, efficient and effective services relating to personnel, legal assistance, information, records, delivery and receipt of correspondence, supplies, equipment, collections, disbursement, security and custodial work and such other functions as provided by law? (Sec. 15, Chapter 3, Book IV, EO 292, "Administrative Code of 1987")		
8. Does the agency's/organization's Financial and Management Service advise and assist the DS/HoA/GB on financial and management matters and perform such other functions as provided by law? (Sec. 14, Chapter 3, Book IV, EO 292, "Administrative Code of 1987")		
9. a. Are the functions of the agency/organization decentralized in order to reduce red tape? b. Are central office officials freed from administrative details concerning field operations? c. Are central office officials relieved from unnecessary involvement in routine and local matters? d. Is adequate authority delegated to subordinate officials? e. Are administrative decisions and actions, as much as possible, at the level closest to the public? (Sec. 2 (3), Chapter 1, Book IV, EO 292, "Administrative Code of 1987")		

QUESTIONS	YES or NO	Cite Reference Documents
10. Are the bureaus and offices grouped primarily on the basis of major functions to achieve simplicity, economy and efficiency in government operations and minimize duplication and overlapping of functions and activities? <i>(Sec. 2(2), Chapter 1, Book IV, EO 292, "Administrative Code of 1987")</i>		
11. Does the bureau have divisions, as are provided by law, for the economical, efficient and effective performance of its functions? <i>(Sec. 18 (3), Chapter 4, Book IV, EO 292, "Administrative Code of 1987")</i>		
12. Do the agency's/organization's regional offices provide economical, efficient and effective service to the people in the area? <i>(Sec.26, Chapter 5, Book IV, EO 292, "Administrative Code of 1987")</i>		
13. a. Are the agency's/organization's plans and programs directly implemented by the regional and field offices as the operating arms of the agency concerned? b. Are the implemented plans and programs in accordance with approved policies and standards? c. As counterparts of the agency in the region, do they undertake operations within their respective jurisdictions? <i>(Sec. 40, Chapter 8, Book IV, EO 292, "Administrative Code of 1987")</i>		
14. Does the DS/HoA/GB: a. Establish the policies and standards for the operation of the agency/organization pursuant to the approved programs of government? b. Promulgate rules and regulations necessary to carry out the agency's/organization's 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 law?		

QUESTIONS	YES or NO	Cite Reference Documents
<ul style="list-style-type: none"> <li>e. Appoint all officers and employees of the agency/organization (except those whose appointments are vested in the President or in some other appointing authority)?</li> <li>f. Delegate authority to officers and employees in accordance with EO 292 or the law creating the agency/organization? (<i>Sec. 7, Chapter 2, Book IV, EO 292, "Administrative Code of 1987"</i>)</li> </ul>		
<p>15. Does the Undersecretary or his equivalent:</p> <ul style="list-style-type: none"> <li>a. Advise and assist the DS/HoA/GB in the formulation and implementation of department policies and objectives?</li> <li>b. Oversee all the operational activities of the department for which he is responsible to the DS?</li> <li>c. Coordinate the programs and projects of the department and take responsibility for its economical, efficient and effective administration?</li> <li>d. Temporarily discharge the duties of the DS in the latter's absence or inability to discharge his duties? (<i>Sec.10, Chapter 2, Book IV, EO 292, "Administrative Code of 1987"</i>)</li> </ul>		
<p>16. a. Is the authority and responsibility for the agency's/organization's operations, as may be necessary to implement the plans and programs, adequately delegated by the DS/HoA/GB to the bureau and regional directors or their equivalent?</p> <ul style="list-style-type: none"> <li>b. Is the delegation in writing?</li> <li>c. Does it indicate to which officer or class of officers or employees the delegation is made?</li> <li>d. Does it vest sufficient authority to enable the delegatee to discharge his assigned responsibility?</li> <li>e. Is the implementation of national and local programs in accordance with the policies and standards developed by the department or agency with the participation of the regional directors?</li> </ul>		

QUESTIONS	YES or NO	Cite Reference Documents
f. Is the implementation economical, efficient and effective? <i>(Sec.40, Chapter 8, Book IV, EO 292, "Administrative Code of 1987")</i>		
17. Does the Director of a staff bureau perform the following: a. Advise and assist the Office of the Secretary on matters pertaining to the Bureau's area of specialization? b. Provide consultative and advisory services to the regional offices of the department? c. Develop plans, programs, operating standards, and administrative techniques for the attainment of the objectives and functions of the bureau? <i>(Sec. 19 (2), Chapter 4, Book IV, EO 292, "Administrative Code of 1987")</i>		
18. a. Does the staff bureau perform primarily advisory or auxiliary functions and exercise, in behalf of the department or agency/organization, functional supervision over the regional offices? b. Do they develop and set down policies, standards and procedures? c. Are said policies, standards and procedures implemented by operating units? d. Is there continuing evaluation of the implementation of policies, standards and procedures? e. Does the evaluation provide for recommendation and when authorized, the corrective measures to be taken? <i>(Sec.24, Chapter 5, Book IV, EO 292, "Administrative Code of 1987")</i>		
19. For line bureaus, does the Director/Head: a. Exercise supervision and control over all divisions and other units, including regional offices under the bureau? b. Establish policies and standards for the operations of the bureau pursuant to the plans and programs of the agency/organization?		

QUESTIONS	YES or NO	Cite Reference Documents
<p>c. Promulgate rules and regulations necessary to carry out bureau objectives, policies and functions? (Sec.20, Chapter 4, Book IV, EO 292, "Administrative Code of 1987")</p>		
<p>20. Does the Bureau Head issue orders regarding the administration of their internal affairs for the guidance of or compliance by their officers and employees? (Sec.36, Chapter 6, Book IV, EO 292, "Administrative Code of 1987")</p>		
<p>21. a. Are regulatory agencies administratively supervised by the department under which they are placed?  b. Does the regulatory agency prepare and submit annual budgets and work plans to the DS/HoA?  c. Are the agency's/organization's annual budget and work plans approved by the DS/HoA?  d. Is the day-to-day operation of the regulatory agency based on the approved annual budget and work plan? (Sec.43, Chapter 9, Book IV, EO 292, "Administrative Code of 1987")</p>		
<p>22. Does the Regional Director/Head:  a. Exercise the management functions of planning, organizing, directing and controlling in his/her area of jurisdiction?  b. Prepare and submit budget proposals for the region to the central office?  c. Administer the budget of the regional office?  d. Authorize disbursement of funds pursuant to approved financial and work programs?  e. Administer the budget control machinery in the region? (Sec.27, Chapter 5, Book IV, EO 292, "Administrative Code of 1987")</p>		
<p>23. Does the Regional Director/Head issue circulars of purely information or implementing nature and orders relating to the administration of the internal affairs of regional offices and units within their supervision? (Sec. 36, Chapter 6, Book IV, EO 292, "Administrative Code of 1987")</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>24. Are those having supervision and control take the responsibility for the following:</p> <ul style="list-style-type: none"> <li>a. Review, approve, reverse or modify acts and decisions of subordinate officials or units?;</li> <li>b. Determine priorities in the execution of plans and programs?;</li> <li>c. Prescribe standards, guidelines, plans and programs? (<i>Sec. 38 (1), Chapter 7, Book IV, EO 292, "Administrative Code of 1987"</i>)</li> </ul>		
<p>25. Are those having administrative supervision over an agency/organization take the responsibility for the following:</p> <ul style="list-style-type: none"> <li>a. Oversee the operations of such agencies/organization and ensure that they are managed effectively, efficiently and economically without interference with the day-to-day activities?</li> <li>b. Require the submission of reports and cause the conduct of performance evaluation and inspection to determine compliance with policies, standards and guidelines?</li> <li>c. Take action as may be necessary for the proper performance of official functions, including rectification of violations, abuses and other forms of maladministration?</li> <li>d. Review and pass upon the budget of such agencies under its administrative supervision? (<i>Sec. 38, Chapter 7, Book IV, EO 292, "Administrative Code of 1987"</i>)</li> </ul>		
<p>26. a. Does the agency/organization comply with the policies, standards and guidelines promulgated by the 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? (<i>Sec. 12 (3), Chapter 3, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987"</i>)</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>27. a. Does the agency/organization 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 Civil Service Commission? <i>(Sec.22, Chapter 5, Subtitle A, Title I, Book IV, EO 292, "Administrative Code of 1987")</i></p>		
<p>28. a. Is the degree of qualifications of an officer or employee determined based on the qualification standards for the particular position?</p> <p>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>(Sec.22, Chapter 5, Subtitle A, Title I, Book IV, EO 292, "Administrative Code of 1987")</i></p>		
<p>29. Does the agency/organization promote the primacy of public interest over personal interest in the performance of duties? <i>(Sec. 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p>		
<p>30. Does the agency/organization conduct value development programs for its officials and employees in order to strengthen their commitment to the public? <i>(Sec. 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p>		
<p>31. Are the following subjects, among others, included in the agency's/ organization's programs and other parallel efforts on value development:</p> <p>a. Ethical and moral values?</p> <p>b. Rights, duties and responsibilities of public servants?</p> <p>c. Socio-economic conditions prevailing in the country?</p> <p>d. Need for a Code of Conduct and Ethical Standards? <i>(Sec. 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
32. Does the agency/organization conduct continuing refresher courses, seminars and/or workshops to promote high standards of ethics in the public service? <i>(Sec. 1, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
33. Does the head of department, office and agency/organization ensure that officials and employees attend the value development program and participate in parallel value development efforts? <i>(Sec. 3, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
34. a. Does the agency/organization conduct continuing studies and analyses of their work systems and procedures to improve delivery of public services? b. Do such studies and analyses i. Identify systems and procedures that lead or contribute to negative bureaucratic behavior? ii. Simplify rules and procedures to avoid red tape? iii. Devise and adopt systems and procedures that promote official and employee morale and satisfaction? <i>(Sec. 4, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
35. Does the agency/organization continually conduct research and experimentation on measures to motivate officials and employees in raising the level of observance of public ethical standards? <i>(Sec. 6, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
36. Does the agency/organization adopt innovative programs which will provide motivation to officials and employees in raising the level of observance of public ethical standards? <i>(Sec. 6, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		

QUESTIONS	YES or NO	Cite Reference Documents
37. Does the agency/organization promote the functional principles of governance that the powers so delegated to a public officer or employee is held in trust for the people and to be exercised behalf or of all citizens who may need their intervention? ( <i>Sabio vs. Gordon, G.R. No. 174340, 17 October 2006.</i> )		
38. Do the public officials and employees perform and discharge their duties with the highest degree of excellence, professionalism, intelligence and skill? ( <i>Sec. 4(A) Norms of Conduct of Public Officials and Employees, Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 20 February 1989.</i> )		
39. Is there a committee or officer designated to conduct investigation over disciplinary matters? ( <i>Sec. 7(5), Chapter 2, Book IV, EO 292, "Administrative Code of 1987"</i> )		
40. a. Do the employees have the right to present their complaints or grievances to management? b. Are the employees' complaints and grievances adjudicated as expeditiously as possible in the best interest of the: i. Agency? ii. Government as a whole? iii. The employee concerned? c. Are the complaints and grievances resolved at the lowest possible level in the department or agency/organization? d. Does the employee have the right to appeal the decision to higher authorities? e. Does the agency/organization have promulgated rules and regulations governing expeditious, fair and equitable adjustment of employees' complaints or grievances in accordance with the policies enunciated by the CSC? ( <i>Sec.37, Chapter 5, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987"</i> )		
41. a. Does the agency/organization have an established performance evaluation system (PES)?		

QUESTIONS	YES or NO	Cite Reference Documents
<p>b. Is the PES administered in accordance with standards, rules and regulations promulgated by the CSC?</p> <p>c. Is the PES administered in such a manner as to continually foster the improvement of individual employee efficiency and organizational effectiveness? <i>(Sec.33, Chapter 5, Subtitle A, Title I, Book V, EO 292, "Administrative Code of 1987")</i></p>		
<p>42. Does the agency/organization institute a PES based on objectively measured output and performance of personnel and units, such as the Performance Management System-Office Performance Evaluation System developed by the CSC? <i>(Administrative Order (AO) No. 241s. 2008, "Mandating the Speedy Implementation of Republic Act No 9485 Otherwise Known as the 'Anti-Red Tape Act of 2007' and its Implementing Rules and Regulations and Strengthening the Application Thereof," 2 October 2008.)</i></p>		
<p>43. Does the DS/HoA/GB formulate and enforce a system of measuring and evaluating periodically and objectively the performance of the agency/organization and submit the same annually to the President? <i>(Sec.8, Chapter 2, Book IV, EO 292, "Administrative Code of 1987")</i></p>		
<p>44. Does the organization undertake, on a continuing basis, programs to promote constituents/public satisfaction and improve service delivery, and other similar activities for officers and employees in frontline services? <i>(Sec. 1, Rule VI, Implementing Rules and Regulations of RA 9485, "Anti-Red Tape Act of 2007)</i></p>		
<p>45. Does the agency/organization 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>(Sec. 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
46. Does the DS/HoA/GB evaluate on a continuing basis the quantitative and qualitative measures of its performance as reflected in the units of work measurement and other indicators of agency performance, including the standard and actual costs per unit of work? <i>(Sec. 51, Chapter 6, Book VI, EO 292, "Administrative Code of 1987")</i>		
47. Does the agency/organization identify other public service organizations (e.g., public entities and private entities providing public services), 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, 15 October 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.)</i>		
48. Does the agency/organization monitor information relating to constituents/public perception as to whether the organization has met constituents/public requirements? <i>(Clause 8.2.1 ISO 9001:2008, 15 November 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.)</i>		
49. Are the agency's/organization's operating units able to achieve the expected results and contribute to the achievement of its sectoral or societal goals? <i>(DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, pp. 11-12.)</i>		
50. Does the agency/organization 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, "National Guidelines on Internal Control Systems";)</i>		
51. Does the agency/organization perform functions and tasks using the least amount of resources within a specific timeframe? <i>(DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, pp. 11-12.)</i>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>52. Are all government resources and powers of the agency/organization employed and used efficiently, effectively, honestly and economically, particularly to avoid wastage of public funds and revenues? (Sec. 4(A) Norms of Conduct of Public Officials and Employees, Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 20 February 1989.)</p>		
<p>53. a. Are all government resources managed, expended or utilized in accordance with law 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 agency/organization?</p> <p>c. Does the DS/HoA/GB ensure that the foregoing policy on fiscal responsibility is faithfully adhered to in all the financial affairs, transactions and operations of the agency/ organization? (Sec. 1, Chapter 1, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")</p>		
<p>54. a. Does the agency/organization 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? (Article 9 Public Procurement and Management of Public Finances, Chapter II, Preventive Measures, United Nations Convention Against Corruption (UNCAC), 31 October 2003.)</p>		
<p>55. a. Does the DS/HoA/GB prepare and submit to the President, through the Department of Budget and Management (DBM), an estimate of the necessary expenditures of the agency/ organization during the next fiscal year?</p> <p>b. Are these budget estimates based on the reports and estimates submitted by the bureaus and offices under him? (Sec. 9, Chapter 2, Book IV, EO 292, "Administrative Code of 1987")</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>56. a. Is the agency's/organization's budget supportive of and consistent with the socio-economic 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? (Sec. 3, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</p>		
<p>57. Does the agency/organization design and implement the following?</p> <p>a. Management information systems yielding both performance and financial information which will adequately monitor and control budget implementation, and</p> <p>b. Improvements in operating systems, procedures and practices, so as to ensure that the targets approved in budget authorization are in fact attained at minimum cost. (Sec. 9, Chapter 2, Book VI, EO 292, "Administrative Code of 1987")</p>		
<p>58. Are all the government funds or property under the administration or control of the public officer or employee used in accordance with the purpose for which it was appropriated by law? (Sec. 80, Chapter 7, Book VI, Executive Order (EO) No. 292 s. 1987, the "Administrative Code of 1987," 25 July 1987 and <i>Manhit vs. Office of the Ombudsman</i>, G.R. No. 159349, 7 September 2007)</p>		
<p>59. Are the public officers or employees who apply government funds or property under his administration or control to any use other than for which such fund or property is appropriated made liable therefor? (Sec.80, Chapter 7, Book VI, Executive Order (EO) No. 292 s. 1987, the "Administrative Code of 1987," 25 July 1987 and <i>Manhit vs. Office of the Ombudsman</i>, G.R. No. 159349, 7 September 2007)</p>		
<p>60. Are the public officers and employees who are directly responsible for unlawful expenditures of government funds or uses of government property made personally liable therefor? (Sec. 52, Chapter 9, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>61. Are the public officers and employees who are directly charged in the processing, review and evaluation of documents made personally liable for unlawful expenditures of government funds or uses of government property resulting in the approval of said documents? (<i>Olague vs. Domingo, G.R. No. 109666, 20 June 2001; Section 52, Chapter 9, Subtitle B, Title 1, Book V, Executive Order (EO) No. 292 s. 1987, the "Administrative Code of 1987," 25 July 1987</i>)</p>		
<p>62. Is the agency's/organization'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 Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008</i>)</p>		
<p>63. Are there control features interwoven into and made an integral part of each system in the agency/organization that management can use to regulate and guide its operations? (<i>Section 33, Title II-Internal Control System, Vol. III, Commission on Audit (COA) Circular No. 91-368, GAAM, 19 December 1991, p. 64; DBM CL 2008-8, Item 2.2.1, National Guidelines on Internal Control Systems</i>)</p>		
<p>64. Does the agency/organization adopt and implement control policies and measures on the following:</p> <ul style="list-style-type: none"> <li>a. Delegation of authority and supervision?</li> <li>b. Segregation of functions for processing, reviewing, recording, custody and approval?</li> <li>c. Access to resources and records;</li> <li>d. Completeness and integrity of transaction documents and reports?</li> <li>e. Verification of transactions; and</li> <li>f. Reconciliation of records and data? [<i>DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, pp. 27-28</i>]</li> </ul>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>65. Are there plans of organization and coordinated methods and measures adopted within the agency/organization to:</p> <ul style="list-style-type: none"> <li>a. Safeguard its assets?</li> <li>b. Check the accuracy and reliability of its accounting data?</li> <li>c. Encourage adherence to prescribed managerial policies?</li> <li>d. Comply with applicable laws and regulations?</li> <li>e. Ensure ethical, economical, effective and efficient operations?</li> </ul> <p><i>(Presidential Decree (PD) No. 1445, the "Government Auditing Code of the Philippines," as amended, 11 June 1978; Department of Budget and Management (DBM) Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008.)</i></p>		
<p>66. Does the agency's/organization's accounting system:</p> <ul style="list-style-type: none"> <li>a. Produce information concerning past operations and present conditions?</li> <li>b. Provide a basis for guidance for future operations?</li> <li>c. Provide for control of the acts of public bodies and officers in the receipt, disposition and utilization of funds or property?</li> <li>d. Report on the financial position and results of operations of the agency/organization for the information of all persons concerned? <i>(Sec. 41, Chapter 6, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")</i></li> </ul>		
<p>67. Does the agency/organization implement the government-wide Quality Management Program? <i>(Executive Order (EO) No. 605 s. 2007, "Institutionalizing the Structure, Mechanisms and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, s. 2006," 23 February 2007 and Republic Act (RA) No. 9013.)</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>68. Is the design and implementation of an agency's/organization's quality management system influenced by the following:</p> <ul style="list-style-type: none"> <li>a. Organizational environment?</li> <li>b. Changes in that environment, and the risks associated with that environment?</li> <li>c. Varying needs?</li> <li>d. Particular objectives?</li> <li>e. Services it provides?</li> <li>f. Processes it employs?</li> <li>g. Size and organization structure?</li> </ul> <p><i>(Clause 0.1, ISO 9001:2008 Quality Management System, 15 November 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.)</i></p>		

### E. 3 Section II – Risk Assessment

**OBJECTIVES:**

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

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

QUESTIONS	YES or NO	Cite Reference Documents
1. Does the agency/organization identify, analyze and evaluate relevant risks to the achievement of the control objectives and determine the appropriate response? <i>[DBM Circular Letter No. 2008-8, the “National Guidelines on Internal Control Systems (NGICS),” 23 October 2008, p. 29; International Organization of Supreme Audit Institutions (INTOSAI), the “Guidelines for Internal Control Standards for the Public Sector,” 16 October 2004, p. 22.; and Clause 4, 4.3.4, IEC/ISO 31010:2009, the “Risk Management – Risk Assessment Techniques,” 1 December 2009]</i>		
2. Is the agency’s/organization’s risk assessment fully integrated into the other components in the risk management process which includes the following: <ul style="list-style-type: none"> <li>a. Communication and consultation?</li> <li>b. Establishing the context?</li> <li>c. Risk assessment (comprising risk identification, risk analysis and risk evaluation)?</li> <li>d. Risk treatment?</li> <li>e. Monitoring and review? <i>(Clause 4, 4.3.1, IEC/ISO 31010:2009, the “Risk Management – Risk Assessment Techniques,” 1 December 2009.)</i></li> </ul>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>3. In establishing the external context, does the agency/organization consider familiarization with the environment in which the organization and the system operates including the following:</p> <ul style="list-style-type: none"> <li>a. Cultural, political, legal, regulatory, financial, economic and competitive environment factors, whether international, national, regional or local?</li> <li>b. Key drivers and trends having impact on the objectives of the organization?</li> <li>c. Perceptions and values of external stakeholders? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p.30 and Clause 4, 4.3.3a, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques, 1 December 2009]</i></li> </ul>		
<p>4. In establishing the internal context, does the agency/organization consider an understanding of the following:</p> <ul style="list-style-type: none"> <li>a. Capabilities of the organization in terms of resources and knowledge?</li> <li>b. Information flows and decision-making processes,</li> <li>c. Internal stakeholders?</li> <li>d. Objectives and the strategies that are in place to achieve them?</li> <li>e. Perceptions, values and culture?</li> <li>f. Policies and processes?</li> <li>g. Standards and reference models adopted by the organization?</li> <li>h. Structures (e.g., governance, roles and accountabilities)? <i>[DBM) Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p.30 and Clause 4, 4.3.3b, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques, 1 December 2009]</i></li> </ul>		

QUESTIONS	YES or NO	Cite Reference Documents
<b>Risk Identification</b>		
<p>5. Does the agency/organization make an identification of the following:</p> <ul style="list-style-type: none"> <li>a. Opportunities and threats to the achievement of the control objectives?</li> <li>b. The most important areas to which resources in risk assessment should be channeled?</li> <li>c. Determine responsibility for the management of the risk?</li> </ul> <p><i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 30 and 2.2 Risk Assessment, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 23-24.]</i></p>		
<p>6. Does the agency/organization identify the causes and sources of the risk (hazard in the context of physical harm), events, situations or circumstances which could have a material impact upon objectives and the nature of that impact? <i>(Clause 5, 5.2, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009.)</i></p>		
<b>Risk Analysis</b>		
<p>7. Does the agency/organization systematically use information to identify sources and to estimate the risk? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 30-31]</i></p>		
<p>8. Does the agency/organization identify the factors that affect consequences and likelihood of the risk? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 30-31]</i></p>		
<p>9. a. Does the agency/organization determine the consequences and their probabilities for identified risk events?</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>b. In determining said consequences and their probabilities, does the agency/ organization take into account the presence (or not) and the effectiveness of any existing controls? (Clause 5, 5.3.1, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009.)</p>		
<b>Risk Evaluation</b>		
<p>10. Does the agency/organization evaluate the significance of the risk and assess the likelihood of its occurrence? [DBM Circular Letter No. 2008-8, 23 October 2008, the "National Guidelines on Internal Control Systems (NGICS)," p. 31 and 2.2 Risk Assessment, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 22-23]</p>		
<p>11. In evaluating the risk, does the agency/organization compare estimated levels of risk with risk criteria defined when the context was established, in order to determine the significance of the level and type of risk? (Clause 5, 5.4, IEC/ISO 31010:2009, the "Risk Management – Risk Assessment Techniques," 1 December 2009.)</p>		

#### E. 4 Section III – Control Activities

<p><b>OBJECTIVES:</b></p> <p>a. To obtain sufficient knowledge/information about the policies and procedures established by the organization to address risks (tolerated, transferred, terminated or treated) and to achieve its objectives;</p> <p>b. To obtain sufficient knowledge/information about the agency’s/ organization’s performance review and compliance review; and</p> <p>c. To identify and document the agency’s/organization’s control activities: risk response, performance review and compliance review process.</p> <p>These questions involve policies or procedures that help ensure that the agency’s/organization’s objectives are achieved and directives are completed.</p>		
QUESTIONS	YES or NO	Cite Reference Documents
<b>A. Risk Response</b>		
1. Does the agency/organization establish policies and procedures to address risks and to achieve the entity’s objectives? <i>[DBM Circular Letter No. 2008-8, the “National Guidelines on Internal Control Systems (NGICS),” 23 October 2008, pp. 31-32 and 2.3 Control Activities, International Organization of Supreme Audit Institutions (INTOSAI), the “Guidelines for Internal Control Standards for the Public Sector,” 16 October 2004, p. 28]</i>		
2. a. Are all the moneys 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 agency concerned? <i>(Sec. 42, Chapter 7, Subtitle B, Title I, Book V, EO 292, “Administrative Code of 1987”)</i>		
3. Are the agency’s/organization’s officers whose duties permit or require the possession or custody of government funds properly bonded in accordance with law? <i>(Sec. 50, Chapter 9, Subtitle B, Title I, Book V, EO 292, “Administrative Code of 1987”)</i>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>4. Does the agency/organization 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>(Sec. 14(7), Chapter 3, Book VI, EO 292, "Administrative Code of 1987")</i></p>		
<p>5. Are the frontline services complemented with adequate staff by adopting mechanisms such as rotation system among office personnel, sliding flexitime, reliever system especially in peak times of transactions or providing skeletal personnel during lunch and snack times? <i>(Section 3, Rule VI, Implementing Rules and Regulations of RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>6. Is disbursement of government funds made in pursuance of an appropriation law or other specific statutory authority? <i>(Section 45 (1), Chapter 8, Subtitle B, Title I, Book V, EO 292, "Administrative Code of 1987")</i></p>		
<b>B. Performance Review</b>		
<p>7. If accomplishments do not meet established objectives or standards, are the processes and activities reviewed to determine if improvements are needed? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 33 and 2.3 Control Activities, No. 6. Reviews of Operating Performance, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 30]</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<b>C. Compliance Review</b>		
<p>8. Does the agency/organization periodically review operations, processes and activities to ensure that they are in compliance with current regulations, policies, procedures, or other requirements? [DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 33 and 2.3 Control Activities, No. 7. Reviews of operations, processes and activities, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 30-31]</p>		

**E. 5 Section IV – Information and Communication**

**OBJECTIVES:**

- a. To obtain sufficient knowledge/information about the agency’s/ organization’s information and communication systems;
- b. To determine if relevant information is communicated throughout the agency/organization, as well as to its network of organizations and sectors; and
- c. To identify and document the organization’s information and communication process.

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

QUESTIONS	YES or NO	Cite Reference Documents
1. Do the heads of agencies/ organizations prepare and submit annual reports to the President on or before the first day of July of each year? <i>(Sec. 43, Chapter 11, Book I, EO 292, “Administrative Code of 1987”)</i>		
2. Are the contents of the agency’s/ organization’s annual reports in accordance with the requirements prescribed by pertinent laws and issuances? <i>(Sec. 44, Chapter 11, Book I, EO 292, “Administrative Code of 1987”)</i>		
3. a. Do all heads of bureaus or offices render annual reports to their respective DS/HoA on or before the last day of February of each year? b. Do the reports contain the following: i. Concise statements of the accomplishments and assessment of the progress attained in terms of approved programs and projects? ii. Pertinent financial statements on expenditures incurred in their implementation during the calendar year? iii. Broad recommendations and plans for undertaking work during the ensuing period?		

QUESTIONS	YES or NO	Cite Reference Documents
<p>iv. Matters specifically required by laws or regulation to be incorporated therein? (Sec. 37, Chapter 6, Book IV, EO 292, "Administrative Code of 1987")</p>		
<p>4. Do all heads or other responsible officers of the agency/organization render a full and complete report of performance and accomplishments within forty-five (45) days from the end of the year? (Sec. 7, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</p>		
<p>5. Does the DS/HoA/GB establish measures and standards that will ensure transparency of and openness in public transactions, e.g., biddings, purchases, other internal transactions, including contracts, status of projects, and other matters involving public interest? (Sec. 2, Rule IV, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</p>		
<p>6. Does the DS/HoA/GB establish information system that will inform the public of the following:</p> <ol style="list-style-type: none"> <li>a. Policies, rules and procedures?</li> <li>b. Work programs, projects and performance targets?</li> <li>c. Performance reports?</li> <li>d. All other documents classified as public information? (Sec. 2, Rule IV, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</li> </ol>		
<p>7. Are written requests, petitions or motions sent to the agency/organization by means of letters, or the like, acted upon by the official or employee in charge within fifteen (15) days from receipt thereof? (Sec. 3, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</p>		

QUESTIONS	YES or NO	Cite Reference Documents
8. Except as otherwise provided by law or regulation, does the agency's/organization's written action or decision contain not more than three (3) initials or signatures? <i>(Sec. 5, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
9. In the evaluation of official forms for agencies/organizations rendering frontline services, are the number of signatories limited to a maximum of five (5) signatures of officers or employees directly supervising the evaluation, approval or disapproval or the request, application, or transaction? <i>(Section 3, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i>		
10. Does the agency/organization prescribed rules, through appropriate office order, on the proper authority to sign in the absence of regular signatory? <i>(Sec. 5, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees"); (Section 3, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i>		
11. Do all heads or other responsible officers of the agency/ organization prepare and submit to the CSC a report of compliance with the provisions of RA 6713 and its IRR? <i>(Sec. 7, Rule VI, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		
12. a. Do the public officers and employees file under oath their Statements of Assets, Liabilities and Net Worth (SALN) and a Disclosure of Business Interests and Financial Connections (DBIFC) and Identification and Disclosure of Relatives (IDR) in the government? <i>(Sec. 1 &amp; 2, Rule VII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>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? (Section 7, Republic Act (RA) No. 3019, the "Anti-Graft and Corrupt Practices Act," as amended, 17 August 1960 and Pleyto vs. PNP-CIDG, G.R. No. 169982, 23 November 2007.)</p>		
<p>13. Does the agency/organization have compliance procedures for the review of the SALN, DBIFC and IDR in the government to determine whether said statements have been properly accomplished? (Sec. 1, Rule VIII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</p>		
<p>14. Is the agency's/organization's review and compliance procedure, as called for under item 13 above, approved by the Secretary of Justice (in the case of the Executive Department), affirmatively voted upon by a majority of the particular House concerned (in the case of Congress), the Chief Justice of the Supreme Court (in the case of the Judicial Branch), respective Chairman and members thereof (in the case of Constitutional Commissions/ Offices) or the Ombudsman (in the case of the Office of the Ombudsman)? (Sec. 1, Rule VIII, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>15. a. Does the agency/ organization determine which processes or transactions constitute frontline service?</p> <p>b. Does the agency/ organization undertake reengineering of its transaction systems and procedures, including time and motion studies, if necessary?</p> <p>c. Does the agency/ organization set up their respective service standards to be known as the Citizens' charter? <i>(Section 1, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>16. Does the agency's/organization's reengineering process include a review for purposes of streamlining the following:</p> <p>a. Steps in providing the service?</p> <p>b. Forms used?</p> <p>c. Requirements?</p> <p>d. Processing time? and</p> <p>e. Fees and charges? <i>(Section 2, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>17. Does the agency/organization review the location of the offices providing frontline services and put in place directional signs to facilitate transactions? <i>(Section 2, Rule III, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>18. a. Does the agency/ organization have a workflow chart showing procedures or flow of documents?</p> <p>b. Is the chart posted in conspicuous places in the department, office or agency for the information and guidance of all concerned? <i>(Sec. 4, Rule III, Rules Implementing RA 6713, "Code of Conduct and Ethical Standards for Public Officials and Employees")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
19. Are the stakeholders, users and beneficiaries of the frontline services taken into consideration in the preparation of the Citizens' Charter? <i>(Section 3, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i>		
20. Is the agency's/organization's Citizens' Charter in the form of information billboards and published materials written in English, Filipino, or in the local dialect? <i>(Section 2, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i>		
21. Is the Citizens' Charter posted at its office's main entrance or at the most conspicuous place? <i>(Section 2, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i>		
22. Does the Citizens' Charter include the following information: a. Vision and mission of the government office or agency/organization? 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 relevancy of said document/s? g. The amount of fees, if necessary? h. The procedure for filing complaints in relation to requests and applications, including the names and contact details of the officials/channels to approach for redress?		

QUESTIONS	YES or NO	Cite Reference Documents
<p>i. Allowable period for extension due to unusual circumstances; i.e., unforeseen events beyond the control of government office or agency concerned?</p> <p>j. Feedback mechanisms, contact numbers to call and/or persons to approach for recommendations, inquiries, suggestions, as well as complaints? <i>(Section 1, Rule IV, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>23. Is the implementation of the agency's/organization's Citizens' Charter continually monitored and periodically reviewed? <i>(Section 3, Rule IVI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>24. Are all the transactions and processes made with the permission or clearance from the highest authority having jurisdiction over the agency/organization concerned? <i>(Section 1, Rule V, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>25. Does the agency/organization adopt working schedules to ensure that all clients who are within the premises prior to the end of official working hours are attended to and served even during lunch break and after regular working hours? <i>(Section 3, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>26. Does the DS/HoA/GB adopt appropriate mechanisms to ensure the uninterrupted delivery of frontline services? <i>(Section 3, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>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 4, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>28. a. Does the agency/organization have a public assistance/complaints desk in all their offices?</p> <p>b. Is there an officer or employee knowledgeable on frontline services who is at all times available for consultation and advice?</p> <p>c. Is the desk attended to even during breaktime? <i>(Section 5, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>29. Does the agency/organization 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 5, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>30. Does the responsible officer or employee acknowledge receipt of written applications, requests, and/or documents being submitted by clients of the office or agency? <i>(Section 2, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>31. Does the acknowledgement indicate, by writing or printing clearly thereon, the name of the receiving officer or employee, the unit where he/she is connected with, and the time and date of receipt? <i>(Section 2, Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>32. Is the prescribed period to act upon all applications and/or requests not longer than five (5) working days (in the case of simple transactions) and ten (10) working days (in the case of complex transactions) from the time the same was received? <i>(Section 2 (4), Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>33. Are all applications and/or requests in frontline services acted upon within the period prescribed under the Citizen's Charter? <i>(Section 2 (4), Rule VI, Implementing Rules and Regulations, RA 9485, "Anti-Red Tape Act of 2007")</i></p>		
<p>34. Does the agency/organization keep and preserve a logbook in which shall be recorded in chronological order, all final official acts, decisions, transactions or contracts, pertaining to the agency/organization? <i>(Sec. 52, Chapter 11, Book IV, EO 292, "Administrative Code of 1987")</i></p>		
<p>35. Does the agency/organization adhere to the government-wide application of the classification of administrative issuances pursuant to the Administrative Code of 1987 or the law creating them? <i>(Sec. 53, Chapter 11, Book IV, EO 292, "Administrative Code of 1987")</i></p>		
<p>36. a. Does the agency/organization comply with the numbering system of administrative issuances pursuant to Administrative Code of 1987?</p> <p>b. Are the administrative issuances (i.e., circulars and orders) issued by the Department Secretary, head of bureaus, offices or agencies chronologically numbered and properly identified as such? <i>(Sec. 51, Chapter 11, Book IV, EO 292, "Administrative Code of 1987")</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>37. Are the agency's/organization's transactions and events promptly recorded and properly classified?  <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 34 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 36.]</i></p>		
<p>38. Are relevant information communicated throughout the agency, as well as to its network of organizations and sectors?  <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 33 and 2.4 Information and Communication, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, pp. 36-39]</i></p>		
<p>39. Are relevant information identified, captured and communicated in a form and timeframe that enables a personnel to carry out internal controls and other responsibilities?  <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 34 and 2.4 Information and Communication, INTOSAI, the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 36]</i></p>		
<p>40. a. Does communication flow down, across, and up the organization, throughout all components and the entire structure?  b. Does the agency/organization have an effective communication with external individuals and organizations?  <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 36 and 2.4 Information and Communication, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 38]</i></p>		

QUESTIONS	YES or NO	Cite Reference Documents
<p>41. Are the concerned officials available to their staff for consultations and dialogues? <i>(Rule III, Rules Implementing Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 21 April 1989.)</i></p>		
<p>42. a. Does the agency/organization consult the public they serve for the purpose of gathering feedback and suggestions on the efficiency, effectiveness and economy of frontline services? b. Do they establish mechanisms to ensure the conduct of public consultations and hearings? <i>(Rule III, Rules Implementing Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 21 April 1989.)</i></p>		
<p>43. Does the agency/organization communicate frequently with the constituents or the public they serve and stakeholders to ensure continual understanding of their requirements, needs and expectations? <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, 15 October 2008; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.)</i></p>		

## E. 6 Section V – Monitoring

<b>OBJECTIVES:</b>		
<p>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</p> <p>b. To identify and document the agency's/organization's monitoring process.</p> <p>These questions involve the agency's/organization's activities taken to assess the achievement of control objectives and the quality of internal control system performance.</p>		
<b>QUESTIONS</b>	<b>YES or NO</b>	<b>Cite Reference Documents</b>
<p>1. a. Does the agency/organization ensure that controls are operating as intended and that they are modified appropriately for changes in conditions?</p> <p>b. If yes, is it accomplished through ongoing monitoring activities, separate evaluations or a combination of both? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 37 and 2.5 Monitoring, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 41.]</i></p>		
<p>2. a. Does the ongoing monitoring of internal control occur in the course of the normal, recurring operations of the agency/organization?</p> <p>b. Is the ongoing monitoring:</p> <p>i. performed continually and on a real-time basis?</p> <p>ii. ingrained in the entity's operations? <i>[DBM Circular Letter No. 2008-8, the "National Guidelines on Internal Control Systems (NGICS)," 23 October 2008, p. 37 and 2.5 Monitoring, International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," p. 41]</i></p>		

## Appendix F : 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.

There are various sampling methods available. The main types of sampling methods available to the auditor are as follows:

#### 1. Systematic Sampling

Systematic sampling is a statistical method involving the selection of elements from an ordered sampling frame. The most common form of systematic sampling is an equal-probability method, in which every  $k^{\text{th}}$  element in the frame is selected, where  $k$ , the sampling interval (sometimes known as the 'skip'), is calculated as: sample size ( $n$ ) = population size ( $N$ )/ $k$ .

This involves selecting every  $n^{\text{th}}$  item in the population. The interval is derived by dividing the population number by the sample size. A random starting point is selected. Technically, it is a practical approach that approximates the random sample.

The auditor must ensure that the chosen sampling interval does not hide a pattern. Any pattern would threaten randomness. A random starting point must also be selected.

Systematic sampling is to be applied only if the given population is logically homogeneous, because systematic sample units are uniformly distributed over the population.

For example, if you determined that your sampling interval is 50 and your starting point is number 1, every 50<sup>th</sup> sampling unit is selected to form part of the sample.

#### 2. Statistical Sampling

This type of sampling involves defining the population and related confidence intervals. Based on these assumptions, a sample size is determined and the results of testing can be reasonably extrapolated to the overall population, thus, a quantifiable conclusion can be drawn (e.g., we are 95% confident that the true value of the accounts receivable balance is between X and Y).

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

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

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

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

The size of the sample will generally be impacted by the sample size (the larger the population, the larger the sample is likely to be), the acceptance risk (the smaller the accepted risk, the larger the sample will likely be), and the population variability (the more dispersed or variable the population is, the larger the sample will likely be).

### **3. Non-statistical Sampling**

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

#### **a. Random Sampling**

This is a selection procedure whereby each item in the population has a known and equal chance of being selected. Random number tables or certain computer softwares may be used to generate a random sample. Following ISO 24153:2009, random sampling and randomization procedures may also be used. Several methods are provided, including approaches based on mechanical devices, tables of random numbers, and portable computer algorithms.

## **b. Simple Random Sampling**

Under this method, the sample is a subset of individuals/transactions (a sample) chosen from a larger set (a population). Each individual/transaction is chosen randomly and entirely by chance, such that each individual/transaction has the same probability of being chosen at any stage during the sampling process, and each subset has the same probability of being chosen for the sample as any other subset.

Conceptually, simple random sampling is the simplest of the probability sampling techniques. It requires a complete sampling frame, which may not be available or feasible to construct for large populations. Even if a complete frame is available, more efficient approaches may be possible if other useful information are available about the units in the population.

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

## **c. Stratified Sampling**

In statistics, stratified sampling is a method of sampling from a population.

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

Stratified sampling strategies involve:

- i. Proportionate allocation which uses a sampling fraction in each of the strata that is proportional to that of the total population. If the population consists of 60% in the male stratum and 40% in the female stratum, the relative size of the two samples (e.g., three males, two females) should reflect this proportion.

- ii. Optimum allocation (or Disproportionate allocation) - Each stratum is proportionate to the standard deviation of the distribution of the variable. Larger samples are taken from the strata with the greatest variability to generate the least possible sampling variance.

A real world example of using stratified sampling would be for a Philippine political survey. If the respondents needed to reflect the diversity of the population of the Philippines, the researcher would specifically seek to include participants from the various groups such as tribe, religion, gender and income level, based on their proportionality to the total population as mentioned above. A stratified survey could thus claim to be more representative of the population than a survey of simple random sampling or systematic sampling.

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

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

### **Advantages Over Other Sampling Methods**

- 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.

#### 4. 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
<b>Total:</b>	<b>180</b>

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; and
- 35% should be female, part time.

Compute the absolute number of samples based on the percentage per staff allocation in each group.

- 50% of 40 is 20.
- 10% of 40 is 4.
- 5% of 40 is 2.
- 35% of 40 is 14.

The following references on sampling may be used:

- a. Philippine Standard on Auditing (PSA) 530 on “Audit Sampling and Other Selective Testing Procedures” – It established standards and provides guidance on the use of audit sampling procedures and other means of selecting items for testing to gather audit evidence;
- b. United States Government Accounting Office (US GAO) GAO/PEMD-10.1.6, “Using Statistical Sampling” – The purpose of the series is to provide GAO evaluators with guides on various aspects of audit and evaluation methodology, to illustrate applications, and to indicate where more detailed information is available; 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 IA should use a statistical sampling method. If on the other hand, the auditor wants to determine whether a problem exists, the IA should use non-statistical sampling.

## GLOSSARY

**Accountability.** The obligation of an individual or institution to account for its activities, accept responsibility for them, and disclose the results in a transparent manner.

**Auditee.** The public official responsible for the subject of the audit. The auditee for each audit is the senior manager with overall responsibility for the organizational area being reviewed.

This person will be the primary senior point of contact for the audit and be responsible for responding to the audit report, including the suggested courses of action. For example, the DS/HoA or GB/AuditCom may request an audit of the Human Resources Management (HRM) System. The auditee is the subordinate unit under the DS/HoA or GB/AuditCom which includes, among others, the Office of the Undersecretary.

The NGICS prohibits the auditor to have a client/customer relationship with the auditee.

**Computer Assisted Audit Techniques and Tools.** Computer tools and techniques in performing various auditing procedures and improving the effectiveness and efficiency of obtaining and evaluating audit evidence. It provides effective tests of controls and substantive procedures where wide range of techniques and tools are used to automate the test procedures for evaluating controls, obtaining evidence and data analysis.<sup>199</sup>

**Compliance Audit.** Review of the degree of adherence with laws, regulations, managerial policies and operating procedures of government, including compliance with accountability measures and ethical standards and contractual obligations. It is a necessary 'first step' to, and part of management and operations audits.

**Citizen's Charter.** An official document, a service standard, or a pledge, that communicates in simple terms, information on the services provided by the government to its citizens. It describes the step-by-step procedure for availing of a particular service, and the guaranteed performance level that they may expect for that service.

**Detail.** Temporary movement of an employee from one department or agency to another which does not involve a reduction in rank, status or salary (refer to CSC MC No. 21, s. 2002 for the policy on detail)

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

**Expert.** Person who is knowledgeable in a specialized field, that knowledge being obtained from either education or personal experience. He/she is one who by reason of education or special experience has knowledge respecting a subject matter about which persons having no particular training are incapable of forming an accurate opinion or making a correct deduction.<sup>200</sup>

**Four Cs in Audit Findings.** Stands for criteria, condition, cause and conclusion.

- **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 a substantial evidence (includes consequence, effects or impact); this is also referred to as the “finding of facts” which is defined as the written statement of the ultimate facts essential to support the audit findings.<sup>201</sup>
- **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<sup>202</sup> the act/s or omission/s of the person responsible had caused the non-compliance which may warrant the conduct of administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true cause of the control weaknesses or incidences and the actions necessary to eliminate it.
- **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.”<sup>203</sup>

**Four 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 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 a Department or agency concerned. He has overall responsibility for auditing the organization, managing the entire audit cycle and a team of internal auditors, and ensuring the quality of audit products produced by the team.

**Internal Audit.** The evaluation of management control and operations performance and the determination of the degree of compliance with laws, regulations, managerial policies, and contractual obligations. It is the appraisal of the plan of organization and all the coordinate methods and measures to recommend courses of action on all matters relating to management control and operations audit.<sup>204</sup>

**Internal Audit Annual Work Plan.** It contains the coverage of the audit for a given calendar year and approved by the DS/HoA or GB/AuditCom. The plan should outline the deficiencies in internal control and vulnerability being addressed, audit title, specific audit area, type of audit, summary description of the audit, expected benefit, priority and resources to be used, estimated duration and cost, and proposed timing of the audit, among others.

**Internal Audit Strategic Plan.** An internal audit strategic plan outlines the broad strategic direction of internal audit over the medium term (i.e., three to five years) and provides an important basis for managerial policies from the DS/HoA and the detailed internal audit annual work plan. It is approved by the DS/HoA or GB/AuditCom.

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

**Internal Stakeholders.** These are the individuals and groups that can affect and be affected by the agency's operation within a particular public service sector. These include those within the sector (e.g., Civil Service Commission, Office of the Ombudsman, Presidential Anti-Graft Commission, and relevant professional bodies; other review and oversight bodies). In terms of relationship, the IAS/IAU basically coordinates with internal stakeholders and collaborates with external stakeholders.

**Key Performance Indicator.** Performance measures reflecting the central importance of evidence and information to support performance results. It is important that the KPIs for internal audit are aligned with the Strategic and Annual Internal Audit Plans.

**Management Audit.** The separate evaluation of the effectiveness of the internal controls adapted in the operating and support services units/systems, whether it achieves the control objective over a specific date or period of time. It is a review and appraisal of systems and processes, organizational structure and staffing, operations and management practices, records, reports and performance standards of the agencies/units covered. It includes the determination of the extent of compliance with laws, rules, regulations, managerial policies, operating procedures, accountability measures and contractual obligations covering specific timeframes. Examples of support services systems are human resource management system, financial

management system, quality management system, risk management system and their sub-system; while operating systems of bureaus, regional offices and local government units include, among others, the rules of engagement in the conduct of arrest, search and seizure and rules on vaccination and immunization.

**Management Audit Division.** This is one of the two divisions forming part of the IAS/IAU in departments and equivalent agencies. It is responsible for, among other functions, conducting a separate evaluation of the effectiveness of the internal controls adapted in the operating and support services systems. It conducts an appraisal and review of management controls of the operating or support units to determine if the control objectives are being achieved, conducts root cause analysis in case the controls are weak, and recommends courses of action to address the control weaknesses.

**Management Monitoring.** The plethora of measures taken by management to ensure that internal control systems are operating as intended (see paragraph 3.5 of the NGICS). Ongoing monitoring occurs in the course of operations. It is performed regularly on a real time basis, responds dynamically to changing conditions and is embedded in an agency's operations.

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

**Operations Audit Division.** This is one of the two divisions forming part of the IAS/IAU in departments and equivalent agencies. It is responsible for conducting a separate evaluation of the outcome, output, process and input to determine whether government operations, including management and personnel structure in programs/projects are effective, efficient, ethical and economical.

**Philippine Government Internal Audit Manual.** The documentation of the standards and procedures for conducting management and operations audits. It serves as a friendly tool to internal auditors in appraising the internal control systems of the public entities (agencies). It provides details on the nature and scope of internal audit in the Philippine public sector, including the institutional arrangements of the internal audit function, as well as the protocols and processes for the conduct of internal audit. The PGIAM is divided into two parts. Part I - Guidelines (PGIAM 1) outlines the basic concepts and principles of internal audit, and the policies and standards that will guide government agencies in organizing, managing, and conducting an effective internal audit. Part II – Practices (PGIAM 2) contains tools, techniques, and approaches that will facilitate the conduct of internal audit activities.

**Public Service Organizations** These are classified into: (1) Public Entities; and (2) Private Entities Providing Public Services.

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

**Qualifications Standards.** Minimum and basic requirements for positions in the government. These shall serve as the basic guide in the selection of personnel and in the evaluation of appointments to all positions in the government.<sup>205</sup>

**Related Audit Services.** Related activities such as being a resource person (i.e., attending to functions outside the organization) for external organizations like the COA, Office of the Ombudsman, oversight or regulatory bodies and financing institutions; training of IAS/IAU staff, and intervening activities or tasks that may be assigned to the IAS/IAU.

**Report Card Survey.** An evaluation tool that provides a quantitative measure of actual public service user perceptions on the quality, efficiency and adequacy of different frontline services, as well as a critical evaluation of the office or agency and its personnel. It is an instrument that also solicits user feedback on the performance of public services for the purpose of exacting public accountability and, when necessary, proposing change.

**Risk Assessment.** The process of identifying, analyzing and evaluating relevant risks to the achievement of the control objectives and determining the appropriate response. In other words, it is the identification, analysis and evaluation of what could go wrong and how to address it.

**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.<sup>206</sup>

**Root Cause Analysis.** A method that is used to address a deficiency in order to get the “root cause” of the problem. It is used in order 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.

**Secondment.** The movement of an employee from one department or agency to another which is temporary in nature and which may not require the issuance of an appointment which may either involve increase in compensation and benefits. Acceptance thereof is voluntary on the part of the employee (MC No. 15, s. 1999).

**Separate Evaluation.** Covers the periodic evaluation of the effectiveness of the internal control system and ensuring that internal controls achieve the desired results based on predefined methods and procedures. It includes the appraisal of the internal control system to determine whether controls are well designed and properly operated. In the conduct of separate evaluation, the IAS/IAU shall determine the extent of compliance and assess the adequacy of controls embedded in functional and operating systems/units, as well as evaluate the performance of programs, projects and activities of the agency.

**Stakeholder** .A person or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity. The IAS /IAU relates with both internal and external stakeholders.

## ENDNOTES

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- <sup>1</sup> Sec. 8, Ch. 3, Title V (DPWH), Bk. IV, EO 292, s. 1987, "Administrative Code 1987" and Sec. 123, PD 1445 or the "Government Auditing Code of the Philippines".
- <sup>2</sup> Section 55 (b), Title II-Internal Control System, Vol. III, GAAM; COA Circular No. 91-368 dated 19 December 1991; and Sec. 8(3), Ch. 2, Title V, Book IV, EO 292, s. 1987, the "Administrative Code of 1987" and the "National Guidelines on Internal Control Systems", DBM Circular Letter No. 2008-8, p. 39 .
- <sup>3</sup> For GOCCs/GFIs, the Audit Committee is a primary committee of the Board of Directors.
- <sup>4</sup> United Nations Development Program, Handbook on Planning, Monitoring and Evaluating for Development Results, 2009.
- <sup>5</sup> Process refers to the "set of interrelated or interacting activities of the public sector organization which transforms input elements (policies, resources, citizen needs and expectations, etc.) into outputs/outcomes (the products and services provided to the citizens)." [underscoring supplied] Clause 3.5., Government Quality Management System Standards (GQMSS), the "Quality Management Systems - Guidance Document for the Application of ISO 9001:2000 in Public Sector Organizations," 21 June 2007; Executive Order (EO) No. 605 s. 2007; and Republic Act (RA) No. 9013.
- <sup>6</sup> DBM Circular Letter No. 2007-05, "Conduct of FY 2007 Organizational Performance Indicator Framework (OPIF) Review and Consultation Meetings with the Agencies", 8 February 2007.
- <sup>7</sup> Book VI, Chapter 1, Section 2, Executive Order (EO) No. 292 s. 1987, the "Administrative Code of 1987," 25 July 1987.
- <sup>8</sup> Organizational Performance Indicators Framework, FY 2008, December 2007.
- <sup>9</sup> "SEC. 3. *Declaration of Policy.* – x x x. The budget shall be supportive of and consistent with the socio-economic development plan and shall be oriented towards the achievement of explicit objectives and expected results, to ensure that funds are utilized and operations are conducted effectively, economically and efficiently. x x x." [underscoring supplied] Chapter 2, Book VI, Executive Order (EO) No. 292 s. 1987, the "Administrative Code of 1987," 25 July 1987.
- <sup>10</sup> 5.2. Government Quality Management Systems Standards, Quality Management Systems – Guidance Document for the Application of ISO 9001:2000 (now ISO 9001:2008) in the Public Sector, Government Quality Management Committee Resolution No. 1, series of 2007.
- <sup>11</sup> This was aptly illustrated in *Veneracion and Linatoc vs. Office of the Court Administrator*, A.M. No. RTJ-99-1432, 21 June 2000 and *Muro vs. State Prosecutors*, A.M. No. RTJ-92-876, 11 December 1995. "What is required on the part of the judges is objectivity. An independent judiciary does not mean that judges can resolve specific disputes entirely as they please. They are bound by limitations on their authority, by substantive and procedural rules of law, more importantly by Constitutional precepts and the recognition of their places in the hierarchy of courts."
- <sup>12</sup> Public service organizations are classified into two: (1) public entities and (2) private enterprises providing public services.
- <sup>13</sup> Sec. 1 (2.0), AO 278, s. 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", 28 April 1992.
- <sup>14</sup> CSC Resolution No. 000831, Sison, Mory Q., Re: Consultancy Service, March 29, 2000 citing CSC Resolution No. 95-6939 dated November 2, 1995 Pagaduan, Ma. Dolores, et al. vs. Malonzo, Reynaldo, et al; Rule XI, CSC MC No. 40, s. 1998, "Revised Omnibus Rules on Appointments and Other Personnel Actions".
- <sup>15</sup> Rule XI, CSC MC No. 40, s. 1998, "Revised Omnibus Rules on Appointments and Other Personnel Actions".
- <sup>16</sup> Item 10, Government Auditing Standards *Answers to Independence Standards Questions*, US Government Accountability Office [formerly US General Accounting Office until renamed in 2004], July 2002.
- <sup>17</sup> Despite compliance with supplemental safeguards, the IAS may face independence impairments as a result of non-audit services. Recent high profile cases involving the auditing practice in corporate governance have resulted in the realization that, in many cases, it is not appropriate for an auditor to provide both audit and certain non-audit (consulting) services for the same client. By the nature of certain non-audit services (e.g., developing an organization's policies, procedures, and internal controls), it encompasses advice and improvement of processes, operations and outcomes of Operating and Support Units which would impair the ability of IAS to meet either or both of the overarching independence principles for certain types of audit work. (Exposure Draft of Proposed New and Amended Standards for the Professional Practice of Internal Auditing, 30 May 2003, paragraphs 3.29 and 3.22).
- <sup>18</sup> Sec. 8(3), Chapter 3, Title V, Book IV, EO 292, Administrative Code of 1987, 25 July 1987 and Section 55 (b), Title II-Internal Control System, Vol. III, GAAM, COA Circular No. 91-368, 19 December 1991, p.82.
- <sup>19</sup> COA Circular 2002-002, 18 June 2002.
- <sup>20</sup> Sec. 1, (2.0), Administrative Order 278, 28 April 1992, Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or –Control Corporations, Including Government Financial Institutions and Local Government Units, in their Operations.
- <sup>21</sup> Commission on Audit (COA) Circular No. 93-214A, the "Government Contracts for Internal Audit Services," 4 March 1993; COA Circular No. 83-214, 8 September 1983.

22 Republic Act No. 9184 or the "Government Procurement Reform Act".

23 Section 124 of PD 1445, "Government Auditing Code of the Philippines", as amended

24 Section 123 of PD 1445, as amended, and Section 1, Chapter 1, Subtitle B, Book V of the Administrative Code of 1987.

25 National Guidelines on Internal Control Systems, p.16.

26 National Guidelines on Internal Control Systems, p.17.

27 Medium-Term Philippine Development Plan of 1999-2004.

28 Clause 5, 5.2, IEC/ISO 31010:2009, "Risk Management – Risk Assessment Techniques," 1 December 2009.

29 Clause 5, 5.3.1, IEC/ISO 31010:2009, "Risk Management – Risk Assessment Techniques," 1 December 2009.

30 Clause 5, 5.4, IEC/ISO 31010:2009, "Risk Management – Risk Assessment Techniques," 1 December 2009.

31 Clause 4, 4.3.1, IEC/ISO 31010:2009, "Risk Management – Risk Assessment Techniques," 1 December 2009.

32 INTOSAI Guidelines for Internal Control Standards for the Public Sector, p.23.

33 4.0 Risk assessment concepts, 4.1 Purpose and benefits, IEC /ISO 31010, Edition 1.0 2009-11, Risk management-Risk assessment techniques.

34 5.0 Risk assessment process, 5.1 Overview, IEC/ISO 31010, Edition 1.0 2009-11, Risk management-Risk assessment techniques.

35 Clause 2, 2.26, ISO 31000: 2009(E), the "Risk Management – Principles and Guidelines," 15 November 2009.

36 Clause 2, 2.25, ISO 31000: 2009(E), the "Risk Management – Principles and Guidelines," 15 November 2009.

37 Rule IV, Rules Implementing Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 21 April 1989.

38 Rule III, Rules Implementing Republic Act (RA) No. 6713, the "Code of Conduct and Ethical Standards for Public Officials and Employees," 21 April 1989.

39 International Organization of Supreme Audit Institutions (INTOSAI), the "Guidelines for Internal Control Standards for the Public Sector," 16 October 2004, p. 41.

40 Section 38, Chapter 7, Book IV of the Administrative Code of 1987.

41 Section 38 (3), (a), Chapter 7, Book IV, EO 292 s. 1987, the "Administrative Code of 1987".

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

43 Section 1 of Administrative Order No. 70, s. 2003.

44 Sections 2.5 and 2.6 of DBM Circular Letter No. 2008-5.

45 Section 2.7 of the DBM Circular Letter No. 2008-5.

46 Sections 2.5 to 2.7 of DBM Circular Letter No. 2008-5.

47 All accounts pertaining to revenues, receipts, expenditures or uses of funds and property owned or held in trust by public service organizations. See Article XII-D, Section 2 of the Philippine Constitution and the Administrative Code.

48 AO 70, s. 2003.

49 AO 278, s. 1992.

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

51 Sec. 3, Ch. 1, Bk IV, EO 292, "Administrative Code of 1987".

52 DBM-CSC Joint Resolution No. 1 dated 12 May 2006, p.5.

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

54 Item 2.7, DBM Circular Letter No. 2008-5, 14 April 2008.

55 Item 2.5, DBM Circular Letter No. 2008-5, 14 April 2008; NGICS Section 3.5.2.

56 Section 8, Chapter 3, Title V, Book V, of the Administrative Code of 1987.

57 Item 2.4.b., DBM Circular Letter No. 2008-5 dated 14 April 2008, "*x x x conduct management and operations performance audit of the Department/Agency/GOCC/GFI activities and their units and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations.*" *Underscoring supplied.*

58 Administrative Order (AO) 278 s. 1992, "*Directing the Strengthening of the Internal Control Systems of Government Offices, Government Owned And/Or Controlled Corporations, Including Government Financial Institutions and Local Government Units, In Their Operations*", 28 April 1992 issued by then President Corazon C. Aquino.

59 Section 8, Chapter 3, Title V, Book V, of the Administrative Code of 1987.

60 Item 2.4.b., DBM Circular Letter No. 2008-5 dated 14 April 2008, "*x x x conduct management and operations performance audit of the Department/Agency/GOCC/GFI activities and their units and determine the degree*"

of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations.” Underscoring supplied.

61 AO 278 s. 1992, “Directing the Strengthening of the Internal Control Systems of Government Offices, Government Owned And/Or Controlled Corporations, Including Government Financial Institutions and Local Government Units, In Their Operations”, 28 April 1992 issued by then President Corazon C. Aquino.

62 AO No. 278 s. 1992, 28 April 1992 and DBM Circular No. 2004-4 dated 22 March 2004.

63 Item 2.5, DBM Circular Letter No. 2008-5, “Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/ Agencies/GOCCs/GFI Concerned” 14 April 2008.

64 “Guidelines in the Organization and Staffing of an Internal Audit Service/Unit and Management Division/Unit in Departments/ Agencies/GOCCs/GFIs Concerned” 14 April 2008.

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

66 Sec. 10 (a), Ch. 3, Title I-Government Auditing Standards and Procedures, Volume III, GAAM, COA Circ. 368-91, 19 December 1991.

67 Practice Advisory 1000-1: Internal Audit Charter, International Standards for the Professional Practice of Internal Auditing (ISPPA), January 2009, p. 45.

68 Handbook on Monitoring and Evaluating for Results, UNDP, Evaluation Office, p. 64.

69 Department of Budget and Management (DBM) Circular Letter No. 2008-8, the “National Guidelines on Internal Control Systems (NGICS),” 23 October 2008, p 20.

70 Department of Budget and Management (DBM) Circular Letter No. 2008-8, the “National Guidelines on Internal Control Systems (NGICS),” 23 October 2008, p 21.

71 DBM Circular Letter No. 2007-6, “Manual on Position Classification and Compensation,” 19 February 2007.

72 EO 366, “Directing a Strategic Review of the Operations and Organizations of the Executive Branch and Providing Options and Incentives for Government Employees Who May Be Affected by the Rationalization of the Functions and Agencies of the Executive Branch”, October 4, 2004; CSC-DBM Joint Resolution No. 1, “Rationalization Program’s Organization and Staffing Standards and Guidelines,” 12 May 2006.

73 DBM National Budget Circular No. (NBC) 518, 8 January 2009; DBM NBC 522, 14 December 2009.

74 NEDA Office Circular No. 01-2009, “Adopting the Code of Conduct for the Officials and Employees of NEDA, 19 May 2009; LTFRB, “Code of Conduct for Officials and Employees of the Land Transportation and Franchising Regulatory Board,” 4 February 2005.

75 “Code of Conduct and Ethical Standards for Public Officials and Employees”, 20 February 1989.

76 Section 8, Chapter 2, Book IV, EO 292, “Administrative Code of 1987”, 25 July 1987.

77 Attachment to Memorandum dated 3 August 1993 signed by Teofisto Guingona; Memorandum for the President dated 10 June 1999 signed by Joseph Estrada; Memorandum Circular (MC) No. 68, s. 2004; MC No. 24, s. 2006; and MC 110, s. 2006.

78 Section 13, Chapter 3, Book IV, EO 292, “Administrative Code of 1987”.

79 Section 3, Chapter 2, Book VI, EO 292, “Administrative Code of 1987”.

80 DBM Publications, Other Publications; Section 29, Art. VI of the 1987 Constitution; Sections 329-334 of RA 7160, “Local Government Code of 1991”.

81 Such as RA 9524, General Appropriations Act for Fiscal Year 2009.

82 DBM National Budget Circular No. 507, s. 2007.

83 Section 10, Chapter 4, Subtitle B, Book V, EO 292, “Administrative Code of 1987”.

84 PD 1445, “Government Auditing Code of the Philippines”, 11 June 1978.

85 COA Circular No. 2002-002, “Prescribing the Manual on the New Government Accounting System (Manual Version) for Use in All National Government Agencies”, 18 June 2002.

86 Section 15, Chapter 3, Book IV, EO 292, “Administrative Code of 1987”.

87 RA 9184, “Government Procurement Reform Act”, and its Revised Implementing Rules and Regulations, GPPB Resolution No. 03-2009, 22 July 2009.

88 Revised Implementing Rules and Regulations of RA 9184, GPPB Resolution No. 03-2009, 22 July 2009.

89 Section 5, RA 6713, 20 February 1989; Rule V of the Rules Implementing RA 6713; OP Memorandum Circular 35 s. 2003.

90 National Archives of the Philippines General Circular No. 1 and 2, January 2009.

91 Section 7, Chapter 2, Subtitle A, Title I, Book V, EO 292, “Administrative Code of 1987”.

92 Omnibus Rules Implementing Book V of EO 292 and Other Pertinent Civil Service Laws, as amended such as by CSC MC 38, s. 1993; MC 40, s. 1998, MC 41, s. 1998; MC 20, s. 2002; MC 15, s. 2006; CSC MC 28, s. 2009.

93 CSC Resolution No. 991936, 31 August 1999, as amended.

94 1997 Revised Qualification Standards amended by CSC MC 12, s. 2003; Section 22, Chapter 5, Subtitle A, Title I, Book V, EO 292, “Administrative Code of 1987”.

95 CSC MC 7, s. 2007, “Installation of Performance Management System (PMS) in the Civil Service”

96 RA 9013, “An Act Establishing the Philippine Quality Award in Order to Encourage Organizations in Both the Private and Public Sectors to Attain Excellence in Quality in the Production and/or Delivery of their Goods

and Services”, 28 February 2001; EO 605, s. 2007, “Institutionalizing the Structure, mechanisms and Standards to Implement the Government Quality Management Program, Amending for the Purpose Administrative Order No. 161, s. 2003”, 23 February 2007.

97 ISO 9001:2008; and EO 605, “Institutionalizing the Structure, Mechanisms and Standards to Implement the Government Quality Management Program amending for the Purpose Administrative Order No. 161, s. 2006”.

98 5.5, Documentation, *Ibid.*, p. 16.

99 1.3, Risk Management Plan, ISO Guide 73:2009 (E/F), p. 2.

100 2.24, Risk Criteria, ISO 31000:2009.

101 NGICS, pp. 32-33.

102 DBM Circular Letter 2008-8, “National Guidelines on Internal Control System”, p. 32, 23 October 2008.

103 Clause 2, 2.25, ISO 31000:2009(E), “Risk Management-Principles and Guidelines”, 15 November 2009.

104 DBM Circular Letter 2008-8, “National Guidelines on Internal Control System”, p. 32, 23 October 2008.

105 Clause 3.8.1.3, ISO Guide 73:2009 (E/F), “Risk management – Vocabulary”.

106 Clause 3.8.1.5, *Ibid.*

107 Section 6, RA 9485, “An Act to Improve Efficiency in the Delivery of Government Service to the Public by Reducing Bureaucratic red Tape, Preventing Graft and Corruption, and providing Penalties Therefor”, 2 June 2007 and its Implementing Rules.

108 Rule V, Rules Implementing RA 6713, the “Code of Conduct and Ethical Standards for Public Officials and Employees”, 21 April 1989.

109 EO 265, s. 2000, “Approving and Adopting the Government Information Systems plan (GISP) as Framework and Guide for All Computerization Efforts in Government”.

110 Section 8, RA 6713, the “Code of Conduct and Ethical Standards for Public Officials and Employees”, February 20, 1989 and its Implementing Rules; Section 7, RA 3019, “Anti-graft and Corrupt Practices Act”; CSC Resolution No. 06-0231, 1 February 2006; CSC MC 10, s. 2006.

111 Section 10, RA 9485; Section 1, Rule IV, Implementing Rules of Regulations of RA 9485, 24 July 2008.

112 Section 8, Rule III, Rules Implementing RA 6713, 21 April 1989.

113 RA 9584, GAA FY 2009.

114 Section 5, Rule III, Rules Implementing RA 6713, 21 April 1989.

115 Item 5.7, DBM National Budget Memorandum No. 103, “Policy Guidelines and Procedures in the Preparation of the FY 2010 Budget Proposals”, 14 April 2009.

116 CSC MC 41 s. 1998; CSC MC 14, s. 1999.

117 2.11, DBM Circular Letter 2008-5, 14 April 2008.

118 Professional Development Center .

119 16 February 2009.

120 Government Quality Management Systems Standards, Quality Management Systems – Guidance Document for the Application of ISO 9001:2000 (now ISO 9001:2008) in Public Sector, Government Quality Management Committee Resolution No. 1, series of 2007).

121 Section 54, Chapter 6, Book VI, EO 292 “Administrative Code of 1987”.

122 International Organization of Supreme Audit Institutions (INTOSAI), the “Guidelines for Internal Control Standards for the Public Sector,” 16 October 2004, p. 32. Please refer to the 6<sup>th</sup> Asian Organization of Supreme Audit Institutions (ASOSAI) Research Project , “IT Audit Guidelines”, September 2003.

123 International Organization of Supreme Audit Institutions (INTOSAI), the “Guidelines for Internal Control Standards for the Public Sector,” 16 October 2004, p. 32.

124 International Organization of Supreme Audit Institutions (INTOSAI), the “Guidelines for Internal Control Standards for the Public Sector,” 16 October 2004, p. 34.

125 ISO 31000:2009(E), the “Risk Management – Principles and Guidelines,” 15 November 2009

126 The Financial Audit Manual, Commission on Audit, 2003, p.22.

127 Value for Money Audit Manual , Commission of Audit, p. 49.

128 Sixth Edition (1990), Black’s Law Dictionary, p. 290.

129 Webb vs. De Leon, G.R. No. 121234, 23 August 1995; and Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.

130 Albert vs. Gangan, G.R.No. 126557, 6 March 2001.

131 Sixth Edition (1990), Black’s Law Dictionary, p. 290.

132 Root Cause Analysis, Second Edition, Bjorn Anderson and Tom Fagerhaug p. 12.

133 Galario vs. Office of the Ombudsman, et. Al., G.R. No. 166797, 10 July 2007; Webb vs. De Leon, G.R. No. 121234, 23 August 1995; and Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.

134 Root Cause Analysis, Second Edition, Bjorn Anderson and Tom Fagerhaug p. 12.

135 “Furthermore, the only concern of the Review and Compliance Procedure, as per paragraph (a), is to determine whether the SALNs are complete and in proper form. This means that the SALN contains all the required data, i.e., the public official answered all the questions and filled in all the blanks in his SALN form.” (Presidential Anti-Graft Commission [PAGC] and the Office of the President vs. Salvador A. Pleyto, G.R. No. 176058, 23 March 2011).

136 “Both Section 7 of the Anti-Graft and Corrupt Practices Act and Section 8 of the Code of Conduct and Ethical Standards for Public Officials and Employees require the accomplishment and submission of a true, detailed

and sworn statement of assets and liabilities. Petitioner was negligent for failing to comply with his duty to provide a detailed list of his assets and business interests in his SALN.” (Presidential Anti-Graft Commission [PAGC] and the Office of the President vs. Salvador A. Pleyto, G.R. No. 176058, 23 March 2011, citing Pleyto vs. Philippine National Police Criminal Investigation and Detection Group [PNP-CIDG], G.R.No. 169982, 23 November 2007 ).

“The law requires that the SSAL must be accomplished as truthfully, as detailed and as accurately as possible.” (Hon. Waldo S. Flores, Hon. Arthur P Autea and the PAGC vs. Atty. Antonio F. Montemayor, G.R. No. 170146, 25 August 2010).

137 “SEC. 7. Statement of Assets and Liabilities. – Every public officer, within thirty days after assuming office and, thereafter, x x x shall prepare and file x x x a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of his income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year x x x” (RA 3019, “Anti Graft and Corrupt Practices Act”).

138 “SEC. 7. Statement of Assets and Liabilities. – Every public officer, within thirty days after assuming office and, thereafter, x x x shall prepare and file x x x a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of his income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year x x x” (RA 3019, “Anti Graft and Corrupt Practices Act”).

139 “(B) Identification and disclosure of relatives. – It shall be the duty of every public official or employee to identify and disclose to the best of his knowledge and information, his relatives in the Government in the form, manner and frequency prescribed by the Civil Service Commission.” (Rosalio S. Galeos vs. People of the Philippines, G.R.Nos. 174730-37, 9 February 2011, citing Section 8 (B) of RA 6713).

140 Sec. 12, Rule II, Uniform Rules on the Administrative Cases in the Civil Service Commission.

141 “We agree with the respondent that the professional fee he received from the law firm of San Juan, Africa, Gonzales and San Agustin from 1978 to 1986 in the amount of P70,000 per annum, as well as that in the amount of P55,000 reflected in his Statement of Assets and Liabilities for the period ending 31 December 1969, should not be excluded as part of his lawful income or disposable funds.

x x x

It is unquestionable that the outstanding loan balance of respondent's obligation to the GSIS in the amount of P775,073.38 as of 28 February 1989 did not constitute as respondent's "income" in the strict sense of the word. The same, however, formed part of the disposable funds used by him in capitalizing his property acquisition and business investments.

x x x

It bears emphasis that, as borne out by his own summary of property acquisitions, most of his assets were acquired in 1980 and in the preceding years. The rental income of P1,748,640, which the Sandiganbayan included as part of his disposable funds, were for the period from 1981 to 1986. Thus, such income could not have been used by respondent in financing the purchase of his real properties and shareholdings in various companies prior to 1981. Besides, as will be shown later, there exists an unshakable doubt on the legality of this income, considering that the properties from which such income was derived were not wholly funded by lawful income.” (Republic of the Philippines vs. Sandiganbayan, Third Division, and Jolly R. Bugarin, GR No. 102508, 30 January 2002).

142 “SEC. 7. Statement of Assets and Liabilities. – Every public officer, within thirty days after assuming office and, thereafter, x x x shall prepare and file x x x a true, detailed and sworn statement of assets and liabilities, including a statement of the amounts and sources of his income, the amounts of his personal and family expenses and the amount of income taxes paid for the next preceding calendar year x x x” (RA 3019, “Anti Graft and Corrupt Practices Act”).

143 “Sec. 8. *Prima facie evidence of and dismissal due to unexplained wealth.* – If in accordance with the provisions of Republic Act Numbered One thousand three hundred seventy-nine, a public official has been found to have acquired during his incumbency, whether in his name or in the name of other persons, an amount of property and/or money manifestly out of proportion to his salary and to his other lawful income, that fact shall be a ground for dismissal or removal. Properties in the name of the spouse and dependents of such public official may be taken into consideration, when their acquisition through legitimate means can not be satisfactorily shown ” (RA 3019, Anti Graft and Corrupt Practices Act)

“Sec. 3...(c) The approximate amount of property he has acquired during his incumbency in his past and present offices and employments,

(d) A description of said property, or such thereof as has been identified by the Solicitor General,

(e) The total amount of his government salary and other proper earnings and incomes from legitimately acquired property, and

(f) Such other information as may enable the court to determine whether or not the respondent has unlawfully acquired property during his incumbency.” (RA 1379, An Act Declaring Forfeiture in Favor of the State any Property Found to Have Been Unlawfully Acquired by any Public Officer or Employee and Providing for the Procedure Therefor).

144 “Sec. 8 x x x Bank deposits in the name of or manifestly excessive expenditures incurred by the public official, his spouse or any of their dependents including but not limited to activities in any club or association or any ostentatious display of wealth including frequent travels abroad of a non-official character by any public

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official when such activities entail expenses evidently out of proportion to legitimate income shall likewise be taken into consideration in the enforcement of this section notwithstanding any provision of law to the contrary x x x" (RA 3019, as amended by BP 195).

<sup>145</sup> In the case of Salvador Pleyto vs. Philippine National Police Criminal Investigation and Detection Group, G.R. No. 169982, 23 November 2007, the court held that the "net-worth-to-income-discrepancy analysis," may be effective as an initial evaluation tool, meant to raise warning bells as to possible unlawful accumulation of wealth by a public officer or employee, but it is far from being conclusive proof of the same.

<sup>146</sup> This is a modification of the Expenditure Method provided by RMO 15-95, as amended, where cash outlays, other than expenses, are included in the Computation to arrive at the total sources of funds and cash receipts, other than those from income, are included to arrive at the total application of funds.

<sup>147</sup> "4. In his Explanation submitted to the Court on September 5, 2003, respondent contends that one of the reasons why his assets increased significantly from 1974 to 1995 is that he was appointed as company director of ELXSHAR PTY LTD (ELXSHAR), a company based in Australia. He reasoned out that his appointment was brought about by his daughter's connections in Australia wherein the latter is a resident. However, we agree with the observation of the OCA that nowhere in respondent's SAL for 1989, 1991 and 1993 did he declare his business and financial connections with ELXSHAR. It was only his SAL for 1995, 1996 and 1998 that he included his directorship in ELXSHAR as part of his business and financial interests."

5. Respondent also acknowledged in his Explanation that he constructed a two-hectare fish cage in January 1989 by obtaining a loan in the amount of ₱300,000.00. However, an examination of the SAL of respondent for 1989 and 1991 reveals that he failed to declare either his ownership of or his financial interests in the said fish pens. Respondent also explained that as security for his loan of ₱300,000.00, obtained in January 1989, he executed a real estate mortgage in favor of the person who loaned him the money. However, his SAL for 1989 does not contain any declaration of a real estate mortgage for the said amount.

6. Respondent declared his ownership of a fish pen worth ₱2,500,000.00 in his SAL for 1995 and 1996. He claims that his ownership of the said fish pen was acquired in 1993. However, a perusal of his SAL for 1993 shows that while respondent declared his being a fish pen operator as part of his business interests, he failed to include said fish pen among his assets. It was only in 1995 that he began to declare the fish pen as part of his assets. It was only in 1995 that he began to declare the fish pens as part of his assets" (Concerned Taxpayer vs. Norberto V. Doblada, Jr., Sheriff IV, Branch 155, Regional Trial Court, Pasig City, A.M. No. P-99-1342, 8 June 2005)

"Aside from dishonesty, however, respondent is also guilty of failure to perform her legal obligation to disclose her business interests. Respondent herself admitted that she "had a stall in the market." The Office of the Court Administrator also found that she had been receiving rental payments from one Rodolfo Luay for the use of the market stall. That respondent had a stall in the market was undoubtedly a business interest which should have been reported in her Sworn Statement of Assets and Liabilities. Her failure to do so exposes her to administrative sanction.

x x x

Respondent should have, therefore, indicated in her 'Sworn Statement of Assets, Liabilities and Net Worth, Disclosure of Business Interests and Financial Connections, and Identification of Relatives in the Government Service' for the years 1991, 1992, 1993, 1994 and 1995 that she had a market stall in the Public market of Panabo, Davao. She admits that she never indicated such in her sworn statements.

As this Office had earlier stated in its Memorandum dated November 10, 1995 filed in connection with the instant complaint:

'Such non-disclosure is punishable with imprisonment not exceeding five (5) years, or a fine not exceeding five thousand (P5,000.00) pesos, or both. But even if no criminal prosecution is instituted against the offender, the offender can be dismissed from the service if the violation is proven. Respondent 201 file speaks for itself.

Furthermore, respondent should have divested herself of her interest in said business within sixty (60) days from assumption into (sic) office. She has not. The penalty for non-disclosure of business interests and non-divestment is the same.' (Citations omitted)

In her explanation, respondent maintains the position that she has no business interest, implicitly contending that there is nothing to divulge or divest from. As discussed above, respondent had a business interest. We do not find her administratively liable, however, for failure to divest herself of the said interest. The requirement for the public officers, in general, to divest themselves of business interest upon assumption of a public office is prompted by the need to avoid conflict of interests. In the absence of any showing that a business interest will result in a conflict of interest, divestment of the same is unnecessary. In the present case, it seems a bit far-fetched to imagine that there is a conflict of interest because an Interpreter III of the Regional Trial Court has a stall in the market. A court, generally, is not engaged in the regulation of a public

market, nor does it concern itself with the activities thereof. While respondent may not be compelled to divest herself of her business interest, she had the legal obligation of divulging it. (Narita Rabe vs. Delsa M. Flores, Interpreter III, RTC, Branch IV, Panabo, Davao, A.M. No. P-97-1247, 14 May 1997)

“The OMB did not accord weight to the Joint Affidavit submitted by petitioner. In said Affidavit, Vieto and Dean Racho, petitioner’s brothers, stated that they entrusted to the petitioner P1,390,000 and P1,950,000 respectively. On the other hand, petitioner’s nephew, Henry Racho, claimed that he delivered the amount of P1,400,000 to petitioner. These sums were purportedly their contribution as stockholders of Angelsons Lending and Investors, Inc. (Angelsons) and Nal Pay Phone Services (NPPS) – businesses managed by the spouses Racho. Ironically, Dean Racho was not listed as a stockholder of the lending company. Moreover, the articles of Incorporation of Angelsons reflected that Vieto, Henry and the spouses Racho individually paid only P12,500 of the subscribed shares of P50,000 each. Petitioner did not present proofs of succeeding contributions made and their amounts. Curiously, affiants allegedly tendered their additional contributions during family reunions. Neither did the affiants describe the extent of their interest in NPPS. Petitioner merely presented NPPS’ Certificate of Registration and Business Name secured by his wife Lourdes B. Racho. Yet, said certificate did not operate as a license to engage in any kind of business, much more a proof of its establishment and operation. Even assuming that said businesses exist, petitioner should have similarly reported his interest therein in his SALN.” (Nieto A. Racho vs. Hon. Primo C. Miro, in his capacity as Deputy Ombudsman for the Visayas, Hon. Virginia Palanca-Santiago, in her capacity as Ombudsman Director, and Hon. Antonio T. Echavez, in his capacity as Presiding Judge of the Regional Trial Court-Cebu City, Branch 8, G.R. Nos. 168578-79, 30 September 2008).

- 148 Webb vs. De Leon, G.R. No. 121234, 23 August 1995; Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.
- 149 Carabeo vs. Court of Appeals, et. al., G.R. Nos. 178000 and 178003, 4 December 2009 citing Ombudsman vs. Valeroso, G.R. No. 167828, 2 April 2007.
- 150 Albert vs. Gangan, G.R.No. 126557, 6 March 2001.
- 151 Montemayor vs. Bundalian, G.R. No. 149335, 1 July 2003.
- 152 6<sup>th</sup> Asian Organization of Supreme Audit Institutions (ASOSAI) Research Project , “IT Audit Guidelines”, September 2003.
- 153 IEC/ISO 31010, Edition 1.0, 2009-11, Risk Management – Risk Management Techniques.
- 154 United Nations Industrial Development Organization (UNIDO), “UNIDO Competencies”, 2002.
- 155 Montemayor vs. Bundalian, G.R. No. 149335, 1 July 2003.
- 156 Galario vs. Office of the Ombudsman, et. Al., G.R. No. 166797, 10 July 2007; Webb vs. De Leon, G.R. No. 121234, 23 August1995; and Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.
- 157 Albert vs. Gangan, G.R.No. 126557, 6 March 2001.
- 158 Cometa vs. Court of Appeals, G.R. No. 126005, 21 January 1999.
- 159 Sevilla vs. Cardenas, G.R. No. 167684, 31 July 2006.
- 160 Destreza vs. Plazo, G.R. No. 176863, 30 October 2009.
- 161 Section 1 of Administrative Order No. 70, s. 2003.
- 162 Section 38(1) Chapter 7, Book IV, the Administrative Code of 1987.
- 163 Galario vs. Office of the Ombudsman, et. Al., G.R. No. 166797, 10 July 2007; Webb vs. De Leon, G.R. No. 121234, 23 August1995; and Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.
- 164 Root Cause Analysis, Second Edition, Bjorn Anderson and Tom Fagerhaug p. 12.
- 165 Montemayor vs. Bundalian, G.R. No. 149335, 1 July 2003.
- 166 Item 8.5.2, Government Quality Management Systems Standards (GQMSS).
- 167 Item 8.5.2., Government Quality Management Systems Standards (GQMSS).
- 168 Section 124, PD 1445 “Government Auditing Code of the Philippines”, 11 June 1978.
- 169 Subtitle D (The Commission on Audit), Article IX (Constitutional Commission), 1987 Constitution.
- 170 Sec. 11, Chapter 4, Subtitle B (Commission on Audit), Book V, EO 292, “Administrative Code of 1987”, 25 July 1987.
- 171 Mamaril vs. Domingo, G.R. No. 100284, 13 October 1993.
- 172 Section 1, Chapter 1, Subtitle B – The Commission on Audit, Book V, EO 292 Administrative Code of 1987.
- 173 Section 32 and 33, Commission on Audit (COA) Circular No. 368-91 dated 19 December 1991, “Government Auditing Standards and Procedures and Internal Control System”.
- 174 Reinstating Selective Pre-Audit on Government Transactions, 18 May 2009.
- 175 Section 3, Chapter 1, Title XVII, Book IV, EO 292, “Administrative Code of 1987”, 25 July 1987.
- 176 Chapter 6, Book VI, EO 292, “Administrative Code of 1987”, 25 July 1987.
- 177 G.R.No.153266, 18 March 2010.
- 178 “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”.
- 179 “Section 6. Authority and Responsibility of the Secretary. – The authority and responsibility for the exercise of the mandate of the Department and for the discharge of its powers and functions shall be vested in the Secretary, who shall have supervision and control of the Department.” Chapter 2, Book IV, EO 292 “Administrative Code of 1987”.
- 180 Section 2 (2), Article IX –D Constitutional Commissions – The Commission on Audit, 1987 Philippine Constitution.

181 Section 10 (3), Chapter 4 – Jurisdiction, Powers and Functions of the Commission, Subtitle B – The  
Commission on Audit, Title I – Constitutional Commissions, Book V, EO 292 Administrative Code of 1987.  
182 Section 12 (3), Chapter 3 – Organization and Functions of the Civil Service Commission, Subtitle A – Civil  
Service Commission, Title I – Constitutional Commissions, Book V, EO 292.  
183 Section 2, Chapter 1 – General Provisions, Title XVII – Budget and Management, Book IV – The Executive  
Branch, EO 292 “Administrative Code of 1987”.  
184 Section 3, Chapter 1 – General Provisions, Title XVII – Budget and Management, Book IV – The Executive  
Branch, EO 292 “Administrative Code of 1987”.  
185 Section 3, Chapter 2 – Budget Policy and Approach, Book VI – National Government Budgeting, EO 292  
“Administrative Code of 1987”.  
186 Commission on Appointments vs. Celso M. Paler, G.R. No. 172623, March 3, 2010 citing Eastern  
Telecommunications Philippines, Inc. and Telecommunications Technologies, Inc. vs. International  
Communication Corporation, G.R.No. 135992, January 31, 2006.  
187 Eastern Telecommunications Philippines, Inc. and Telecommunications Technologies, Inc. vs. International  
Communication Corporation, G.R.No. 135992, January 31, 2006.  
188 G.R. No. 131392, February 6, 2002.  
189 G.R. No. 112399, July 14, 1995.  
190 City Government of Makati vs Civil Service Commission, G.R. No. 131392, February 6, 2002.  
191 G.R.No.153266, 18 March 2010.  
192 Section 12 (5), Chapter 3 – Organization and Functions of the Civil Service Commission, Subtitle A – Civil  
Service Commission, Title I – Constitutional Commissions, Book V, EO 292.  
193 Section 1(d), Rule II – Jurisdiction and Powers of the Commission on Audit, The 2009 Revised Rules of  
Procedure of the Commission on Audit.  
194 “Authority of the General Counsel/Director, Legal Office, this Commission to render legal opinion on legal  
issues and queries elevated by management of auditee-agencies, heads of COA offices and heads of  
auditing units”, February 7, 1996.  
195 “Section 11. *The Legal Office*. The Legal Office shall be charged with the following responsibilities: 1. Perform  
advisory and consultative functions and render legal services with respect to the performance of the functions  
of the Commission and the interpretation of pertinent laws and auditing rules and regulations; x x x .”  
196 Government Auditing Code of the Philippines, June 11, 1978.  
197 “Section 7. Central Offices. – The Commission shall have the following central offices: x x x (7) The Legal  
Office shall be headed by a General Counsel with the rank and privileges of a director and which shall  
perform the following functions: (a) Perform advisory and consultative functions and render legal services with  
respect to the performance of the functions of the Commission and the interpretation of the pertinent laws and  
regulations; x x x.”  
198 “Authority of the General Counsel/Director, Legal Office, this Commission to render legal opinion on legal  
issues and queries elevated by management of auditee-agencies, heads of COA offices and heads of  
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199 6<sup>th</sup> Asian Organization of Supreme Audit Institutions (ASOSAI) Research Project , “IT Audit Guidelines”,  
September 2003.  
200 Black’s Law Dictionary, 6<sup>th</sup> Edition, (1891-1991) citing Midtown Properties, Inc. v. George Richardson, Inc.  
139 Ga.App. 182, 228 S.E.2d 303, 307 and Balfour v. State, Ind. 427 N.E.2d 1091, 1094.  
201 Air France vs. Carrasco, G.R. No. L-1438, 28 September 1966.  
202 Galario vs. Office of the Ombudsman, et. Al., G.R. No. 166797, 10 July 2007; Webb vs. De Leon, G.R. No.  
121234, 23 August 1995; and Boiser vs. People of the Philippines, G.R. No. 180299, 31 January 2008.  
203 Sixth Edition (1990), Black’s Law Dictionary, p. 290.  
204 Sec. 8, Ch. 3, Title V (DPWH), Bk. IV, EO 292, The “Administrative Code 1987” and Sec. 123, PD 1445  
“Government Auditing Code of the Philippines”.  
205 CSC MC No. 12, s. 2003, “Revised Policies on Qualification Standards”.  
206 ISO 31000:2009, Risk management-Principles and guidelines.