

**Administrative Order  
No. 24  
April 27, 1993**

**SUBJECT : Organization and Implementation of the  
Internal Audit Service**

Pursuant to Administrative Order No. 278 of the Office of the President dated 28 April 1992, and in order to promote an effective fiscal administration and performance of agency affairs and operations, this Order is hereby issued promulgating the organization and implementation of the Internal Audit Service.

**Section 1. Basic Policy.**

It shall be the policy of the Internal Audit Service, or IAS as hereafter shall be called, to render objective and constructive internal audit findings and recommendations through the identification and detection of fraud, irregularities or weaknesses in controls, so as to ensure an effective and adequate system of agency internal controls and quality of performance, promote compliance to government policies, practices and rules, and assure accomplishment of agency goals and objectives.

**Section 2. Objective.**

The overall objective of internal audit is to assist all members of management in the effective discharge of their responsibilities by furnishing them with objective analyses, appraisals, recommendations and pertinent comments concerning the financial, administrative and technical operations under review or study.

The protective and constructive measures shall be adopted to insure attainment of this objective. The adoption of protective measure, which is designed to protect the agency's resources, will result to the disclosure of deficiencies in control. Constructive measures, on the other hand, further the interest of the agency through recommendations of improvements on operations.

**Section 3. Definition of Terms.**

3.1 **Internal Control** - is the plan of organization and all the coordinate methods and measures adopted within an agency to safeguard its assets, check the accuracy and reliability of accounting data and encourage adherence to prescribed managerial policies.

3.2 **Internal Audit** - an independent appraisal activity conducted within the agency for the review of operations to assist management in the administration of its affairs.

Internal audit is the "control of controls". It is a managerial control that measures and evaluates the effectiveness of other controls and all phases of agency operations.

3.3 **Pre-audit** - is more of a checking operation rather than actual audit. It checks actions or transactions before they are consummated or paid.

3.4 **External audit (COA)** - primarily concerned with the fairness of financial statements.

#### **Section 4. Scope of Work**

Internal audit shall cover all phases of activities in an agency pertaining to financial, operations and administrative matters. Further, it encompasses the examination of evaluation of the adequacy and effectiveness of established internal controls and the agency's quality of performance. However, management shall provide the general direction of the scope of audit work and activities to be audited.

Internal audit shall be detached from all other routine operations such as the pre-audit of vouchers, inspection of deliveries (internal audit personnel may, however, observe inspection), preparation of treasury and bank reconciliation statements, development of systems and procedures and other activities related to operations.

#### **Section 5. Authority and Responsibility.**

The IAS shall perform advisory or staff functions for management and, hence, shall have no direct authority, responsibility, participation or pre-action approval of operations.

The IAS is authorized to have full access to and examine or inspect all records, vouchers, files, property and personnel of the activity under study. It shall be free to review and appraise procedures regulations, policies and plans of the agency.

The responsibility of informing and advising management on internal audit matters must be discharged consistent with the Code of Ethics of the Institute of Internal Auditors. Moreover, internal audit activities should be coordinated with other organization units, government offices and non-government organizations (NGOs) to achieve the IAS and agency's objectives.

## **Section 6. Functions of the Internal Audit Service.**

### **6.1. General Functions**

#### **6.1.1 Examination of Control Procedures to Determine their Adequacy and Propriety**

The purpose of reviewing the adequacy and effectiveness of the system of internal control is to ascertain whether the system is functioning as intended and whether the agency's objectives and goals are efficiently and economically achieved.

The examination shall therefore be directed towards the exposure of any fraud, irregularity or wasteful practices so as to prevent or minimize repetitions of such offenses.

#### **6.1.2 Verification of the Reliability and Integrity of Information**

The Agency's information system shall be examined and appraised in order to determine whether financial and operating records and reports contain accurate, reliable and useful information, and whether record-keeping and reporting controls are effective and adequate.

#### **6.1.3 Review of Compliance with Existing Policies, Regulations, Plans and Procedures**

The review of systems shall be undertaken to ensure agency's compliance with policies, plans, procedures and government rules and regulations which could have significant impact on operations and reports.

#### **6.1.4 Review of Means of Safeguarding Assets**

In internal control measures of safeguarding assets and the verification of the existence of such assets should be conducted to prevent possible losses or wastage of the assets, which may result from theft, improper or illegal activities, or mismanagement.

### **6.1.5 Appraisal of Quality of Performance**

The IAS shall inform top management of the quality of performance of both organizational units and individual employees to determine if work is efficiently and economically performed, and if results are productive.

### **6.1.6 Review of Established Objectives and Goals for Operations or Programs**

The Agency operations or programs shall be reviewed to ascertain whether results are consistent with established objectives and goals, whether the programs are implemented as planned, and whether such objectives conform to the agency's goals, in general.

### **6.1.7 Special Assignments**

Management may assign special work or tasks to the IAS, as necessary, such as special studies on any phase of management activity, character examination, investigation work, management representations in negotiations and many others.

## **6.2 Specific Functions of the IAS and Its Divisions**

### **6.2.1 Office of the Internal Audit Service (IAS) Director**

6.2.1.1 Plan and direct the activities and Annual Work Program of the Internal Audit Service consonant to its mandated objectives and functions, and the Department's goals and thrusts, in general.

6.2.1.2 Oversee the operations of the different organizational units of the Service.

6.2.1.3 Formulate and recommend financial, administrative, operations and special/program audit policies, guidelines, systems and procedures.

6.2.1.4 Inform and advice top management regarding internal audit matters and strengthening of the established Department's internal control measures.

- 6.2.1.5 Coordinate and monitor internal audit activities with concerned Non-Government Organizations (NGOs) and other government offices to complement and achieve audit objectives as well as the Department's goals.
- 6.2.1.6 Implement and strengthen the Internal Audit System.
- 6.2.1.7 Coordinate and monitor the activities and functions of the Internal Audit Divisions of Staff Bureaus and Regional Offices.
- 6.2.1.8 Perform other related functions as may be assigned by the Secretary or as required by law.

## 6.2.2 Financial Audit Division

- 6.2.2.1 In coordination with the Administrative, Operations and Special/Program Audit Divisions, conduct performance audit of the Department's organizational units to determine overall managerial effectiveness and efficiency in the delivery of service.
- 6.2.2.2 Conduct financial audit of the Department's income, expenditures, payrolls, books of accounts, financial reports, vouchers and other relevant files of the agency to determine the degree of compliance with established objectives, policies, rules and regulations.
- 6.2.2.3 Review and analyze financial statements/reports of the Department's organizational units, projects/programs and field offices to ascertain the reliability and usefulness of accounting, financial and statistical data/information.
- 6.2.2.4 Recommend improvements or corrective actions on operational deficiencies pertaining to financial matters.
- 6.2.2.5 Appraise the effectiveness or economy with which money, manpower, property and other agency assets are utilized.
- 6.2.2.6 Formulate, implement and improve financial audit policies, guidelines, systems and procedures of the division.

- 6.2.2.7 Develop and implement performance indicators and standards of the division related to financial audit.
- 6.2.2.8 Coordinate and monitor the Internal Audit Divisions of the Staff Bureaus, Regional Offices in the performance of internal audit functions and responsibilities pertaining to financial matters, as well as the submission of audit reports.
- 6.2.2.9 Perform other related functions as may be assigned by the Secretary or as required by law.

### **6.2.3 Operations Audit Division**

- 6.2.3.1 In coordination with the Administrative, Financial and Special/Program Audit Divisions, conduct performance audit of the Department's organizational units to determine overall managerial effectiveness and efficiency in the delivery of services.
- 6.2.3.2 Conduct operations audit of the Department's offices/units and field offices to appraise standards of performance and ascertain whether the Department/field offices have achieved the goals and objectives.
- 6.2.3.3 Review Work Plans, Accomplishment and Status Reports of field offices and Department organizational units to determine whether results are consistent with established objectives and goals, and whether the programs are implemented as planned.
- 6.2.3.4 Review and appraise the operations of field offices and the Department's organizational units to determine the extent of compliance with established policies, plans and regulations.
- 6.2.3.5 Recommend improvements or corrective actions on operational deficiencies as noted in field audits of Staff Bureaus and Regional Offices, as well as audit of the Department Proper's operations.
- 6.2.3.6 Formulate, implement and improve operations audit policies, guidelines, systems and procedures of the division.

- 6.2.3.7 Develop and implement performance indicators and standards of the division related to operations audit.
- 6.2.3.8 Coordinate and monitor the Internal Audit Divisions of the Staff Bureaus and Regional Offices in the performance of internal audit functions and responsibilities pertaining to technical operations matters, as well as the submission of audit reports.
- 6.2.3.9 Perform other related functions as may be assigned by the Secretary or as required by law.

**6.2.4 Administrative Audit Division**

- 6.2.4.1 In coordination with the Financial, Operations and Special/Program Audit Divisions, conduct performance audit of the Department's organizational units to determine overall managerial effectiveness and efficiency in the delivery of services.
- 6.2.4.2 Conduct, administrative audit of the Department's operations and determine the degree of compliance with established objectives, policies, rules and regulations.
- 6.2.4.3 Review and appraise systems and procedures, property, records and human resources management policies and practices, standards and methods of control, performance rating and evaluation, work processes and agency's organizational structure.
- 6.2.4.4 Recommend improvements or corrective actions on operational deficiencies pertaining to administrative matters.
- 6.2.4.5 Develop, install and improve the Internal Audit System to strengthen the Department's control measures.
- 6.2.4.6 As part of the administrative audit, document unwritten existing systems, procedures and practices of an office/unit under study.

6.2.4.7 Formulate, implement and improve **administrative audit** policies, guidelines, systems and procedures of the division.

6.2.4.8 Develop and implement performance indicators and standards of the division related to administrative audit.

6.2.4.8 Coordinate and monitor the Internal Audit Divisions of the Staff Bureaus and Regional Offices in the performance of internal audit functions and responsibilities pertaining to technical operations matters, as well as the submission of audit reports.

6.2.4.9 Perform other related functions as may be assigned by the Secretary or as required by law.

#### 6.2.5 **Special/Program Audit Division**

6.2.5.1 In coordination with the Administrative, Financial, Operations Audit Divisions, conduct performance audit of the Department's organizational units to determine overall managerial effectiveness and efficiency in the delivery of services.

6.2.5.2 Conduct, special/program audit of the Department's foreign-assisted, locally funded and inter-agency programs/ projects to appraise standards of performance and ascertain whether the projects have achieved the goals and objectives.

6.2.5.3 Review Work Plans, Accomplishments and Status Reports of all Department programs and projects to determine whether results are consistent with established objectives and goals, and whether the programs are implemented as planned.

6.2.5.4 Recommend improvements or corrective actions on operational deficiencies, deviations or variances from the programs/projects targets and objectives.

6.2.5.5 Conduct studies on any phase of management activity, survey work and special assignments as may be instructed by the Secretary.



- 6.2.5.6 Formulate, implement and improve **special/program audit** policies, guidelines, systems and procedures of the division.
- 6.2.5.7 Develop and implement performance indicators and standards of the division related to special/program audit.
- 6.2.5.8 Coordinate and monitor the Internal Audit Divisions of the Staff Bureaus and Regional Offices in the performance of internal audit functions and responsibilities pertaining to technical operations matters, as well as the submission of audit reports.
- 6.2.5.9 Perform other related functions as may be assigned by the Secretary or as required by law.

## **Section 7. Position of the Internal Audit Service in the Department**

In order to assure and uphold the independence of the internal audit staff and render objective and impartial reports, the IAS shall be placed under the direct administrative supervision and control of the Department Secretary.

Inasmuch as the Director of the IAS is responsible for instituting and conducting a program of internal audit for the agency and shall directly report to the Secretary, he shall be given the rank and salary equivalent to the third ranking official of the Agency.

## **Section 8. Organizational Structure**

The IAS shall be installed in the Department Proper equipped with powers, authority and responsibilities mandated by management as stated in the preceding provisions, It shall monitor the activities of the Internal Audit Divisions installed in the Staff Bureaus and Regional Offices.

There shall be four Divisions under the IAS:

1. Financial Audit Division
2. Operations Audit Division
3. Administrative Audit Division
4. Special/Program Audit Division

The Organization Structure of the IAS in the Department Proper, Staff Bureaus, Regional Offices are illustrated in Annex A.

### **Section 9. Staffing**

The IAS shall be composed initially of personnel deployed from other units/offices of the Agency. These personnel shall be the core group that will organize implement the IAS, prepare its Work and Financial Plans and develop the Agency's internal audit program. Upon approval of its budgetary requirements, other personnel multi-disciplinary fields and from within the Agency shall be assigned to occupy the approved position titles, as recommended by the IAS Director, and perform the corresponding internal audit functions.

The proposed position titles, salary grades and rates of personnel listed below are subject for review and approval of the AGIA and DBM:

| POSITION TITLE                  | SALARY GRADE | SALARY RATE |
|---------------------------------|--------------|-------------|
| Director IV                     | 28           | 182,160.00  |
| Secretary II                    | 9            | 35,004.00   |
| Clerk III                       | 6            | 29,676.00   |
| Internal Audit Specialist V     | 25           | 136,620.00  |
| Internal Audit Specialist IV    | 23           | 109,572.00  |
| Internal Audit Specialist III   | 19           | 74,388.00   |
| Internal Audit Specialist II    | 16           | 57,432.00   |
| Internal Audit Specialist I     | 14           | 49,892.00   |
| Operations Audit Specialist V   | 25           | 136,620.00  |
| Operations Audit Specialist IV  | 23           | 109,572.00  |
| Operations Audit Specialist III | 19           | 74,388.00   |
| Operations Audit Specialist II  | 16           | 57,432.00   |
| Operations Audit Specialist I   | 14           | 49,892.00   |
| Management Audit Specialist V   | 25           | 136,620.00  |
| Management Audit Specialist IV  | 23           | 109,572.00  |
| Management Audit Specialist III | 19           | 74,388.00   |
| Management Audit Specialist II  | 16           | 57,432.00   |
| Management Audit Specialist I   | 14           | 49,892.00   |
| Program Audit Specialist V      | 25           | 136,620.00  |
| Program Audit Specialist IV     | 23           | 109,572.00  |

|                              |    |           |
|------------------------------|----|-----------|
| Program Audit Specialist III | 19 | 74,388.00 |
| Program Audit Specialist II  | 16 | 57,432.00 |
| Program Audit Specialist I   | 14 | 49,892.00 |

**Section 10. Training**

In consonance with the provisions of Administrative Order No. 278 and in order to maintain the proficiency of the internal audit staff, all personnel shall be authorized to acquire continuing education through membership and participation in professional societies, attendance in conferences, seminars, college courses, and in-house training programs, and participation in research projects. Both local and foreign scholarship grants may be tapped to update audit personnel of improvements and current developments in internal audit standards, procedures and techniques.

**Section 11. Appropriations and Funding**

The funding/amount of appropriation for the annual operating expenses of the IAS, including the salaries, allowances and other emoluments of all its officials and employees in the Department Proper, Staff Bureaus and Regional Offices shall be included in the Annual General Appropriations Law/Act. The usage of these funds shall be governed by the General appropriations Act and other budget laws.

**Section 12. Repealing Clause**

All Orders, Circulars and official instructions, or part thereof, which are inconsistent with the provisions of this Order are hereby repealed.

**Section 13. Effectivity**

This Order shall take effect immediately.

**Recommending Approval:**

**ANGEL C. ALCALA**  
Secretary

**MANUEL E. GONZALEZ, JR.**  
Assistant Secretary  
for Management Services