



REPUBLIC OF THE PHILIPPINES

Department of Budget and Management

Building I, General Solano Street, San Miguel, Manila

BUDGET CIRCULAR

No. 2004 - 4

March 22, 2004

TO : HEADS OF DEPARTMENTS, BUREAUS, OFFICES, AND AGENCIES OF THE NATIONAL GOVERNMENT; STATE UNIVERSITIES AND COLLEGES (SUCs); GOVERNMENT-OWNED AND/OR -CONTROLLED CORPORATIONS (GOCCs); GOVERNMENT FINANCIAL INSTITUTIONS (GFIs); CHIEF EXECUTIVES OF LOCAL GOVERNMENT UNITS (LGUs); AND ALL OTHERS CONCERNED

SUBJECT : GUIDELINES ON THE ORGANIZATION AND STAFFING OF INTERNAL AUDITING UNITS (IAUs)

1.0 Background

Under Republic Act (RA) No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, there shall be created, organized and operated in all government agencies an Internal Audit Service (IAS) which shall assist management to achieve efficient and effective fiscal administration and performance of agency affairs and functions. It shall be under the direct administrative supervision and control of the head and/or assistant head of the agency; organized as an independent staff unit to perform staff functions and to institute and conduct a program of internal audit for the agency. The chief of the IAS shall have the rank and salary equivalent to the third ranking official of the agency and shall report directly to the head or assistant head of the agency.

Pursuant to Item 3, Article IV, Chapter I, Part V of Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), the IAS and the Management Division in departments were merged into a Management Division under the Financial and Management Service. Thus, different levels of Management and Audit Analyst classes of positions were created for the purpose

to perform a) management systems review (to include staffing, manpower, and work methods and procedures review), and b) review of internal control systems for safeguarding money and property to ascertain weakness and deficiencies that need to be corrected.

Under Section 2, Article IX-D of the 1987 Philippine Constitution, the Commission on Audit (COA) may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies if the internal control system of the audited agencies is inadequate.

On March 29, 1989, Administrative Order (AO) No. 119 was issued, mandating government entities to strengthen its internal control systems and/or organize systems and procedures to that effect in coordination with the Department of Budget and Management (DBM).

COA issued Circular No. 91-368 to institute the Government Accounting and Auditing Manual (GAAM). Section 33, Volume III of the GAAM states that the Internal Audit Office shall be part of the internal control system of an agency. In addition, Section 55 thereof provides that the responsibility of the agency head to maintain the system of internal control may be delegated to an internal audit department or office.

AO No. 278 was issued on April 28, 1992 to provide that all heads of government offices, agencies, GOCCs, including GFIs and LGUs, shall organize the IAS in their respective offices, which shall be an integral part of the office/organization and shall assist the institution management in the effective discharge of its responsibilities insofar as the same would not encroach on or be adversarial with those of the auditors of the COA.

On April 14, 2003, AO No. 70 was issued mandating all heads of government agencies, GOCCs, GFIs, SUCs and LGUs to immediately organize an IAS in their respective offices, which shall function in accordance with the policies established by the provisions of RA No. 3456, as amended by RA No. 4177.

To staff the IAS, AO No. 70 provides, among others: a) that the present organizational structure and personnel complement of agencies shall be reviewed by their heads and that the existing vacant and/or parallel positions of incumbents in the agency shall be converted as necessary for the creation/strengthening of the IAS, b) that all incumbent Internal Auditors and those performing internal audit functions under AO No. 278 shall continue to perform internal audit functions, and c) that their positions shall be classified to Internal Auditor positions.

2.0 Purpose

This Circular is being issued to provide guidelines on the organization and staffing of IAUs consistent with the foregoing Issuances.

3.0 Coverage

This Circular shall apply to all national government agencies (NGAs), SUCs, GOCCs, GFIs and LGUs which shall hereinafter be referred to as government entities, and to all positions performing internal audit functions.

4.0 Policy Guidelines

4.1 On the Organization and Staffing of an IAU

4.1.1 The organization and staffing of an IAU shall consider the following internal audit functions:

- 4.1.1.1 Appraisal of procedures and related matters, including expressing an opinion as to the efficiency or adequacy of existing procedures; and appraising personnel efficiency.
- 4.1.1.2 Verification and analysis of financial and operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid.
- 4.1.1.3 Activities verifying the extent of compliance. This may involve determining that accounting procedures or other policies are being followed; operating procedures are being properly implemented; governmental regulations are being complied with; performance targets are being achieved; and other contractual obligations are being met.
- 4.1.1.4 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.
- 4.1.1.5 Miscellaneous services, including special investigations and assistance to outside contacts such as the COA.

4.1.2 Based on the foregoing functions, internal audits of government entities shall consist of operations audit and financial audit. The

determination of the effectiveness and adequacy of security and management controls over information systems and databases and their integrity are deemed part of operations audit and financial audit.

4.1.3 A government entity may organize and staff its IAU as follows:

4.1.3.1 NGAs, GOCCs and GFIs

Government Entity	Organizational Structure and Head of the IAU
Department level entity	The IAU in a department shall be an Internal Audit Service. For department level entities, the internal audit organization shall depend on the subdivision of the entity's support staff units. The IAU head shall be classified same as those of the heads of the entity's support staff units. The IAU shall have up to two divisions on operations audit and financial audit. Each division shall be headed by an Internal Auditor V, SG-24.
Intermediate level entity (higher than a bureau but lower than a department) such as councils, commissions and boards whose operation cut across several offices or even departments.	The IAU may be a branch, department or office, depending on the subdivision of the entity's support staff units. Its head shall be classified same as those of the heads of the entity's support staff units. The IAU shall have two divisions on operations audit and financial audit. Each division shall be headed by an Internal Auditor V, SG-24.
Bureau level entity	The IAU shall be an Internal Audit Division to be headed by an Internal Auditor V, SG-24.

4.1.3.2 LGUs

LGU	Organizational Structure and Head of the IAU
Provincial Government	The IAU in a provincial government may be a department to be headed by a Provincial Government Department Head, SG-26. It may have two units/groups on operations

LGU	Organizational Structure and Head of the IAU
	audit and financial audit. The head of each group shall be classified in accordance with Local Budget Circular (LBC) No. 53 dated September 1, 1993.
<p>City Government</p> <p><i>Special City</i></p> <p><i>Highly Urbanized City</i></p> <p><i>Component City</i></p>	<p>The IAU in a special city may be a department to be headed by a City Government Department Head III, SG-27.</p> <p>The IAU in a highly urbanized city may be a department to be headed by a City Government Department Head II, SG-26</p> <p>The IAU in a component city may be a department to be headed by a City Government Department Head I, SG-25.</p> <p>The IAU in a city government may have two units/groups on operations audit and financial audit. The head of each group shall be classified in accordance with LBC No. 53.</p>
<p>Municipal Government</p> <p><i>within Metro Manila</i></p> <p><i>outside Metro Manila</i></p>	<p>The IAU in a municipal government within Metro Manila may be a department to be headed by a Municipal Government Department Head II, SG-25.</p> <p>The IAU in a municipal government outside Metro Manila may be a department to be headed by a Municipal Government Department Head I, SG-24.</p> <p>The IAU in a municipal government, within or outside Metro Manila, may have two units/groups on operations audit and financial audit. The head of each group shall be classified in accordance with LBC No. 53.</p>

SUC (In accordance with DBM and Commission on Higher Education Joint Circular No. 1-A, s. 2003)	Organizational Structure and Head of the IAU
Level I SUC Level II SUC	The IAU in a Level I or II SUC shall be a staff under the Office of the SUC President to be headed by an Internal Auditor III, SG-18.
Level IIIA SUC Level IIIB SUC Level IV SUC	The IAU in a Level IIIA, IIIB or IV SUC shall be an Internal Audit Division headed by an Internal Auditor V, SG-24.

4.1.4 Government entities shall determine the adequate staffing for their IAUs.

4.1.5 The Internal Auditor positions and the positions to assist them may be sourced through the redeployment and reallocation of filled positions from within the government entity and/or through the transfer and conversion of vacant positions.

4.2 On the Allocation/Reallocation of Positions to the Internal Auditing Assistant or Internal Auditor Classes

4.2.1 The allocation/reallocation of positions to the Internal Auditing Assistant or Internal Auditor classes shall be based on the duties and responsibilities listed in Annex A.

4.2.2 If both the technical and administrative support positions in a government entity are allocated to the various levels of a class specific to the government entity, the same may opt not to submit the positions for reallocation.

4.3 Salary Rules

4.3.1 An employee whose position is reallocated to a position title/class with the same salary grade shall be paid his present salary rate.

4.3.2 If reallocated to a position title/class with a higher salary grade, the salary rule on promotion shall apply as contained in ANNEX C of National Budget Circular No. 458 dated January 1, 1997 and Annex "C" of Local Budget Circular No. 64 dated January 22, 1997.

4.3.3 If reallocated to a position with a lower salary grade, the employee shall be paid his present salary.

4.4 On the Functions of Any Management Division/Unit of a Government Entity

The review of the Internal control systems of a government entity shall no longer be part of the functions of its Management Division/Unit, which shall now be made responsible for the conduct of studies, surveys, and reviews for the development of new and improved management systems, including staffing standards, manpower requirements, and work methods and procedures.

5.0 Procedural Guidelines

5.1 On the Organization and Staffing of an IAU and Allocation/Reallocation of Positions to Internal Auditing Assistant or Internal Auditor Classes

5.1.1 NGAs, SUCs, GOCCs and GFIs shall submit their proposals for the organization of their respective IAUs to the appropriate Budget and Management Bureau and Regional Office of the DBM. The following documents should be attached to the request:

- Proposed functions of the organizational units;
- Proposed staffing;
- Proposed work load per position;
- Duly accomplished Position Description Forms;
- Functional charts and position charts showing the hierarchy of positions in the units where the positions are to be deployed; and
- Item number of filled positions to be transferred and of vacant positions to be abolished.

5.1.2 The DBM Offices concerned shall evaluate the proposals based on the documents submitted and shall cause the issuance of a Notice

of Organization, Staffing and Compensation Action (NOSCA) with remarks to include, among others, the funding source and the new or revised P/A/P structure for the purpose.

- 5.1.3 Upon receipt of the approved NOSCA, government entities shall cause the preparation of the appointment papers of the employees concerned, subject to Civil Service laws, rules and regulations.
- 5.1.4 The approved appointments shall be the bases for payment of salary adjustments, if there are any.
- 5.1.5 LGUs may adopt staffing modifications for their IAUs in accordance with the pertinent provisions of this Circular and LBC No. 53. The staffing modifications shall be subject to the approval of the Sanggunian concerned and the personal services cost limitation contained in Section 325 (a), RA No. 7160 (Local Government Code of 1991), and LBC No. 75.

6.0 Funding Source

- 6.1 The funding source for the amounts necessary to implement initially the provisions of this Circular shall be as follows:
 - 6.1.1 For NGAs and SUCs, the amount shall be charged against the appropriations for transferred and vacated/vacant positions;
 - 6.1.2 For GOCCs and GFIs, the amount shall be charged against the corporate budget for transferred and vacated/vacant positions; and
 - 6.1.3 For LGUs, the amount shall be charged against their respective local funds, subject to the personal services limitation under Section 325 (a), RA No. 7160. Said amount shall be provided for in appropriation ordinances to be enacted by the Sanggunians concerned.
- 6.2 Thereafter, such amounts as may be necessary for the continued implementation of this Circular shall be incorporated in the annual budgets of the agencies concerned.

7.0 Responsibility of the Head of a Government Entity

The Head of a government entity shall be held responsible for the submission of the required documents. He shall also be held personally liable for any payment of salary adjustment not in accordance with the provisions of this Circular,

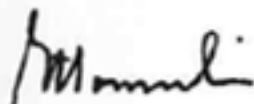
of salary adjustment not in accordance with the provisions of this Circular, without prejudice to the refund of any excess payment received by the employee concerned.

8.0 Saving Clause

Cases not covered by the provisions of this Circular shall be submitted to the Secretary of Budget and Management for resolution.

9.0 Effectivity

The allocation/reallocation of positions authorized under this Circular shall take effect not earlier than the date of approval and not earlier than the availability of savings/appropriation for the purpose.



EMILIA T. BONCODIN
Secretary

Class Identification	Position Title and Salary Grade	Duties and Responsibilities
IAAS	Internal Auditing Assistant, SG-8	Under Immediate supervision, assists internal auditors in the conduct of financial and/or operations audit; and does related work.
IAUD1	Internal Auditor I, SG-11	Under general supervision, conducts researches to obtain background information on the activities to be audited to determine the impact on the audit, the resources necessary to perform the audit, and possible risks associated with the audit; discusses research findings with the leader of the auditing team; performs simple financial and/or operations auditing work; drafts report on the results of the audit completed; discusses audit results with auditee/s before the draft of the report is finalized; makes appropriate recommendations based on the results of the audit; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; and does related work.
IAUD2	Internal Auditor II, SG-15	Under general supervision, drafts audit plans for review of immediate supervisor; discusses internal audit scope and objectives with affected agency personnel prior to conduct of audit; performs difficult financial and/or operations auditing work; drafts report on the results of the audit completed; discusses audit results with auditee/s before the draft of the report is finalized; makes appropriate recommendations based on the results of the audit; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; and does related work.
IAUD3	Internal Auditor III, SG-18	Under general supervision, reviews agency organizational structure, staffing, administrative systems and procedures and other relevant information to determine its internal audit needs and objectives; assigns and clarifies work assignments of members of audit team; discusses internal audit scope and objectives with affected agency personnel prior to conduct of audit; leads an internal audit team in the conduct of financial and/or operations audit; reviews findings and recommendations of audit team for completeness and conformance to audit plan, standards and guidelines; drafts the consolidated internal audit

		report; discusses audit results with auditee/s before the draft of the report is finalized; follows-up actions to determine if audit recommendations have been carried out or not and to inquire for the reasons for non-implementation; conducts investigations of anomalies discovered in audits and submits reports and recommendations on investigations completed; conducts special audits as assigned; and does related work.
IAUD4	Internal Auditor IV, SG-22	Under direction, assists in supervising a division tasked with internal audit functions; reviews internal audit plans; discusses the internal audit plans with the concerned internal audit staff; advises staff on need for changes in scope, objectives, audit procedures and how to resolve audit issues encountered; reviews status report of audit being conducted; reviews written internal audit reports; trains new internal auditors; rates performance of audit staff; and does related work.
IAUD5	Internal Auditor V, SG-24	Under direction, supervises a division tasked with internal audit functions; establishes the annual goals, objectives and performance targets of the internal auditing unit with the concurrence of concerned agency officials; establishes internal auditing standards, guidelines and procedures for the guidance of the internal audit staff; determines the extent of coordination with the Commission on Audit Auditors to avoid duplication of audit effort; does final review of internal audit plans; recommends approval of internal audit plans; reviews and approves the internal audit report; reviews and approves recommendations for enhancement of the internal audit functions; determines training needs of internal audit staff; responsible for work performance and discipline of audit staff; and does related work.