

MEMORANDUM CIRCULAR

No. 31
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SUBJECT: ENHANCING MEMORANDUM CIRCULAR NO. 7, S. 2004, AS AMENDED, AND ESTABLISHING THE INTERNAL AUDIT SERVICE (IAS) CONCEPTUAL FRAMEWORK

A. The legal framework of the DSWD-IAS is hereby updated to include Memorandum Circular (MC) No. 89, "REITERATING COMPLIANCE WITH A.O. 70, S. 2003 'STRENGTHENING OF THE INTERNAL CONTROL SYSTEM OF THE GOVERNMENT OFFICES, AGENCIES, GOVERNMENT-OWNED AND/OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS, STATE UNIVERSITIES AND COLLEGES AND LOCAL GOVERNMENT UNITS' AND ITS IMPLEMENTING GUIDELINES UNDER DBM BUDGET CIRCULAR NO. 2004-4." MC No. 89 was signed, by the Executive Secretary, Hon. Eduardo R. Ermita, on 18 August 2005, by the authority given to him by the President of the Republic of the Philippines.

B. Section "IV. Terms of Reference, Par. B. Scope of Work" is hereby amended to establish the following policy statement:

"The IAS shall takes cognizance of the national government's developmental efforts as outlined in the Organizational Performance Indicator Framework (OPIF), which was further concretized by the Department's through its Major Final Outputs (MFOs) designed to achieve the societal outcome of a 'reduced poverty incidence and an improved quality of life.' In line with this, therefore, the IAS shall undertake to assist Management in monitoring and assessing the various interrelated strategies and mechanisms that it will be implementing, involving both internal to its operations and external with its partners and beneficiaries, and providing relevant reports thereof."

C. Section "IV, Par. C. Functions, Item No. 12" shall be further amended to now read as:

"12. On special concerns and as may be directed and identified by the Secretary, IAS may conduct Department-wide review of operations, including that of its attached agencies. In such cases, the internal auditors in the FOs, designated or otherwise, and/or the expert/s from other bureaus/services and even in the attached agencies, subject to pertinent civil service rules and regulations, may be pulled-out from their respective posts to be part of a bigger or a special audit team. For this purpose, a coordination mechanism between the IAS Director and the

Regional Directors shall be established with the assistance of the Undersecretary in charge of OCBG.

The IAS-CO may likewise conduct quality assurance reviews on the performance of the internal audit function by the DSWD attached agencies and/or its FOs as may be deemed necessary and approved by the Secretary.”

D. Section “V. Institutional Arrangements” of MC No. 7, S. 2004, as amended by MC No. 13, S. 2004, shall hereby be amended as follows:

From:

“The IAS shall maintain its presence at the Field Offices through the Management and Audit Analysts (MAAs) therein, who shall be under its technical supervision. Administrative supervision of the MAAs, however, shall remain with the Regional Director. x x x”

To:

“The IAS is an independent appraisal and advisory office in the DSWD-Central Office which is to be replicated in its attached agencies, as may be allowed by law, and to its Field Offices (FOs). These units, *i.e.* IAS in the CO, attached agencies and FOs, shall be independent from each other, however, subject to the inherent oversight function of the Secretary and the IAS, as provided under existing laws, rules and regulations, including this MC.

The IAS-CO shall be under the direct administrative control and supervision of the DSWD Secretary, through the Internal Audit Advisory Committee (IAAC), whereas, that of the attached agencies and the FOs shall report to their respective heads of agencies or offices.

A separately constituted body, the IAAC, which is an advisory and recommendatory body to the Secretary for IAS concerns, shall be composed by the Undersecretaries of the three (3) clusters/groups, *i.e.* GASSG, OCBG, and PPG, the OSEC-HEA and the IAS-Director. More particularly, the IAAC shall have the following functions:

a. Provide policy directions for the conduct of internal audit programs and activities as may be approved by the Secretary;

b. Recommend internal audit agenda for the Secretary’s approval;

c. Review the over-all conduct and results of internal programs and activities;

d. Recommend policy and program measures to the EXECOM based on the results of internal audit programs and activities; and

e. Assist in the creation of composite audit team.

Although the audit agenda is primarily presented to the IAAC, the performance, reports and concerns are dealt with directly by the Secretary through the HEA.

The institutional arrangement chart/structure for the IAS is hereto appended as *Attachment "A."*

The personnel complement of the IAS shall depend upon the size of the office that it shall serve taking into account the volume of transactions of the office and complexity of its operations.

The relationship between the IAS-CO and their counterpart units in the attached agencies and the FOs shall be on a technical assistance, coordination and consultation levels only. These coordinative efforts shall have for its primary purpose the achievement of uniform working standards, policies and procedures in the conduct of internal auditing.

E. CONCEPTUAL FRAMEWORK OF IAS

1. The Internal Audit Framework (please see Attachment "B") provides the functional structure and the operationalization of IAS vis-à-vis the different Bureaus, Services and Offices within the Department. This operating/functional structure depicts the monitor/advisory role of IAS to both the line staff and support groups within the Department's organizational structure towards the pursuit of the its goals and objectives.

2. The IAS shall focus its efforts and resources at assisting Management achieve fiscal discipline and place priority attention at high impact programs/activities/projects, which shall provide the best value and return on the use of its limited resources. The IAS, in this sense, shall strive to be an objective monitor and an independent appraiser of the Department's specific programs/activities/projects designed at achieving its desired societal outcomes of curtailing poverty incidence and providing social protection and promoting the rights and welfare of the poor, vulnerable and the disadvantaged.

3. In general terms, these linkages between the line/operations staff and the support groups, in one hand, and the IAS, on the other hand, involve interactions which are aimed at ensuring and improving adequacy and effectiveness of the

Department's systems of internal control and assessing the impact of the Department's performance and service delivery in relation to its mandate.

4. Accordingly, these tasks shall include the examination and assessment of the organization's network of risk management, control and governance processes vis-à-vis their adequacy and functional appropriateness. These activities shall be grounded along the IAS pillar of values of effectiveness and efficiency, responsiveness, transparency, accountability, honesty, integrity, equity and institutional strength.

5. At the outset, the functions and responsibilities of IAS emanates from the authority of the Secretary to exercise supervision and control over the whole Department and, to the extent provided by law, over the affairs of its attached agencies, *i.e.* Inter-Country Adoption Board (ICAB) and the National Council for the Welfare of Disabled Persons (NCWDP), and other agencies that the Department may have oversight functions in accordance with law.

"Authority and Responsibility of the Secretary. – The authority and the 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."
(Sec. 6, Ch. 2, Book IV, E.O. 292 – Administrative Code of 1987)

6. The creation of IAS within the Department is therefore a part of the controls instituted by the Secretary to strengthen internal controls across all the different Bureaus, Services and Offices within DSWD and enhance monitoring of performance to ensure adherence to prescribed policies and procedures and assist in the achievement of goals and objectives on an on-going basis.

"Distinction from other systems with the organization. – Except for the Internal Audit Office which is a 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."
(Sec. 33, Vol. 3, Government Accounting and Auditing Manual-GAAM)

F. OPERATING PRINCIPLES

1. IAS shall observe the highest standards in the conduct of internal auditing as prescribed under Administrative Order No. 70, Series of 2003, or as may be directed by subsequently authoritative issuances. The Service shall consistently observe the policy of ensuring that its performance standards are aligned with that of the Philippine standards and such that it's functioning likewise conforms to COA Auditing Standards.

2. The IAS, therefore, shall be guided by the following standards in the same order of preference:

- a. Oversight standards (by COA, CSC, DBM, BIR, NEDA, DOF, Executive Issuances, Legislative Oversight Committees, etc.);

- b. Department, Bureaus or Services/Offices, IAS standards - International Standards in the Professional Practice of Internal Auditing (ISPPA);
- c. Locally accepted management and business policies, systems and procedures, as may be found applicable under the circumstances, (e.g. practices by other NGAs, LGUs and/or GOCCs, especially those endorsed by reputable professional and/or business organizations with sufficient membership throughout the Philippines – Association of Government Internal Auditors [AGIA], PICPA, etc.); and
- d. Other internationally accepted best practices on related systems and procedures especially, if formally endorsed by internationally recognized professional and/or business organizations.

G. REPORTORIAL SYSTEM

1. The IAS Director shall communicate the activities, plans and resource requirements of the Service, including significant interim changes, to the Secretary, through the IAAC, for review and approval.

2. In all of its engagements, IAS shall provide internal audit advisory reports in a prompt manner so as to provide necessary and relevant inputs to Management at the appropriate level/s of governance. Reporting shall also include significant risk exposures and control issues, governance issues, and other matters needed or requested by the Secretary or the Management.

3. All IAS reports should contain clear, concise, constructive, complete and concrete information of the evaluations conducted, including the engagement's objectives and scope. This shall mean that the reports should be fully supported by audit analyses, appraisals, evaluations, pertinent conclusions and recommendations concerning the areas reviewed before they are submitted to the auditee/s, the Management and/or Secretary for appropriate action/s.

This circular takes effect immediately and correspondingly amends previous issuances inconsistent herewith.

Issued in Quezon City, this 6th day of December 2005.


LUWALHATI F. PABLO
OIC-Secretary

