



**Republic of the Philippines**  
**Department of Social Welfare and Development**  
Batasan Pambansa Complex, Constitution Hills  
Quezon City  
Telephone No. 931-8101 to 07

**MEMORANDUM CIRCULAR**

No. 07  
Series of 2004

**SUBJECT: REDEFINING THE ROLES AND FUNCTIONS  
OF THE INTERNAL AUDIT SERVICE**

**I. PREFATORY STATEMENT**

In the exigency of the service and with the approval of the Executive Committee (EXECOM), the Internal Audit Office (IAO) created under DSWD Department Order No. 10, series 2002, is hereby reconstituted as the Internal Audit Service (IAS) pursuant to Administrative Order No. 70 issued by the Office of the President on April 14, 2003.

In compliance with Administrative Order No. 70, series 2003, the following policies are hereby promulgated for the guidance of all concerned.

**II. STATEMENT OF POLICIES**

It is the policy of the State to:

- A. Ensure efficiency, economy and effectiveness in Government operations;
- B. Promote transparency, good governance and public sector accountability; and
- C. Institute a system of internal control to achieve an efficient and effective fiscal administration and performance of agency affairs and functions.

**III. LEGAL FRAMEWORK**

Republic Act 3456 (1962) as amended by R.A. 4177 (1965) provides that *'[t]here shall be created, organized and operated in all branches, subdivisions and instrumentalities of the government, including government-owned and/or controlled corporations to be known as agency for purposes of this Act, internal audit services which*

*shall assist management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions."*

The law made mandatory the creation of an Internal Audit Service in all government offices, with the provision that "*...The Internal Audit Service shall be under the direct administrative supervision and control of the heads and/or assistant heads of the agency. It shall be organized as an independent staff unit and shall correspondingly perform staff functions. It shall be responsible for instituting and conducting a program of internal audit for the agency...*"

In 1972, however, the passage of the Reorganization Law (Presidential Decree No. 1, s. 1972) abolished the internal auditing units, and their functions and personnel were absorbed by the Management Staff which were created in every agency. Subsequently, however, it was observed that the dissolution of the previously existing eighty-five (85) internal audit units resulted in the weakening of internal control in the agencies. Hence, in 1976, a series of reforms were introduced through Presidential Decree No. 898, restructuring the Commission on Audit (COA). The decree restored internal auditing in government but on the broader concept of internal control.

Presidential Decree 898, series 1976, provides that "*. . . It shall be the direct responsibility of the chief or head of each government subdivisions, agency or instrumentality including government owned or controlled corporations and self-governing board, commission, or agency, to install, implement and monitor a sound system of internal control.*" The same principle is reiterated in Presidential Decree No. 1445, series 1978, which states that "*... It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.*"

The government again recognized the need to create a separate and independent internal audit office in 1992, when then President Corason Aquino amended Administrative Order No. 119, series 1989. Administrative Order No. 278, series 1992 states that "*all heads of government offices, agencies, government-owned and/or controlled corporations, including government financial institutions and local government units, shall organize Internal Audit Services (IAS) in their respective offices.*"

This policy is reiterated by President Gloria Macapagal-Arroyo's issuance of Administrative Order No. 70, series 2003, entitled, "*Strengthening 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.*" Section 1 of said Order mandated all heads of government offices to "*organize an Internal Audit Service*

(IAS) in their respective offices," while Section 4 thereof tasks the head of agency to "review the organizational structure and personnel complement and convert existing vacant positions and/or parallel positions of incumbents in the agency necessary for the creation/strengthening of the IAS."

#### IV. TERMS OF REFERENCE OF THE INTERNAL AUDIT SERVICE

Pursuant to Section 1 of Administrative Order No. 70, series 2003, the IAS shall be an integral part of the Department and shall assist in the management and effective discharge of its responsibilities, without intruding into the authority and mandate of the COA under the Constitution. It shall function in accordance with the policies established by the provisions of R.A. No. 3456, as amended by R.A. No. 4177.

##### A. Objective:

To assist the management ensure efficiency, economy and effectiveness in the Department's operations insofar as the same would not encroach with that of the COA. This objective has two phases:

1. Protective - the protection of the agency's interests, including the disclosure of weaknesses and deficiencies in internal control; and
2. Constructive - the furtherance of the agency's interests, including the recommendation of actions to improve its performance.<sup>1</sup>

The IAS shall likewise design, develop and implement a framework on assets, liabilities and risks management for the Department.

##### B. Scope of Work:

The IAS shall encompass the examination and evaluation of the adequacy and effectiveness of the Department's system of internal control and the quality of performance in carrying out assigned responsibilities. It includes determining whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning.

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<sup>1</sup> The statement of objectives is lifted from General Circular No. 85 (General Policy on Internal Auditing) issued by the Government Audit Office (1963) to put into effect R.A. No. 3456.

In its fullest extent (subject to limitation by the Secretary), it shall cover internal audit concerns of the Department's three clusters, *i.e.*, Operations and Capacity-Building Group (OCBG), Policy and Programs Group (PPG) and General Administration and Support Services Group (GASSG). However, IAS shall not cover the Performance Management System (PMS) that is covered under DSWD Memorandum Circular No. 5, series 2003, instituting the mechanism to measure the performance of the agency's workforce vis-à-vis the agency's thrusts and targets.<sup>2</sup>

Neither shall the IAS perform regular operating functions such as: pre-audit of vouchers, signing or countersigning of checks, inspection of deliveries, preparation of treasury and bank reconciliation statements, development and installation of systems and procedures, taking physical inventories, maintaining records of property movements, and other activities related to operations. However, the IAS, in the discharge of its functions, may be asked to observe the conduct of these functions by the appropriate units of the Department, solely for the purpose of giving suggestions or assisting the management in designing an effective and efficient system of internal control.

### *C. Functions*

The IAS shall perform staff functions with primary responsibilities encompassing the examination and evaluation of the adequacy and effectiveness of internal control within the Department. Its functions<sup>3</sup> include the following:

1. Ensure the adequacy of internal control systems for safeguarding the assets and resources of the Department;
2. Provide the management with advice and suggest options/alternatives in making sound programmatic, operational and financial decisions, particularly on the management of assets, liabilities and risks;

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<sup>2</sup> M.C. No. 5, s. 2003, is the DSWD's translation of the Performance Evaluation System of the Civil Service Commission (CSC) and the Career Executive Performance Evaluation System of the Career Executive Service Board (CESB).

<sup>3</sup> The IAS functions enumerated in this Section are based on the following: (a) A.O. No. 278, series 1992; (b) DSWD D.O. No. 30, series 1998, (c) DSWD D.O. No. 10, series 2000; and (d) Rationalization and Streamlining Plan, dated August 2002.

3. Ascertain the reliability and integrity of programmatic, operational and financial information, as well as the means used to identify, measure, classify and report such information;
4. Review the extent of compliance with laws, government regulations, management policies and guidelines, as well as the statutory and regulatory requirements of the COA, the Department of Budget and Management (DBM) and other offices;
5. Ascertain the extent to which the assets and other resources of the Department are accounted for and safeguarded from losses of all kinds;
6. Review and evaluate the soundness, adequacy and application of accounting, financial, and other operating controls, and promoting the most effective control at reasonable cost;
7. Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
8. Conduct study on the management of current and fixed assets to promote efficiency and economy, as well as to ensure that Department assets are sufficiently covered with security against losses and that contingent liabilities are pro-actively considered;
9. Assist the management in the review/development/updating of administrative arrangements, structures, operational and management systems;
10. Undertake studies/audit on special concerns and perform related tasks/special assignments as may be assigned by the Secretary; and
11. Perform such other functions as may be provided by law.

The IAS, consistent with section 2 of A.O. No. 70, series 2003, shall perform its functions with proficiency and due professional care, in accordance with International Standards for the Professional Practice of Internal Auditing.

## V. INSTITUTIONAL ARRANGEMENTS

The IAS shall be an independent appraisal unit in the Department. To achieve such, it shall be under the direct administrative control and supervision of the Office of the Secretary. It shall have two divisions :

*Operations Audit Division* - shall cover the audit of income, collections, deposit, expenditures, accounts, assets, properties and other financial and operating units' activities.

*Special Audit Division* - shall cover special audits such as monitoring of compliance to the COA's recommendations, review of bank reconciliation statements, confirmation of accounts, review of contracts, coordination with the internal audit personnel of attached agencies, and other concerned units/offices.

The personnel complement of IAS shall depend upon the volume of transactions and complexity of operations. They shall initially come from existing vacant positions and /or parallel positions of incumbents which shall be converted to accommodate its creation/strengthening as per Sec. 4 of A.O. No. 70, series 2003.

As soon as practicable, appropriate steps shall be undertaken to provide the IAS with the needed manpower complement as outlined in the Repositioning and Streamlining Plan (RSP)<sup>4</sup> officially submitted to the DBM:

- 1 - Director III (SG 27)
- 1 - Management and Audit Analyst V (SG 24)
- 1 - Management and Audit Analyst IV (SG 22)
- 2 - Management and Audit Analyst III (SG 18)
- 1 - Management and Audit Analyst II (SG 15)
- 1 - Secretary I (SG 7)
- 2 - Computer Operator (SG 7)

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. This means that the IAS shall supervise the

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<sup>4</sup> With the issuance of A.O. No. 70, s. 2003, the functions and manpower complement of the proposed Management Division under the Financial Management Service Under the RSP are now subsumed under the IAS.

MAAs' work-related activities, *e.g.* workprograms, audit programs, performance contracts and appraisal. However, the Regional Directors shall administratively supervise their respective MAAs in terms of maintenance and support services per CSC rules, including salary administration/personnel benefits, attendance to official meetings, travel orders, sanctions in case of violation of CSC rules, among others. Toward this end, a coordination mechanism between the IAS Director/Officer in Charge and the Regional Directors shall be established, with the assistance of the Undersecretary in charge of the OCBG.

In case of special audits, identified field auditors/MAAs may be pulled out by the IAS from their respective posts to be part of a bigger audit team.

#### VI. TRANSITORY CLAUSE

Consistent with Administrative Order No. 70, series 2003, all incumbent Management Audit Analysts of the Field Offices shall reassume their internal audit functions and refrain from performing regular operating functions as specified in Section IV-B hereof. Those designated to the IAS shall perform/exercise all the powers and functions properly appertaining to them until such time as the IAS shall have been fully reconstituted. Agency functions related to internal auditing which are presently discharged by other units shall be transferred to and centralized in IAS.

All affected personnel shall observe an orderly transfer of accountabilities and responsibilities effective immediately.

#### VII. SAVING CLAUSE

All units in the Department are hereby enjoined to support and assist the IAS in the performance of its functions. Matters not covered by the provisions of this Memorandum Circular shall be referred to the DSWD Secretary for resolution.

#### VIII. RESERVATION CLAUSE


Nothing herein shall be construed as precluding the Secretary and/or the EXECOM from taking corrective measures on policy, program, and operational concerns, whether covered or not by any internal audit process.

**IX. EFFECTIVITY AND REPEALING CLAUSE**

This Order takes effect immediately and supersedes Department Order No. 10, series 2000. Previous issuances inconsistent herewith are deemed modified or repealed accordingly.

Issued in Quezon City this 10th day of March 2004.

  
CORAZON JULIANO-SOLIMAN  
Secretary, DSWD

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RENATO F. GILERA  
Records Officer III