Internal Audit in the Philippine Provincial Government Office (PGO)

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Abstract
The study evaluates the internal audit of Provincial Government Office (PGO) in terms of the organizational attributes and functions to identify the demographic profile of respondents, its organizational perspective and the internal audit activities performed by the office. Results show that most of the respondents have taken Accountancy course with professional licensure of Certified Public Accountants with the designation positions as Internal Auditor on a hold over capacity of their permanent plantilla position such as Accountant IV, Management and Audit Analyst and Provincial Government Division Head. On the position level in the organization, majority are internal audit supervisors. On the aspects of organizational perspective, most of the units are created by an Executive Order and established within one to three years or newly created with one to three personnel complement. For the internal audit activities performed by the unit, the highest frequency is “Audit of compliance with regulatory requirements.” The significant difference in demographic profile if the respondents are the college course taken which reveals that there are Nursing and Biology graduates were assigned and on organizational perspective, their creation was thru office order with insufficient staff. Thus, the researcher then recommends for the oversight bodies of the PGO to necessitate the institutionalization of the Internal Audit Unit in compliance with existing provisions and for the academic institution to infuse more topics on government accountability and public financial management in the general education system.

Keywords: (Internal Audit, Organizational Perspective, Compliance)
Introduction

Internal audit in the Philippines have been developed throughout the years. The series of laws and executive issuances have been made the internal audit in the government. As early as 1962, the law that creates for internal audit was issued – the Republic Act 3456 or the Internal Auditing Act of 1962. This serves as the general reference, policies and other legal instrumentalities that pertain to government internal audit. The act provided for the creation, organization and operation of internal audit services as an independent staff unit in all departments bureaus, and offices of the national government. Then the broadening of the coverage by amending the RA 3456 to RA 4177 on March 26, 1965 of the internal auditing to include the local government and government owned and controlled corporations.

Several forces in recent times have also led to an intense evolution in internal auditing. These forces include the need for an improved accountability in utilizing public money and the increasing expectations of the public for the most economical, efficient and effective manner of delivering public services. These require government agencies to be transparent, that is to provide the public the adequate information about government and services. There have been established administrative safeguards and system of controls in the government agencies to ensure efficient and effective operations yet there is still the need to evaluate these controls. Conditions may change and new technology emerge thus systems of controls must also constantly updated so as the internal audit process and activities.

Internal auditing is an independent appraisal activity design to add value and improve the effectiveness of risk management, control and governance.(ISPPIA 2013) Government agencies realized the importance of internal auditing and recognized their need for it but others are reluctant in giving full support. This perspective probably stems from lack of understanding of the true nature, objective and function of internal auditing (Dizon, 1990).

At present, internal auditing is not limited to review of accounting and financial activities but an appraisal, verification and analysis of financial, operations and compliance on procedures, regulations, policies and programs, and achievement of performance, targets and contractual obligations.

One of the economic agenda of the current administration highlights the importance of a reliable road network that brings people to work and back to their families affordably and ease. The goal is also to strengthen LGUs as able partners in national development which will be fulfilled not by giving additional funds out of political will or favor but to condition such resources in the implementation of higher governance, standards, improvement of their capacity to generate resources and strengthening of their ability to deliver basic services. (DILG- DBM joint Circular Memorandum no.2017 – 2 dated April 26, 2017) To improve the competency of the provinces in public financial management which defines—a system of rules, procedures, and practices for government to manage public finances. It encompasses budgeting, accounting, auditing, cash management, management of public debt, revenue generation and public reporting on public sector financial operations.
While Internal Control is the plan of organization and its coordinate methods and measures to safeguard its asset, check the accuracy and reliability of accounting records and encourage adherence to prescribed managerial policies. This essential element of the internal control is control environment. It consists of the organizational structure, as well as the management and personnel set-up of an agency. The creation of an agency is always for a specific purpose and the structure of an agency should be based on its particular mandate, mission and functions. Coordinated Methods and Measures are the control processes that are implemented and which form part of the normal recurring operations of an organization. They comprise the policies, rules and regulations in every agency management system that support and it became integral to the operations. Under the view of the private entity Internal control - as the process designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity’s objective. (System and procedures plus human resources working to achieve the common goal)

**Internal Audit in Provincial Local Governments.**

The Local Government Code of 1991 provides that local accountant shall also perform internal audit services. This is entirely questionable and unacceptable. Thus, the provisions of AO No. 70 and DBM Budget Circular No. 20014-4 mandating LGU’s to create a separate IAU equivalent to a department level are both honored and hailed. However, there are sectors whose legal conviction is that the Code should be followed. (Internal Auditing in Philippine Government: Initiatives, Issues and Prospects by Rufo Mendoza, PhD, CPA)

The issue of disparity is not only seen in the international-local dichotomy. This is equally apparent in the practices across and within levels of government. The discrepancy happens not only in organizational structure and staffing but also in the scope and nature of services rendered.

A survey commissioned by The PAGC and conducted by a private auditing firm, SGV & Co. showed that a relatively large number of government agencies do not have IAU’s: 44% in NGAs, 48% in SUCs, 27% in GOCCs 65% in provincial and city government and 100% in municipal government. The survey reflects the apparent lack of compliance to government issuances, it also shows that the government is keeping track of the state progress of IAS in various agencies. The project is expected to result in IAU’s established in more agencies and LGUs as well as provide adequate internal control in the government and high standards of IA operations.

This research used descriptive method specifically the survey questionnaire as the main tool in gathering the needed data. The questionnaire was designed to answer the problems raised in this study and focus on gathering the status, problem and prospects of IAU among the PGO in the Philippines. The respondents of this research were the Head of Internal Audit (HoIA) unit or by the representatives of PGO that are present during the Training-Workshop on the Implementation of Internal Audit Unit and Internal Control System for Provincial LGU’s.
The following is the profile of the PGO as to place represented:

<table>
<thead>
<tr>
<th>Province</th>
<th>No. of Province</th>
<th>No. of Person Represented</th>
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</thead>
<tbody>
<tr>
<td>Luzon</td>
<td>24</td>
<td>50</td>
</tr>
<tr>
<td>Visayas</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Mindanao</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>72</strong></td>
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The PGO represented on the said conference have a total of seventy four, and the number of provinces are thirty eight which is 46.9% of the PGO in the Philippines. Interview was also used to gather pertinent data of the research.

Under the CMGP Program on criteria(B) entitled Public Financial Management, Internal Audit Unit must be established and functional in accordance with applicable guidelines issued by DBM and CSC and the projects of the provincial offices are regularly subjected to internal audit process based on the approved Internal Audit Plan. Internal Audit Positions. Legislations and executive issuances on the creation of IA in the government among others are RA No. 3456 issued June 16, 1962 with the general provisions in providing for the creation, organization and operation of internal audit services in all departments, bureaus, and offices of the national government and RA 4177 issued March 26, 1965 amendments to RA 3456 to include Local Government Units and Government Owned and Controlled Corporations, PD 1445 issued June 11, 1978 Government Auditing Code of the Philippines, RA 7160 issued on Oct 10, 1991 Local Government Code of the Philippines, providing for the local accountant to take charge of internal audit services and AO No. 70 Strengthening of the internal control systems of government offices, agencies government owned and control corporations including government financial institutions and local government units (LGUs) in their operations. Internal Audit positions in the PGO with Designations have frequency of 19 with a percentage of 50%, while those with Plantilla positions are 9 PGO with percentage of 23.68%, while other positions are being carried to the office without designations nor plantilla item positions. These series of laws for the creation of IA in the government has not enable various units to establish the IA in their respective offices. The DBM Circular 2004-4 was issued March 22, 2004 the Guidelines on the Organization and staffing of Internal Audit Units (IAUs) with CSC MC No. 12 issued June 22, 2006 provides the qualification standards for internal auditor positions. Despite of these, the IA positions in the Provincial Government have low turnout in the creations of IAUs.

The PGO with Internal Audit Units are performing “Audit of compliance with regulatory requirements” got the highest frequency of 18 and followed by “Evaluating effectiveness of control system” which has a frequency of 17. For the governance reform targets for the PGO in connection with the Internal Audit activities, there must be a Baseline Assessment of Internal Control Systems (BAICS).

Furthermore, on the aspect of the “Service and Role of IA” a study on IA in the public sector conducted by the Institute of Internal Auditors (IIA) Research Foundations, they use the Internal Audit Capability Model Matrix to determine what level is the organization with identified matrix on the capability of internal audit. The matrix for
Services and Role Of IA for level 1 have indicate of an Ad Hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position, no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors; likely part of a larger organizational unit; no established capabilities; therefore no specific key process areas. For Level 2 Compliance auditing and Level 3 Advisory services: Performance/Value for Money Audit. This study shows sixty two have no response.

As per Administrative Order No. 278, the internal audit activities include ascertaining the reliability and integrity of financial and operational information, ascertaining the extent of compliance and reviewing the system established, ascertaining the extent to which the assets and other resources are accounted for and safeguarded from losses of all kinds among others. With these guidelines the IA have the awareness of their role and responsibilities of IAU in the government.

On the CMGP Program again on the criteria (B) entitled Public Financial Management, Internal Audit Unit must be established and functional in accordance with applicable guidelines issued. Furthermore, the recommendations in the Internal Audit Report must be promptly implemented by the Local Chief Executives and the concerned provincial offices.

Conclusions

The Provincial Government Office represented in the study consists of fifty provinces from Luzon, six provinces in Visayas and sixteen provinces in Mindanao with a total of 72 respondents. The current state of Internal Audit Unit in the PGO is characterized by the following: Internal Audit Units consists of the college course taken with Bachelor in Accountancy have a percentage of 37.52 with CPA licensed percentage of 23.6, with designation percentage of 50 as Internal Auditor. The respondents with college course taken of Bachelor of Science in Accountancy have the highest frequency of 27 which is evident that the internal audit in the government is the primary course to consider in the post. The other course taken are part of business courses such as Bachelor of Science in Commerce, Bachelor in Business administration major in Marketing Management and Engineering courses that is necessary for the performance of some IA functions.

<table>
<thead>
<tr>
<th>Organizational Attributes of Internal Audit in PGO</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Created by Executive Order</td>
<td>16</td>
<td>42.10%</td>
</tr>
<tr>
<td>Institutionalized</td>
<td>14</td>
<td>36.85%</td>
</tr>
<tr>
<td>Without Internal Audit Unit</td>
<td>38</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Table 1: Frequency and Percentage Distribution of Organizational Attributes as to Creation of Internal Audit
For the organizational attributes of the Provincial Government Office with Internal Audit Unit / Service that are created by Executive Orders are 16 provinces with small number of personnel under the bracket of 1-3 of employees with 1-3 years established in the province and have several names of office such as Internal Audit Service Division, PGO Internal Audit Section, Provincial Internal Audit Service and Provincial Internal Audit Office. For the position title for IA, most of the positions are by designations specifically on provincial local government units (LGUs) for which the Provincial Accountants are designated as IA and at the same time performing both functions in their operations.

Internal Audit positions in the PGO with Designations have frequency of eleven respondents while those with Plantilla positions are nine provinces while other positions are being carried to the office without designations nor plantilla item positions.

The series of laws and guidelines for the creation of IA in the government has not enable various units in the government to establish the IA in their respective offices. The DBM Circular 2004-4 was issued March 22, 2004 as the guidelines on the organization and staffing of Internal Audit Units (IAUs) with CSC MC No. 12 issued June 22, 2006 provides the qualification standards for internal auditor positions. With these guidelines, the IA positions in the Provincial Government have not yet still institutional in their respective provinces or agencies units thus creations of IAUs needs more compliance. For the total number of employees in provinces with IA most of the personnel complement is 1-3 employees only, for which include the HoIA, Supervisor or staff IA. Provinces with IA have 1 – 3 years established indicating that some are only created for the compliance on the CMGP program for them to qualify in the grant for financial subsidy to provincial LGUs.

Table 2: Frequency and Percentage Distribution of IA Positions

<table>
<thead>
<tr>
<th>PGO with Internal Audit Title</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designations</td>
<td>19</td>
<td>50.00%</td>
</tr>
<tr>
<td>With Plantilla Positions</td>
<td>9</td>
<td>23.68%</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>26.32%</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

On the “Service and Role of IA” This study shows sixty two have no response which shows that most of the provincial IA are not aware of the structured role and services of internal auditing. They have limited knowledge on the “Services and Role of IA “which resulted to their functions are based on the instructions from the provincial local chief executives. For the activities performed by Internal Audit Units in the PGO most activities are “Audit of compliance with regulatory requirements, evaluating effectiveness of control system, Auditing financial report Investigation of fraud and irregularities, and other duties that are found necessary with conduct of audit. This means the IA activities are isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position, no specific professional practices established other that those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors; likely part of a larger
organizational unit; no established capabilities; therefore no specific key process areas.

**Table 3:** Frequency and Percentage Distribution of IA Activities Conducted

<table>
<thead>
<tr>
<th>Internal Audit Activities Conducted</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of compliance with regulatory requirements</td>
<td>18</td>
</tr>
<tr>
<td>Evaluating effectiveness of control system</td>
<td>17</td>
</tr>
<tr>
<td>Auditing financial reports</td>
<td>11</td>
</tr>
<tr>
<td>Investigation of fraud and irregularities</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
</tr>
</tbody>
</table>

The researcher recommends for the oversight bodies in the creation and establishment of IAUs in the government to necessitate the implementation of the enabling laws in IA by giving allocation of budget by DBM and continue making incentive programs and rewards to its creation and maintenance and functional IAUs.

For the higher educations and academic institutions the researcher suggests for the inclusion of subjects or topics on government accountability and public financial management in the general education system for readiness in working in the government and also to be able practice public accountability.

For the Government Internal Auditors either by designations or permanent plantilla positions to aim and pursue graduate and post graduate studies to enhance their competencies and to make them more qualified in the IA positions. To continue establishing linkages and joining organizations of internal auditors as this will help them in the practice of the IA profession.
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