2012

AKLAN PROVINCIAL INTERNAL AUDIT OFFICE

OPERATIONS MANUAL AND CHARTER

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AND CHARTER

APIAO

2nd Floor
Aklan Provincial Capitol Main Building
Brgy. Estancia, Kalibo, Aklan
2012

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ACKNOWLEDGMENT

Aklan Provincial Internal Audit Office of the Province of Aklan was assisted and coached by Mr. Ricardo R. San Andres in the formulation of APIAO's Operations Manual under the Provincial Roads Management Facility - Australian Aid for International Development (PRMF-AusAid), a joint program of the Government of Australia, the Republic of the Philippines thru the Department of Interior and Local Government and the Province of Aklan.

The APIAO would like to express their perpetual gratitude to Governor Carlito S. Marquez, to Vice-Governor Gabrielle V. Calizo-Quimpo, to the ever active members of the Sangguniang Panlalawigan Members of the Province of Aklan, to all the Department Heads and the employees of the Provincial Government, who willingly gave their overflowing support and cooperation. Together, let us build a responsive and transparent Provincial Government. The Golden Age of Good Governance in our Province has already started. Hand-in-hand let us embrace this momentous change.

APIAO

FOREWORD

In line with the genuine reforms espoused by the Provincial Government, with the assistance of the Provincial Roads Management Facility- Australian Agency for International Development, an independent Internal Audit Office was created. These concerted efforts of the officials and employees, as well as the assistance of the PRMF-AusAid, have given birth to Aklan Provincial Internal Audit Office.

The mandate for the institutionalization of an independent Internal Audit Office was long overdue. Thru the years, it has been, again and again, reiterated by various executive orders, circulars and memoranda of different national agencies. Hence, pursuant to the call of President Aquino for good governance, greater accountability and quality service to the Filipino people, a government towards the "MATUWID NA DAAN", the Provincial Government took steps towards compliance to the above-mentioned reforms. In order to achieve the said reform, the Provincial Government saw the necessity to act in unison, streamline basic government processes to minimize delay in the delivery of excellent public service to its constituents and reduce red tape in the bureaucracy.

The establishment of an Internal Audit Office is a Great Leap Forward; providing a domino effect towards the realization of Province's desired reforms. It will serve as a catalyst which will orchestrate all the reform programs of the Provincial Government. However, it must be clearly emphasized that the same is not intended to be a panacea to LGU's problems; nevertheless, this will serve as bedrock of genuine transformation.

The need to ensure and strengthen the effectiveness and efficiency of the Provincial Government's operations, the reliability of financial and operational reporting, compliance with applicable laws, rules, regulations and contracts and the safeguarding of assets and information are among the major areas which are the main focus of the APIAO's functions.

In order for the Internal Auditors to religiously and faithfully carry out these functions APIAO's Operations Manual was formulated. APIAO's operations manual will serve as an avenue, a blue print, a device for Internal Auditors, to guide them in performing their functions. This will serve as their guiding tool on how they will conduct audit activity; it will delineate the extent of their functions and define expected results.

As one of the vanguard of institutional reform, APIAO is expected to improve as an office. Knowledge and experience in the field of internal auditing are expected to grow, as reforms, are along the way, implemented by/and with the PGA. This Operations Manual is expected to adapt to the need of the Provincial Government of Aklan and APIAO. It is not a straightjacket set of rules; but the same should be sensitive to the needs of the Provincial Government.

CARLITO S. MARQUEZ
Provincial Governor

LIST OF ACRONYMS

AAA	Annual Audit Agenda
AAP	Annual Audit Plan
AGIA	Association of Government Internal Auditors, Inc.
APIAO	Aklan Provincial Internal Audit Office
AWP	Audit Work Program
COA	Commission on Audit
CSA	Control Self-Assessment
CSC	Civil Service Commission
CWS	Completed Staff Work
DBM	Department of Budget and Management
EO	Executive Order
HAPIAO	Head of the Aklan Provincial Internal Audit Office
HRMO	Human Resource Management Office
IAS	Internal Audit Service
IAU	Internal Audit Unit
ICS	Internal Control System
INTOSAI	International Organization of Supreme Audit Institutions
ISO	International Organization for Standardization
ISPPIA	International Standards for Professional Practice of Internal Auditing
LGU	Local Government Unit
LCE	Local Chief Executive
NGICS	National Guidelines on Internal Control Systems
PGA	Provincial Government of Aklan
PGIAM	Philippine Government Internal Audit Manual
RA	Republic Act
SP	Sangguniang Panlalawigan

GLOSSARY OF TERMS

Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control

Is present when the management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Aklan

A province of the Philippines in the Western Visayas. Its capital is Kalibo. It is in the northwest portion of Panay Island, bordering Antique Province to the southwest, and Capiz Province to the east. Aklan faces the Sibuyan Sea and Romblon Province to the north.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) and the Code of Ethics of the Association of Government Internal Auditors' principles governing the profession and practice of internal auditing as well as behaviors expected of internal auditors. It is applicable to persons and entities performing internal

audit activities. The purpose of the code is to give guidance to all provincial government internal auditors to promote an ethical culture in the conduct of government internal auditing.

Code of Conduct and Ethical Standards of Public Officers and Employees

Refers to R.A. 6713, a law passed by the Congress of the Republic of the Philippines, establishing a set of rules for public officials and employees to uphold the time-honored principle of public office being a public trust, granting incentives and rewards for exemplary service, enumerating prohibited acts and transactions and providing penalties for violations of the above-mentioned law and for other purposes.

Compliance

Observance of prescribe governmental policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment

provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values;
- Management's philosophy and operating style;
- Organizational structure;
- Assignment of authority and responsibility;
- Human resource policies and practices; and
- Competence of personnel.

Control Processes

The Policies, procedures, and activities that are part of a control framework designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services;

to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Head of Aklan Provincial Internal Audit Office (HAPIAO)

The top position within the Provincial Government of Aklan responsible for the internal audit activities.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations.

Independence

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

Must

It denotes the mandatory character of a word, phrase or obligation.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity

requires internal auditors not to subordinate their judgment on audit matters to others.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Management

It is a process of identifying, assessing, managing, and controlling potential events or situations that may hinder the achievement of objectives and goals.

Should

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Republic of the Philippines
PROVINCE OF AKLAN
KALIBO, AKLAN

OFFICE OF THE SANGGUNIANG PANLALAWIGAN

EXCERPTS FROM THE MINUTES OF THE FORTY-THIRD (43RD) REGULAR SESSION FOR CY 2012 OF THE SANGGUNIANG PANLALAWIGAN OF THE PROVINCE OF AKLAN (for the period 2010-2013) HELD ON DECEMBER 12, 2012 AT THE SANGGUNIANG PANLALAWIGAN SESSION HALL, PROVINCIAL CAPITOL, KALIBO, AKLAN.

PRESENT:

HONORABLE GABRIELLE V. CALIZO-QUIMPO	— Vice Governor
HONORABLE PHOEBE CLARICE L. CABAGNOT	— SP Member-Western District
HONORABLE GERICK M. TEMPLONUEVO	— SP Member-Western District
	— Acting Presiding Officer
HONORABLE VICTOR MANUEL M. GARCIA	— SP Member-Western District
HONORABLE NEMESIO P. NERON	— SP Member-Eastern District
HONORABLE DAISY S. BRIONES	— SP Member-Eastern District
HONORABLE RAYMAR A. REBALDO	— SP Member-Eastern District
HONORABLE RODSON F. MAYOR	— SP Member-Eastern District
HONORABLE JONNA I. MORALES-TORRES	— SP Member, PCL President
HONORABLE BOB AUGUSTO F. LEGASPI	— SP Member, SK President

ABSENT:

HONORABLE JOSE ENRIQUE M. MIRAFLORES	— SP Member-Western District
	— (Vacation Leave)
HONORABLE SELWYN C. IBARRETA	— SP Member-Western District
	— (Sick Leave)
HONORABLE JEAN O. RODRIGUEZ	— SP Member-Eastern District
	— (Vacation Leave)
HONORABLE EDINA T. GELITO	— SP Member, ABC President
	— (Sick Leave)

ALSO PRESENT:

ENGR. ABRAHAM VILLARIAL	— OIC District Engineer, DPWH-KALIBO
ENGR. RORY M. LASERNA	— OIC Chief Maintenance Section-DPWH

SPECIAL ORDINANCE NO. 2012-022

"AN ORDINANCE OFFICIALLY ADOPTING AND APPROVING THE AKLAN PROVINCIAL INTERNAL AUDIT OFFICE (APIAO) OPERATIONS MANUAL AND CHARTER"

Special Ord. No. 2012-022
Sangguniang Panlalawigan
Kalibo, Aklan
December 12, 2012
. . . .

BE IT ORDAINED BY THE SANGGUNIANG PANLALAWIGAN OF THE PROVINCE OF AKLAN IN SESSION DULY ASSEMBLED THAT:

Section 1. Administrative Order (AO) No. 70 promulgated on April 14, 2003 mandates for the "Strengthening of the Internal Control Systems of Government Offices, Government Owned and Controlled Corporations, including Government Financial Institutions, State Universities and Colleges and Local Government Units.

Section 2. Pursuant to AO No. 70 and subsequently, the Department of Budget and Management (DBM) issued Budget Circular No. 2004-4 and Memorandum Circular No. 89 directing compliance with AO No. 70.

Section 3. The participation of the Province of Aklan to the Philippines-Provincial Road Management Facility (PRMF) of the Australian Agency for International Development (AusAid) provides in its Memorandum of Agreement the establishment and effectiveness of internal control procedures and internal audit.

Section 4. Special Ordinance No. 2012-001 enacted on February 29, 2012 by the Aklan Sangguniang Panlalawigan created the Internal Audit Unit as a Division under the Office of the Provincial Governor as partial compliance of those promulgations, issuances and contractual obligations.
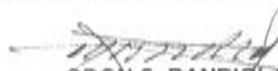
Section 5. Special Ordinance No. 2012-013 officially created the Aklan Provincial Internal Audit Office (APIAO) in a full compliance of the mandate of the law.

Section 6. To guide its operations, the APIAO crafted its own Operations Manual and Charter to further fully comply with said mandate.

Section 7. Wherefore, the Sangguniang Panlalawigan of the Province Of Aklan in session duly assembled hereby "Officially Adopt And Approve The Aklan Provincial Internal Audit Office (APIAO) Operations Manual And Charter."

ENACTED, DECEMBER 12, 2012.

I HEREBY CERTIFY to the correctness of the foregoing ordinance.

ODON S. BANDIOLA
Secretary to the Sanggunian

ATTESTED:

GERICK M. TEMPLONUEVO
SP Member/Acting Presiding Officer

APPROVED:

CARLITO S. MARQUEZ
Provincial Governor

CHAPTER 1

THE PROVINCIAL GOVERNMENT OF AKLAN

1.1 HISTORICAL BACKGROUND

The written history of Aklan takes us back to the middle of the 13th century when ten Bornean datus, together with their families, fled the oppressive rule of the Bornean king, Sultan Makatunaw.

In search for freedom, new lands and better fortunes, they left Borneo's shore on a flotilla of balangays (ships) sailing northward. And one day, in 1212 (circa), they landed on the bank of the Sirwakan River near the present town of San Joaquin, Iloilo. Immediately after, Datu Puti, the leader of the expedition, came in contact with the Atis, the black-skinned, pygmy aborigines of Panay Island. The Ati king named Marikudo and his queen, Maniwang-tiwang, welcomed the newcomers. Datu Puti asked Marikudo if the latter's people would be willing to move into the hinterlands and mountains in favor of the newcomers.

An agreement was reached. The price for the land was a gold saduk (wide-brimmed helmet), a chain of pure gold necklace, and some gifts consisting of colored clothes, decorated arms, and fanciful trinkets. The historic sale (Barter of Panay) was sealed by a sumptuous banquet attended by both the Atis and the Bornean peoples, and everybody had a joyous celebration – feasting, dancing and singing. The celebration is commemorated every year, during the blooming season of mangoes, or at about the same time of the year when the purchase was consummated. In later years, when the Ati descendants of Marikudo withdrew to the mountains, the settlers chose to perpetuate the celebration. In the absence of the Atis, some of the settlers smeared themselves with soot to simulate the Atis. Thus, from then on, the celebration that has withstood the tests of centuries came to be known as the Ati-atihan Festival.

The island of Panay was divided into three "sakups" (districts): Irong-Irong (now Iloilo) under Datu Paiburong; Hamtik (now Antique) under Datu Sumakwel; and Aklan (what was then Aklan and Capiz combined) under Datu Bangkaya. These three "sakups" were united for mutual protection against enemy attacks into

one confederation called "Confederation of Madyaas" under the overlordship of Datu Sumakwel who was the oldest and wisest of the ten Bornean datus.

Our historians have overlooked an interesting fact about Datu Bangkaya's "sakup" of Aklan. It was originally (geographically and ethnologically also) the valley of Aklan, centering in the present town of Kalibo. Since the days of Datu Bangkaya, the people of this region have developed their own peculiar dialect, distinct customs and traditions, and local culture. Thus, it has come to pass that the present-day Aklanons possess a deep-rooted pride and loyalty to their own locality, setting them apart from the rest of the Capiceños. They fondly aspire to be an independent province, separate and independent from Capiz province.

There is further historical validity to the Aklanons' dream of a separate province. As early as 1433, according to Parayan historical records, there was already a well-organized government on Aklan soil under the rule of Kalantiaw, the third chief of Panay. This Aklan ruler wrote the famous "Kalantiaw Code" containing eighteen sugo (orders) which reveal the high degree of civilization which the people of Aklan had then.

Following that spirit of patriotic desire, after having developed their ideals of freedom and having progressed in education and culture, in commerce and industry, and in political maturity and experience, whenever occasions presented, the people of Aklan, through their chosen leaders, had taken the issue of separation and independence:

April 14, 1901: Simeon Mobo Reyes, Aklan delegation head, presented the first memorial for the separation of Aklan from Capiz to the Taft Commission at Capiz (now Roxas City);

1920: Representatives Jose Alba Urquiola and Eufrosino Alba of the second and third districts of Capiz, respectively, presented a Bill for Aklan's formal separation from Capiz;

1925 to 1930: Representatives Manuel Laserna and Teodulfo Suñer from the third district of Capiz filed a similar Bill. Subsequently, Dr. Rafael S. Tumbokon of the same succeeded in securing the approval of the Committee

on Provincial and Municipal Governments after the hearing, but was not able to push it through due to time constraints;

April 25, 1956: Republic Act 1414 was signed by President Ramon Magsaysay, eventually separating Aklan from Capiz. This was made through the efforts of Congressman Godofredo P. Ramos who filed House Bill No. 334. For such fate, he was regarded as the Father of Aklan. Aklan became the 53rd province of the country. [1]

1.2 BRIEF PROFILE

Aklan is located in the northwestern portion of Panay Island. It is bounded on the south by Capiz, east by the Sibuyan Sea, west by Antique, the northwest by Sulu Sea, and on the northeast by Sibuyan Sea. It is cadastrally located between latitude 11°09'30" N and latitude 12°01'00" N, and longitude 122°34'45" (PAG-ASA). The northernmost limit of Aklan is Lapuz-Lapuz in Boracay Island (Malay), while the southernmost limit is the point in the Municipality of Libacao where the borders of Aklan, Antique, and Capiz meet. The easternmost part of the province is the eastern shoreline of Barangay Mambuquiao in the municipality of Batan; the westernmost part is Pucio Point in the municipality of Buruanga.

Aklan is the region's second smallest province having a total land area of 1,817.9 km[2], which is 8.99 percent of the regional land area and 0.61 percent of the national land area.

Population

Aklan has a total population of 535,725 as of 2010 NSO Census of Population. The current population of Aklan shows an increase of 84,411 over its 2000 population count of 451,314, based on NSO records, with an annual population growth of 1.73 percent. The municipality with the highest population share is Kalibo with 74,619. The municipality of Lezo has the lowest population.

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[1] PPDO-Socio-Economic Profile- Province of Aklan, Philippines

The Municipality of Malay recorded the fastest population growth with 6.45 growth rate. This is due to in-migration as Malay is the center of tourism activities being the location of Boracay Island. The Municipality of Nabas is second in terms of population growth with 2.18 percent and New Washington on the third with 2.17 percent population growth rate.[2]

Income Classification

The Province of Aklan is classified as a second class province. Among the municipalities, two are classified as first class: Kalibo, the capital town of Aklan, and Malay, where Boracay Island is located. Both have a total income of more than a hundred million, from the IRA shares and income from local sources. Four are classified as third class municipalities: Ibajay, New Washington, Banga and Libacao. Eight are classified as fourth class and three are fifth class.

Agricultural and aqua-cultural Production

Palay production for the province as of the First Semester of Year 2012 was 58, 022.00 metric tons, for 2011 the Province has 126, 657.00 metric tons[3], for 2010 was 103,625 metric tons which is 14.62% increase from its 2008 output of 129,318 metric tons.

The fishery sector of the province as of the Second Quarter of Year 2012 recorded an initial output of 4, 842.45 MT, for 2011 it has recorded a total output of 16, 964.31 MT, for 2010 it has recorded a total output of 17, 362.01 MT[4], for 2009 it has recorded a total output of 15,710.15 MT. The aquaculture sub-sector of the province as of the Second Quarter of 2012 has recorded an initial output of 2, 399.41 MT, for 2011 it has a total output of 8, 475.45 MT and for 2010 it has recorded a total output of 8, 987.06 MT[5]. Ten out of seventeen municipalities are coastal and are engaged in fishing. The province's coastal municipalities are: Buruanga, Malay, Nabas, Ibajay, Tangalan, Makato, Numancia, Kalibo, New Washington, Batan. Balete has brackish water that is suitable for aquaculture. Seven municipalities are engaged in aquaculture with the municipalities of New Washington, Batan and Makato among the top three producers.

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[2] NSO 2010 CENSUS cited at PIA-Aklan, Region VI
[3] Palay and Corn: Volume of Production by Cereal Type, Geo-location, Year and Location, Country Stat, Bureau of Agricultural Statistics
[4] Fisheries: Volume of Production by Subsector, by Region and by Province, 1980-2012 by Geo-location, Subsector, Year and Quarter, Country Stat, Bureau of Agricultural Statistics
[5] Ibid

As of 1 July 2012 swine production has an initial output of 116, 359 heads[6], for 2011 it has total output of 86, 801 heads. In 2009, swine production had the highest production output with 14,915 MT. Cattle has an initial production output of 27, 982 heads as of 1 July 2012, for 2011, it has a total production output of 8, 830 heads. Carabao as of 1 July 2012, it has an initial production output of 21, 944 heads, for 2011, it has a total production output of 1, 885. Goat production as of 1 July 2012, has an initial output of 11, 825 heads[7].

As of 1 January 2012 chicken production has an initial output of 1, 038, 622 heads, while, for duck production it has an initial output of 50, 235 heads[8]. In 2009 the total chicken production was 3,363 MT., while, duck production was only 84 MT. Poultry farms with more than 1,000 heads production are located in Kalibo, Numancia, Altavas, Tangalan, Balete, and Banga.

Natural Resources, tourism and industry development

The vegetative cover of Aklan based on aerial photo interpretation has an area of 73,993 hectares or 41 percent of its total land area. Among the seventeen municipalities, Madalag, Libacao and Malinao are the municipalities with large areas of forestland while the municipalities of Banga, Kalibo, Lezo and Numancia have no classified forestland. Closed and mixed forest areas are about 24,105 hectares while the open forest is 21,185 hectares.The total mangrove forest is 347 hectares and the total forest plantation is 2,540 hectares.

The province of Aklan is rich in mineral resources. Some of these minerals are still young and extraction is not permitted for its low cost effectiveness, although many of these minerals areas are already explored. Records from the Mines and Geosciences Bureau in Region VI show that the province has metallic and non-metallic mineral resources. Metallic minerals such as copper (gold), gold (silver) and manganese are found in the municipalities of Malay, Nabas, Ibajay, Makato, Malinao, Madalag and Libacao respectively. Non-metallic minerals such as marble, limestone, guano/rock phosphate, silica (rock/quartz, sand) are present in Malay, Buruanga and Madalag.

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[6] Livestock: Inventory by Animal Type, Farm Type, Geo-location, Year and Period, Country Stat, Bureau of Agricultural Statistics
[7] Ibid
[8] Chicken: Inventory by Farm Type, Geo-location, Year and Period, Country Stat, Bureau of Agricultural Statistics

In terms of industry development, the One-Town-One Product (OTOP) of the seventeen municipalities, assisted by the Department of Industry generated full or partial employment of 3,753. The three priority sectors of MSMEs are indigenous fibers/crafts (loom weaving); food processing and gifts, house wares and furnishing. The sector that generated the most employment is the gifts, house wares and furnishing followed by the food processing. Majority of the loom weaving MSMEs are located in Kalibo.

On the other hand, in tourism development, Aklan's Boracay Island is among the top ten tourist's destinations in the country and the center of tourism industry in Western Visayas. There are other emerging tourism sites and destinations in the province like the Bakhawan eco-park in Kalibo, Bugna it Tangalan, Ibajay Mangrove, Buruanga beaches and dive sites, Nabas cold springs and caves and the different cultural festivals.

Moreover, the Province of Aklan has a lot of festivals, like the January Festivals: the **Kalibo Ati-atihan Festival, Batan Ati-Ati Malakara Festival, Malinao Ati-Atihan Festival, Makato Sto. Niño Festival and Ibajay Ati-ati Festival.** This is a weeklong celebration in honor of Patron Saint Sto. Niño.

Bariw Festival is a unique Festival showcasing the skills of every Nabasnon in weaving bags, mats and hats made of bariw leaves - the prospering livelihood in the municipality. It is highlighted by the dance performance of local talent and ingenuity to the beat of the drums and indigenous rhythm celebrated every May 14 of the year.

Bugna Festival is a festival showcasing the different locally produced products and eco-tourism destinations of Tangalan like the marine sanctuary and coral garden, Afga Point, Campo Verde, Jawili Falls, Bughawi beach and reforestation project every May 16th of the year.

Kali-Ugyon Festival (*kali* stands for *Kalipayan* or hapiness and *Ugyon* meaning unity). This is the festival celebrated in Libacao every December 30 to January 1, costumed in modern and indigenous outfits bringing people together on the streets for merry-making and to drive away evil spirits in the coming New Year.

Health and other Social Services

There are nine (9) government hospitals operating in the Province, eight (8) of which are run by the Provincial Government and one (1), the Dr. Ramon B. Legaspi Sr. Memorial Hospital, is run by LGU-Makato. These hospitals have combined bed capacity of two hundred eighty six (286) beds with the Dr. Rafael S. Tumbokon Memorial Hospital having the highest bed capacity.

At present, there are five (5) private hospitals in the province. Four (4) are located in the capital town of Kalibo while one (1) is operating in Malay. The St. Gabriel Medical Center has the highest bed capacity with 120 and the only tertiary hospital in the Province.

There are nineteen (19) Rural Health Units in the Province that serve the immediate health needs of the localities.

The provincial government has adequate government health personnel to deliver health services to the entire province of Aklan. It includes doctors, nurses, midwives, dentists, sanitary inspectors, barangay health workers and barangay nutrition scholars.

As of 2009, out of 99,225 households in Aklan, 84.69% or 84,029 have sanitary toilets. Households with no sanitary toilets are recorded at 15,196. The Metro Kalibo Water District (MKWD) supplies potable water not only to the households in the 16 barangays of Kalibo but also the nearby towns of New Washington, Banga, Balete and Batan.

The existing Level III water supply facilities in the province are primarily provided by the Local Water Districts in Kalibo and Numancia. Metro Kalibo Water District also manages the Altavas Water System and the New Washington Water System. Numancia Local Water District also manages the Makato and Lezo Water Supply Systems which serve a total of 20 barangays. Other Level III water supply projects are also found in Ibajay, Libacao and Malinao.

Power supply in Aklan is supplied by the National Power Corporation which provides 24MW from its source at Palimpinon Geothermal Plant in Negros.

Power is transmitted through the Dingle Power Grid in Iloilo, which in turn supplies the power need of the Aklan Electric Cooperative (AKELCO).

Another source is Global Business Power Corporation (GBPC), an independent power producer which supplies 16MW power to the province. GBPC maintains two diesel power plants: one stationed in Mabilo, New Washington, Aklan, (5 MW) and another at Unidos, Nabas, Aklan (12.5 MW). AKELCO currently serves 17 towns of Aklan, two towns of Antique and one barangay of Capiz.

The total number of Day Care Centers for the seventeen municipalities of the province is 403 manned by 423 Day Care Workers serving a total of 10,972 pre-school children (five years below).

Aklan's poverty incidence among population recorded an increasing trend with 38.5 percent in 2003, 41.6 percent in 2006 and 46.1 percent in 2009. Of all municipalities of Aklan, the top five municipalities with high poverty incidence are the municipalities of Madalag, Libacao, Balete, Malinao and Buruanga. With these data, fifteen out of the seventeen municipalities of the province are included in the 4Ps program of the national government.

Infrastructure

Access through Land. Traveling by land, Aklan is accessible through private-owned and public utility vehicles like inter-provincial buses and vans, which ply the regional route of Western Visayas. Considering normal road conditions, Kalibo, the capital town of Aklan, is about four hours from the regional hub of Iloilo City, one and a half hours from Roxas City, and four hours from San Jose, Antique. Caticlan in Malay, which is the jump-off point to Boracay Island, is approximately one and a half hours trip from Kalibo.

The road from Bagumbayan in Buruanga, west of Aklan, leading to the boundary at Libertad in Antique, is a national highway made up of gravel. San Jose, the capital town of Antique, which is accessible through this route, is 123 kilometers away from Poblacion, Malay, Aklan, where both of the Caticlan Jetty Port and the Caticlan Airport are located. The Caticlan airport is now officially known as the Godofredo P. Ramos Airport.

The Province of Antique is likewise accessible through another route from Aklan province, that is, by passing through the Aklan-Antique boundary in Solido, Nabas and Pandan, Antique, the latter being 46.326 km away from Kalibo to the boundary, and 71 km from Kalibo to Pandan in Antique.

Buruanga is the entry and exit point in Aklan in the west while Altavas serves as entry and exit point in the east of the province. Another road links Barangay Tibiao, Altavas, Aklan to Barangay Lucero, Jamindan, Capiz, which is 48.550 km. away from Kalibo at the boundary.

In 2007, Aklan has a road network totaling 456.54 kilometers, of which 161.059 km are officially classified as national (arterial) roads; and, 295.481 kilometers are categorized as provincial (sub-arterial or secondary) roads. Half of the provincial roads are still classified as gravel (50 percent), while 47 percent are now concreted, and 3 percent are asphalted.

As of 2007, almost half of the existing national roads in the province have been concreted (49 percent), less than half (41 percent) asphalted, with the remaining ten percent classified as gravel.

Tricycles are the main means of transportation within the town proper of Kalibo and the adjacent municipalities. In most parts of the province, public utility jeepneys and mini-buses are being used as the main mode of land transport from one municipality to another. Bus lines are likewise available to provide inter-province land transportation in the Island of Panay.

There are 79 bridges in Aklan with a total length of 2,803.78 linear meters. The longest and the oldest of these is the Kalibo-Numancia Bridge, a concrete bridge spanning 420 meters from end to end. It connects the capital town of Kalibo, not only to the neighboring municipality of Numancia, but to the rest of the municipalities in the western side of Aklan. Once damaged, no other alternative bridge is capable of handling the land traffic along this route.

As part of Panay Island which is surrounded by coastal waters, Aklan is accessible by sea. When traveling by sea, Caticlan in Malay, Aklan may be reached by ship in 14 hours from Manila; Dumaguit in New Washington is accessible in 15 hours from Manila. Aklan has seven functional sea ports:

The <u>Dumaguit Port</u> in Barangay Dumaguit, New Washington, now classified as a national port under the Philippine Ports Authority (PPA) supervision; <u>Caticlan Jetty Port</u> in Barangay Caticlan, Malay, considered as one of the busiest port in the country due to Roll-On-Roll-off operations; <u>Cagban Jetty Port</u> in Barangay Manoc-manoc in Boracay Island, Malay under the supervision and control of Provincial Government of Aklan; New Washington Port in Barangay Poblacion, New Washington, a municipal port used by commercial and cargo vessels; <u>Batan Port</u> in Batan, <u>Colong-colong Port</u> in Ibajay, and <u>Alegria Port</u> in Buruanga are all municipal ports. It is worthy to note that Aklan still has no direct sea travel link with the Central Visayas and the Mindanao regions. As yet, passengers from Aklan bound for the southern part of the country shall have to pass through Iloilo City's ports.

The **Strong Republic Nautical Highway (SRNH)** is a priority project of the administration of President Gloria Macapagal-Arroyo which makes use of the Roll-on-Roll-off (RORO) services that combine land and inter-modal trunk routes to connect all the major economic centers of the Philippine archipelago through innovative, efficient and affordable means. It has 22 links involving 41 sea ports, among which is the Caticlan Jetty Port in Malay, Aklan.

Aklan has two airports that connect the province nationally and internationally. The <u>Kalibo International Airport</u> in Pook, Kalibo serves as the premier entrance via air from Manila and other key cities within and outside the Philippines. <u>The Godofredo P Ramos (GPR) Airport,</u> used to be the Caticlan Airport, located in Caticlan in Malay, Aklan, is considered as a principal class 2 airport by CAAP standards. It is located approximately 66 km northeast of Kalibo and serves key destinations such as Manila, Mactan in Cebu, and Clark in Pampanga.

Irrigation

Aklan has a total land area of 181,794 hectares of which, 35,437 hectares are arable lands and 12,193 hectares are considered potential area for irrigation development. Irrigation areas in the province are served by two major irrigation systems, namely: Aklan River Irrigation System which serves the seven beneficiary municipalities of Banga, Kalibo, New Washington, Lezo,

Malinao, Numancia and Makato; and, the Panakuyan River Irrigation System which serves Ibajay[9].

1.3 STRATEGIC TRUST

Consistent with the long-term vision of the Provincial Government of Aklan to address the needs and the general welfare of the Aklanons, the following trusts must be realized:

To develop and sustain tourism industry that will boost revenue generation, increase agricultural/ fishery production for food sufficiency, and reduce unemployment especially for women thru provision of more livelihood programs and opportunities that will alleviate poverty, improve health and social and gender development services, and provide affordable and quality education while ensuring that natural resources are well-preserved and conserved using appropriate technology leading to the achievement of the Province's Vision and Mission.

[9]PPDO-Socio-Economic Profile- Province of Aklan, Philippines

1.4 PGA ORGANIZATIONAL STRUCTURE

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                        ┌──────────────────────────────────┐
                        │   PROVINCIAL GOVERNOR'S OFFICE    │
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                                                              ┌─────────────────────┐
                                                              │   INTERNAL AUDIT     │
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                                                              │   INFORMATION &      │
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   │ POPULATION & │  │ COOPERATIVE  │    │AGRICULTURIST'S│ │ AKLAN TOURISM│
   │ GENDER OFFICE│  │   OFFICE     │    │    OFFICE    │  │    OFFICE    │
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   │  ENTERPRISE  │  │ DEVELOPMENT  │    │SERVICES OFFICE│ │ & DEVELOPMENT│
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            │    HUMAN     │    │ENVIRONMENT & │
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CHAPTER 2

THE AKLAN PROVINCIAL

INTERNAL AUDIT OFFICE (APIAO)

2.1 BACKGROUND

On February 29, 2012, an Internal Audit Unit (IAU) was created as a division of Provincial Governor's Office through Sangguniang Panlalawigan (SP) Special Ordinance No. 2012-001. The ordinance was amended by SP Ordinance No.2012-003 dated September 12, 2012 that includes the conversion of IAU into a provincial department by 2013.

The IAU was consisted of two (2) sections (already converted into divisions upon the effectivity of the ordinance converting IAU into APIAO) namely, the Management Audit and the Operations Audit. The Management Audit shall have the task to evaluate the realization of the control objectives which includes the protection of assets, examining the accuracy and reliability of accounting data, observance to managerial policies, and conformity with laws, rules and regulations by utilizing internal audit methods. The Operations Audit Section, on the other hand, shall be responsible for the assessment of the degree of compliance and the determination of the effective, efficient, ethical and economical execution of operations by utilizing internal auditing methods.

Initially, the IAU was composed of five (5) employees, three (3) of whom are females and two (2) are males. There are only four (4) plantilla positions, three (3) of which are already filled-up and the remaining one is still vacant. Of the three (3) permanent employees, two (2) are females who are both Internal Auditors, and one (1) is a male who is an Administrative Officer. There are also two (2) job-order employees, one (1) is a male and the other one (1) is a female.

In terms of educational attainment, IAU was composed of four (4) personnel with bachelors' degree in business and commerce, and one (1) is a degree holder in arts and sciences (Political Science). Among them, one is a Certified Public Accountant (CPA), one is a Lawyer, and three (3) are Civil Service Career Professional Eligible. The personnel have also attended trainings to improve their skills like basic internal control concepts and audit tools and techniques,

and trainings that improved their knowledge in DBM updates and COA Circulars.

2.2 CREATION

APIAO was created pursuant to the national laws, statutes, and rules and regulations issued by the National Government. The creation of an Internal Audit Unit or Office was first mandated under Republic Act No. 3456 or the Internal Auditing Act of 1962 as amended by Republic Act No. 4177. It was further mandated by the Administrative Code of 1987, then by Administrative Order No. 278 dated April 28, 1992 and Administrative Order No. 70 dated April 14, 2003, both providing for the functions, duties and activities of the Internal Audit Service. The mandate was later on re-echoed by several issuances of the Department of Budget Management (DBM) like the DBM Budget Circular 2004-4 dated March 22, 2004 that provides for the policy guidelines in the organization, staffing, positions and salary grades of the Internal Audit Unit (IAU); DBM Circular Letter No. 2008-05 dated April 2008, that provides for the guidelines in the organization of the IAU, clarifying its functions and specifying the rank and salary grade of the head of the IAS/ IAU; and DBM Circular-Letter No. 2008-08 dated 23 October 2008.

The timeline of the Ordinances and Orders that created and organized APIAO:

- On February 29, 2012, Special Ordinance No. 2012-001 entitled "AN ORDINANCE CREATING THE INTERNAL AUDIT UNIT, A DIVISION UNDER THE OFFICE OF THE PROVINCIAL GOVERNOR", was enacted by the Sangguniang Panlalawigan of Aklan.

- On March 02, 2012, the Governor of the Province of Aklan issued Executive Order No. 18 entitled "ISSUANCE OF TERMS OF REFERENCE IN THE OPERATIONS OF THE INTERNAL AUDIT UNIT UNDER THE PROVINCIAL GOVERNOR'S OFFICE, INCLUDING ITS STAFFING COMPLIMENT AND ITS REPORTORIAL REQUIREMENTS", defining among others, the composition and functions of the Internal Audit Unit.

- On April 19, 2012, the Provincial Governor issued Executive Order No. 34 entitled "REVISING THE EXISTING EXECUTIVE ORDER AND OTHER

ISSUANCES PERTAINING TO THE OPERATIONS OF THE INTERNAL AUDIT UNIT UNDER THE PROVINCIAL GOVERNOR'S OFFICE, INCLUDING ITS STAFFING COMPLEMENT AND REPORTORIAL REQUIREMENTS", to strengthen the Internal Audit Unit and give emphasis on the intent of the Provincial Government to create a separate and independent Internal Audit Office by year 2013.

- On April 30, 2012, Special Ordinance No. 2012-003 entitled "AN ORDINANCE AMENDING THE THIRD PARAGRAPH '(THIRD WHEREAS)', SECTION 2 (ORGANIZATIONAL STRUCTURE) AND SECTION 3 OF SPECIAL ORDINANCE NO. 2012-001, ' AN ORDINANCE CREATING THE INTERNAL AUDIT UNIT, A DIVISION UNDER THE OFFICE OF THE PROVINCIAL GOVERNOR" AND TO EMPHASIZE THE CREATION OF THE INTERNAL AUDIT OFFICE BY THE YEAR 2013", was enacted by the Sangguniang Panlalawigan of Aklan.

- On September 12, 2012, Special Ordinance No. 2012-013 entitled "AN ORDINANCE CONVERTING THE PRESENT INTERNAL AUDIT UNIT UNDER THE OFFICE OF THE GOVERNOR TO A SEPARATE AND INDEPENDENT OFFICE TO BE KNOWN AS 'AKLAN PROVINCIAL INTERNAL AUDIT OFFICE (APIAO)' ", was enacted by the Sangguniang Panlalawigan of Aklan.

- On December 12, 2012, Special Ordinance No. 2012-021 "AN ORDINANCE TRANSFERRING THE EXISTING PLANTILLA POSITIONS PRESENTLY UNDER THE INTERNAL AUDIT DIVISION OF THE OFFICE OF THE GOVERNOR ENUMERATED HEREWITH TO THE NEWLY CONVERTED AKLAN PROVINCIAL INTERNAL AUDIT OFFICE", was enacted by the Sangguniang Panlalawigan of Aklan.

2.3 POLICY STATEMENT

The Provincial Government of Aklan recognizes the important role of internal auditing in improving the operations of the provincial government as well as, in helping achieve the long desired reforms espoused by the provincial government. The province hereby emphasizes its unwavering commitment to help, support and strengthen the APIAO as one of its major departments that

will stand as one of the pillars that will promote good governance, accountability and transparency.

2.4 THE ROLE OF INTERNAL AUDIT

The role of APIAO is anchored on the mandate of the constitution as well as of the various laws, rules, regulations and issuances of the government. Its primary focus is to assist the management in improving its governance processes and risk management, and in strengthening its internal control system.

APIAO, however, shall not be required to participate in the regular operations of Aklan to prevent it from engaging in its audit activities a transaction which it has taken part.[10]

2.5 VISION

An independent multi-disciplinary Internal Audit Office strategically adding value to the management of the Province of Aklan.

2.6 MISSION STATEMENT

- To provide independent and objective reasonable assurance and consulting services designed to add value and improve the operation of the different provincial departments and offices of the Province of Aklan.

- To evaluate and improve the effectiveness of risk management, control, and governance processes of the Provincial Government of Aklan.

- To maintain a highly credible and motivated set of professional internal auditors and staff who are dedicated to promoting an efficient and effective management control and governance structure and accountable, honest and productive officials and employees in the provincial government.

2.7 GOALS AND OBJECTIVES

1. To establish an annual risk-based audit plan;
2. To conduct an internal audit based on the audit plan;

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[10] See Appendix "B", Page 100 , Sec. 15, Rule on Conduct of Regular Operating Activities, Executive Order No. 34

3. To provide timely audit reports with recommendations to the Provincial Governor;

4. To monitor the implementation of corrective measures based on the audit findings and recommendations;

5. To keep every audit personnel abreast of the latest development in the field of internal auditing by attending or participating in seminars, conferences and training programs which aim at giving updates on the current developments in internal audit standards, procedures, and techniques; and

6. To require the internal auditors to join organizations like, AGIA and other organizations of internal auditors, either local or international.

2.8 INTERNAL AUDIT POLICY

1. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.[11]

2. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.[12]

3. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.[13]

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.[14]

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[11]Code of Ethics, Page 1 to 2 of 2009 The Institute of Internal Auditors
[12]Ibid.
[13]Ibid.
[14]Ibid.

2.8.1 NATURE

Internal Audit functions are composed of an independent, objective assurance and consulting activity which is primarily device to add value and improve the operations of every department in the Provincial Government of Aklan. Basically, it will help the PGA achieved its desired objectives by imposing a more methodical policy to evaluate and improve the risk management and other government procedures and processes.

APIAO activities are carried-out in accordance with or pursuant to the Constitution, laws, rules and regulations, the PGIAM, the Standards for the Professional Practice of Internal Auditing, and the Aklan Provincial Internal Audit Charter and other issuances.

2.8.2 ACTIVITY AND SCOPE

In a nutshell, the main focus of internal audit functions are: gathering of information, review, analysis, evaluation and ascertaining the degree of compliance with and the adequate internal control system established to mitigate the possible risk which will be a hindrance to the achievement of the organizational objectives of the Province as a whole and the department in particular. In addition, APIAO will be responsible for recommending various remedial measures and possible solutions based on the audit findings. It will also monitor the implementation of corrective measures based on the audit findings and recommendations.

2.8.3 ORGANIZATION

The Head of the APIAO shall report directly to the Governor, to ensure independence in the exercise of Internal Audit function of the office.

The Aklan Provincial Internal Audit Office is headed by the Department Head who is assisted by two (2) Division Chiefs. The Internal Audit Office is divided into two divisions, namely, the Operations Division and the Management Division.

The Operations Audit Division is headed by a Division Chief and is responsible for conducting compliance and operations audits in the various departments of Provincial Government of Aklan.[15]

The Operations Audit Division shall evaluate the extent of compliance and ascertain the effective, efficient, ethical and economical execution of operations by utilizing internal auditing methods. The Division is tasked to perform the following functions:

a. Conduct operations performance audit of activities of the department and their units and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;[16]

b. Review and appraise systems and procedures/processes, organizational structure, operations practices, operations records, reports and performance standards of the agencies/units covered;[17]

c. Verify and analyze operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid;[18]

d. Ascertain the reliability and integrity of operational information and the means used to identify, measure, classify and report such information;[19]

e. Review operations or programs to ascertain whether or not results are consistent with established objectives and goals and whether or not such programs are being carried out as planned;[20]

f. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities;[21]

g. Recommend courses of action on operational deficiencies observed;[22]

h. Perform 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; and[23]

i. Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA.[24]

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[15]Philippine Government Internal Auditing Manual
[16]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 2.4b, DBM Circular Letter No. 2008-5
[17]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 2.4c, DBM Circular Letter No. 2008-5
[18]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 4.1.1.2, DBM Circular No. 2004-4, DBM Circular Letter No. 2008-5
[19]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 1.1.1, AO No. 278 s. 1992
[20]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 1.1.5, AO 278 s. 1992
[21]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 1.1.6, AO 278 s. 1992
[22]Cited in Page 61, Philippine Governemnt Internal Auditing Manual, Section 1.1.7, AO 278 s. 1992
[23]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 4.1.1.4, DBM Circular No. 2004-4
[24]Cited in Page 61, Philippine Government Internal Auditing Manual, Section 4.1.1.5, DBM Circular No. 2004-4

The output evaluation of the auditee department's services, e.g., collection of real property tax and issuance of official receipt to the paying client are some of the examples of services covered by operations audit. Moreover, Input process – output evaluation of the auditee departments as well as outcome evaluation can also be covered by operations audit.[25]

The Management Audit Division is headed by a Division Chief and is responsible for conducting compliance and management audits in the various departments of Provincial Government of Aklan. [26]

The Management Audit Division shall evaluate the achievement of the control objectives which include the safeguarding of assets, checking the accuracy and reliability of accounting data, adherence to managerial policies, compliance with laws, rules and regulations by utilizing internal auditing methods. It has the following functions:

a. Conduct management audit of activities and its units and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;[27]

b. Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports and performance standards of the agencies/units covered;[28]

c. Verification and analysis of financial and management data to ascertain if attendant management information systems generate data or reports that are complete, accurate and valid;[29]

d. Ascertain the reliability and integrity of financial and management information and the means used to identify, measure, classify and report such information;[30]

e. Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds;[31]

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[25]Philippine Government Internal Auditing Manual
[26]Ibid.
[27]Cited in Page 59, Philippine Government Internal Auditing Manual, Section 2.4b, DBM Circular Letter No. 2008-5 and Section 1.1.2, AO 278, s. 1992
[28]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 2.4C, DBM Circular Letter No. 2008-5
[29]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 4.1.1.2, DBM Circular Letter No. 2004-4
[30]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 1.1.1, AO No. 278, s. 1992
[31]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 1.1.3, AO No. 278, s. 1992

f. Review and evaluate the soundness, adequacy and application of accounting, financial management controls and promote the most effective control at reasonable cost;[32]

g. Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities;[33]

h. Perform functions of a protective nature, such as prevention and detection of fraud or dishonesty; review cases involving misuse of agency property; checking of transactions with outside parties; and[34]

i. Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA.[35]

Audit on the controls in the procurement system, controls in the payroll system and controls in the performance evaluation are good examples of Management Audit coverage.

2.8.4 PERSONNEL

APIAO must be composed of individuals who possess the necessary knowledge, skills and competencies to finish the assigned work. APIAO personnel must possess interpersonal skill to get along with and to harmoniously relate with other employees in the Provincial Government. This particular skill is necessary in order for APIAO to carry out its audit functions and activities smoothly, and avoid resistance or unwillingness on the part of auditee department. The personnel must be self-motivated, meticulous and have the desire to develop their ability to identify problems and present recommendations or reports orally or in written form.

Inside the Internal Audit Office, the auditors have the following career paths or choices: 1.) To rise from a position with less accountability to a position with greater accountability and responsibility; 2.) From one audit division to another division (e.g., from operations audit division to management audit division). The choice must be tempered or weighed according to different factors like length of time in a specific audit operations area, work experience, performance of the personnel in specific area, their rate of

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[32]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 1.1.4, AO No. 278, s. 1992
[33]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 1.1.6, AO No. 278, s. 1992
[34]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 4.1.1.4, DBM Budget Circular No. 2004-4
[35]Cited in Page 60, Philippine Government Internal Auditing Manual, Section 4.1.1.5, DBM Budget Circular No. 2004-4

development, and the need for competent individuals in other departments or operating area.

Primarily, personnel in the APIAO are composed of individuals recruited or hired from the private sector, transferred or promoted from other departments in the Provincial Government. If the need arises, individuals with special qualifications or talents may be hired or commissioned by contract to perform specific tasks or assist on specific audit projects or activities.

2.8.5 AUDIT OBJECTIVE

It embodies the principal as well as the secondary purpose of the audit activities being conducted by the APIAO. Basically, audit objective is used as basis for assessing the over-all outcome of the audit activity. It is also the basis of what would be the scope or extent of audit activity to be conducted or performed. It defines what are the activities, operations or areas which would be included or excluded in the audit activity.

2.8.6 RELATIONS WITH MANAGEMENT

The APIAO, in order to carry out its duties and responsibilities, develop a good and transparent relationship with the Chief Executive as well as with other departments in the Provincial Government Aklan. It must have a regular communication and close coordination with the Governor and Department Heads.[36]

The APIAO, in developing a good relation with the Chief Executive, must observe the standards as mandated by the Code of Conduct and Ethical Standards for Public Officials and Employees and other laws, rules and regulations.

2.8.7 RELATIONS WITH EXTERNAL AUDITORS-COA

The APIAO must establish close coordination or cooperation with the Commission on Audit. APIAO cannot interfere nor meddle with the powers, functions and authority of the COA. It cannot also take action adverse or contrary to the position of the COA. [37]

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[36] Philippine Government Internal Auditing Manual
[37] Ibid.

2.8.8 SPECIAL ASSIGNMENTS

In some instances or when the need arises, internal audit personnel, may, upon request of any departments in the Provincial Government with the prior approval of the Governor, be assigned temporarily to work on special projects or assignment which in anyway not connected with APIAO's functions and programs, provided that the said programs must not be its subject of review or by its personnel later on. The APIAO personnel assigned to special programs shall report directly to the Head of the requesting department with respect to the special program, but, on other administrative matters, she/he shall receive instruction from the HAPIAO.

2.8.9 REVIEW, ACKNOWLEDGMENT AND RESPONSE TO INTERNAL AUDIT REPORTS

The APIAO, prior to the submission and issuance of final audit report, must discuss and have a dialogue with the auditee department concerned in order to reach into an agreement as to the accuracy of the data, facts or information gathered supporting the audit findings. On this stage, if parties deemed it necessary to introduce remedial measures to address specific audit findings, the same should be included in the final audit report of the APIAO. In the audit report, remedial measures must be included together with the person responsible for its implementation, and the manner and period on which it must be accomplished. Likewise, during the dialogue, the auditee department and the APIAO may devise measures or solutions to problems based on the audit findings.

After the discussion with the auditee department, the final draft of audit report must be reviewed with the Department Head or her/his designated representative, before the same is submitted to the Governor or before it is distributed to the other departments. If the HAPIAO finds it in accordance with what has been agreed or if the same was in consonance with the circumstances, she/he will order the submission and distribution of final audit report.

2.8.10 FOLLOW-UP ON MATTERS REPORTED BY INTERNAL AUDIT

The Office of the Governor has the responsibility to order the implementation of remedial measures on areas identified by the APIAO which needs immediate actions. If the recommendation is not complied with or if it is

unsatisfactory complied with, the HAPIAO together with the Governor may call or discuss the matter with the concerned Department Head.

2.9 INTERNAL AUDIT OPERATING PRINCIPLES

The APIAO must, in order for it and the Province to achieve its desired efficiency and effectiveness of operations, observe the following operating principles: value added auditing, allocation of audit resources to areas of risk, individual professionalism, management responsibility for controls, forward emphasis, objectivity, confidentiality, reasonable error level, free flow of communication, continual staff development, and completed staff work. Every Internal Audit staff is mandated that the above-mentioned auditing principles must be strictly observed and complied with. It must be considered in every audit activity and programs of the APIAO.

2.9.1 VALUE-ADDED AUDITING

Value added auditing aims to provide information to the Governor as to what aspects of management or what areas in the management or in a department that needs to be enhanced or improved. Every personnel in the internal audit office contribute towards the achievement of the PGA's goal. The APIAO and all other departments in the Provincial Government, including the Governor, have one common goal, that is the safeguarding and preservation of the Provincial Governments assets. Audit functions should be performed with the highest degree of integrity, honesty and ethics. HAPIAO, at every beginning of the year, should develop a comprehensive audit schedule based on the inputs of individual internal audit personnel with comprehensive estimate of days needed to conduct an audit activity in a specific audit area and the release of the audit report.

Every Audit Team assigned to a specific audit area has to develop a specific plan or strategy to maximize or utilize the time and resources of the team towards the achievement of agreed audit objectives. Audit objectives must have been duly agreed or conformed to by the audit team and HAPIAO. All audit activities must lay down the purpose, the desired accomplishment, the focus, the governor's concerns, the man days to be spent, the schedule of release of audit report, and the parameters as to the effectiveness of achieving the objectives in specific audit area.

2.9.2 ALLOCATION OF AUDIT RESOURCES TO AREAS OF RISK

Like any other organization, the APIAO must be keen in utilizing and allocating its resources, in a way that it can achieve its desired objectives that will be beneficial to the Provincial Government. It is the primary duty of APIAO and its personnel to make sure that its resources are economically and efficiently utilized. The APIAO, in identifying audit areas, must use an audit risk evaluation approach in order to make use of its resources efficiently, effectively and achieve the desired results.

Basically, audit risk determination and quantification is made by every department of the Provincial Government. Out of this, audit resources are then allocated based on the value or severity of the risk. Furthermore, modifications are then made, according to the sound judgment and experience of the APIAO with concerned office. In summary, the APIAO must focus its resources on areas which are of high risks and has a greater impact or has the higher probability of loss.

2.9.3 INDIVIDUAL PROFESSIONALISM

Performance of Internal Audit functions demands a high degree of professionalism. APIAO personnel must observe the highest degree of professional care and competence especially in performing their functions. As Internal Auditors they must have the following qualities needed in the performance of auditing functions such as initiative, intelligence, technical competence, flexibility, wide perspective and understanding of the facts and circumstances as well as strong determination to finish the work assigned or when confronted with difficult problems in their workplace.

Initiative is one of the basic qualities that the internal auditors must possess especially in finding ways and means to effectively and efficiently perform audit functions.

Flexibility is another quality that the internal auditors must possess. They must be able to cope with the changing environment and be able to adjust and quickly respond to emerging problems.

In short, the APIAO in the selection and hiring of personnel must consider the above-mentioned qualities to maintain the integrity, reliability,

independence, objectivity of the office. With these qualities, APIAO personnel will be able to perform proficiently their day-to-day functions.

2.9.4 MANAGEMENT'S RESPONSIBILITY FOR CONTROLS

It must be greatly emphasized that APIAO shall not be made responsible for or be required to participate in the regular operations of the Provincial Government. It shall not be allowed to participate in the day-to-day activities or control procedures of the local government unit. This is necessary in order to prevent the APIAO from auditing or examining transactions on which they are party thereto.[38]

It is very important to note that APIAO can independently, objectively and without biased, review, evaluate and analyse every information, records, processes, circumstances, organizations and evidences, if they are not involved in the activity.

Principally, it is the management primary responsibility to comply with the prescribed policies, procedures, rules and regulations. In addition, it is also the responsibility of the management to identify, implement or devise necessary changes, to ensure the efficiency and effectiveness of the internal control system. Every change introduced for the improvement of the control system in the Provincial Government must be upon the initiative of the management.

2.9.5 FORWARD EMPHASIS

In the conduct of audit activities as well as in appraising the internal control measures being implemented by the Governor, the APIAO places more importance on how will the performance, systems or process in the Provincial Government or Office concerned be improved or enhanced. Thus, it is very important for the internal audit personnel to construe their findings with the thought in mind that such must be used to enhance and improve the performance of the auditee.

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[38] See Appendix "B", Page 107, Section 15, Rule on Conduct of Regular Operating Activities, Article VI, E.O. 34, Series of 2012

2.9.6 OBJECTIVITY

Internal Audit personnel, in the exercise of their functions or in the performance of internal audit activities, must not only be impartial or unbiased but must also appear to be impartial and unbiased. Furthermore, its findings and recommendations must always be based on the facts of the case rather than on allegations and conclusions unsupported by evidence. They must avoid any conflict of interest.

2.9.7 CONFIDENTIALITY

The APIAO shall preserve the confidence and secrets of the documents and papers of the subject offices before, during and after the audit review or investigation. Moreover, it shall respect the value and ownership of the information received in the discharged of its function. It shall not disclose any information without authority unless there is a legal or professional obligation to do so. The officers and employees of the office must not use the information obtained for any personal gain or in any manner that would be contrary to law or detrimental to the objectives of the Provincial Government. Whenever necessary, APIAO shall obtain the written consent of the Provincial Governor before releasing information to outside parties.[39] The APIAO, with prior notice from the Governor, may release information to the Sangguniang Panlalawigan, when required to do so, on concluded audit activities, to aid the Sangguniang Panlalawigan of the Province of Aklan in formulating legislative measures.

2.9.8 REASONABLE ERROR LEVEL

There are some degrees or levels of errors that may be tolerated or expected in a given system, e.g., mistake in the interpretation or application of laws, rules and regulations issued by Congress and other national agencies. If the above-mentioned error or mistake was due to lack of proper training or knowledge about the law, rules or regulations, such mistake or error in the interpretation and application may be tolerated. However, if the error was deliberately or purposely done to evade or circumvent the law, such error can already be considered high and can no longer be tolerated. Furthermore, increased to a level which causes material financial effect can also be considered as critical, and will be the subject of management attention. It is

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[39]See Appendix "B", Page 105, Sec.7 Article IV, Audit Confidentiality, Executive Order No. 34 Series of 2012

hereby suggested that, to quantify the error level, internal auditors must consider factors like frequency, degree or impact on the Provincial Government's operation, severity of its violations with laws, rules and regulations, and the degree of malice or intent in the error committed.

2.9.9 FREE FLOW OF COMMUNICATIONS

There must be a free communication and coordination in every staff. This is necessary in order for the staff to build rapport and good working relationship with each other, given the demand of the work. This will also help in the over-all performance and effectiveness of the Audit Team and of the office as a whole.

2.9.10 CONTINUAL STAFF DEVELOPMENT

Internal audit personnel must enhance their knowledge, skills and other competencies for continued staff development. Every audit personnel must keep abreast of the latest development in the field of internal auditing. Moreover, internal auditors must join membership in organizations like AGIA and other organizations of internal auditors, either local or international. APIAO personnel must attend or participate in seminars, conferences and training programs which aim at giving updates on the current developments in internal audit standards, procedures, and techniques.

APIAO personnel are encouraged to pursue educational study to obtain appropriate professional certification, such as the Certified Internal Auditor designation, and other certifications issued by IIA. They may also pursue Master's Degree in subjects related to Internal Auditing.

In every completion of audit activity, HAPIAO must provide initial feedback assessment on the job performed of the Audit Team and the audit personnel. HAPIAO must encourage her/his co-workers to enhance their performance standards and boost the morale of Internal Audit Organization.

2.9.11 COMPLETED STAFF WORK

The working principle of completed staff work requires that every personnel must perform tasks in accordance with the audit manual. This represents the most effective use of staff while rapidly developing their capabilities to carry out ever increasing responsibilities. To function effectively, the APIAO and the

Audit Team-in-charge must have an idea of what is the scope and purpose of the audit activity, hence there must be a comprehensive discussion of audit assignment.

The Audit Team-in-charge must wholly assume responsibility of the audit activity assigned and the proper coordination and communication with all concerned offices. They must keep the HAPIAO informed of the status or progress of the on-going audit activity. The team leader must submit on time the completed staff work to the Head of Aklan Provincial Internal Audit Office.

2.10 STRUCTURE

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                    PROVINCIAL GOVERNMENT
                    DEPARTMENT HEAD (SG 26)
                      (For creation in 2013)

ADMINISTRATIVE          INTERNAL AUDIT TEAM              QUALITY
   DIVISION                                            ASSURANCE TEAM
                    MGT AUDIT          OPR AUDIT         (IA III – 2)
                    DIVISION           DIVISION

ADMIN AIDE III SG 3   INTERNAL AUDITOR IV   INTERNAL AUDITOR IV
(To be created in the      SG 22                 SG 22
    later years)      (For creation in CY 2013)  (Existing in PGO, Item
                                                      no.112)

ADMIN AIDE I SG 1     INTERNAL AUDITOR III   INTERNAL AUDITOR III
(To be created in the   (2 ITEMS) SG 18        (2 ITEMS) SG 18
    later years)     (1 item for creation in  (1 item existing in PGO,
                     CY 2013; the other 1 to  Item no.110; the other 1
                     be created in the later  to be created in the
                                                   later years)

                      INTERNAL AUDITOR II    INTERNAL AUDITOR II
                            SG 15                  SG 15
                      (Existing equivalent    (To be created in the
                      position in PGO, Item      later years)
                           no.112)

                      INTERNAL AUDITING      INTERNAL AUDITING
                      ASSISTANT SG 8         ASSISTANT SG 8
                      (Existing equivalent   (To be created in the
                      position in PGO, Item      later years)
                           no.111)
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2.11 FUNCTIONS

As a whole, the Internal Audit Office shall have the following functions:

a) Advise the local chief executive on all matters relating to internal/ management control and operations audit;

b) Conduct management and operations performance audit of the LGU activities and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures, processes and contractual obligations;

c) Review and appraise systems and procedures, processes, organizational structure, asset management practices, financial and management records, reports and performance standards of the units covered;

d) Analyse and evaluate management deficiencies and assist top management by recommending realistic courses of actions;

e) Perform such other related duties and responsibilities as may be assigned or delegated by the chief executive of the local government or as may be required by law.

CHAPTER 3

THE PROVINCIAL INTERNAL AUDIT OFFICE CHARTER

3.1. DEFINITION OF INTERNAL AUDITING

Internal Auditing is an independent and objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.[40]

3.2 MISSION

- To provide independent, objective reasonable assurance and consulting services designed to add value and improve the operation of the different provincial departments and offices of the Province of Aklan.

- To evaluate and improve the effectiveness of risk management, control, and governance processes of the Provincial Government of Aklan.

- To maintain a highly credible and motivated set of professional internal auditors and staff who are dedicated to promoting an efficient and effective management control and governance structure and accountable, honest and productive officials and employees in the provincial government.

3.3 SCOPE OF WORK

The scope of APIAO shall cover the gathering of information, review, analysis, and evaluation of the internal control system, governance and risk management process. APIAO can also give to a particular client a reasonable assurance and recommendations that can help adding value to the latter and that can improve their system based on the audit findings. It will then monitor the actions taken by the management on the given recommendations.

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[40] International professional practices framework (1999)

3.4 INDEPENDENCE AND OBJECTIVITY

The internal audit activity must be independent, and the auditors must be objective in performing their work. It shall be free from interference in determining the scope of internal audit examination, audit review, reporting, recommendations and follow-up. To fully achieve independence, the HAPIAO shall have direct and unrestricted access to the Provincial Governor and other senior management. APIAO employees shall exercise the internal audit function independently and objectively on the basis of their assessment of the facts and in accordance with a conscientious understanding of the internal audit rules, regulations, processes, methods and procedures, free of any extraneous influence, inducement, pressure, threat or interference, direct or indirect, from any office or person. Furthermore, they shall perform their functions without any bias, favor or prejudice as it is important to the proper discharge of the internal audit functions. It applies not only to the issuance of audit findings and recommendations but also to the process and methods by which the internal audit findings and recommendation is made. [41]

3.5 RESPONSIBILITY

3.5.1 Responsibilities of Management

The management of the Province of Aklan refers to its Governor. He or she must at all-time support the programs and projects of APIAO and shall be responsible for the review and approval of the annual audit plan, charter, and shall decide on the management's acceptance of risks, and others that may be relevant to the function of APIAO. Moreover, sufficient funds should be properly allocated to the APIAO in order that it can carry out its audit functions effectively. Likewise, the Governor must also see to it that all audit report submitted by APIAO is carefully reviewed and its recommendations are properly and faithfully implemented.

3.5.2   Responsibilities of Internal Audit

In general, the APIAO has the responsibility to provide objective and relevant assurance, and to contribute to the effectiveness and efficiency of governance, risk management and control processes of Aklan Provincial Government.

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[41] See Page 3 of 1100 of International Standards for the Professional Practice of Internal Auditing Standards 2010, the Institute of Internal Auditors, Appendix "B", Page 104-105, Article III, INTERNAL AUDIT INDEPENDENCE AND IMPARTIALITY, Section 5 and 6, Executive Order No. 34 Series of 2012.

It is as well the duty of APIAO to develop an annual audit plan using a risk-based approach which shall be approved by the governor, report its performance relative to the plan, review and recommend possible updates to its charter, monitor the outcome of engagements and follow-up implementation from auditable units. Furthermore, APIAO shall not be involved in activities or projects that is or would be the subject of its review at present or in the future, and it shall not undertake non-audit functions without the expressed permission of the Governor.

3.6 AUTHORITY

The APIAO shall have the authority to review any and all policies, rules, regulations, plans and procedures within a reasonable time. It shall have full, free and unrestricted access to all records, personnel, physical properties relevant to performing engagements and most especially direct access to the Provincial Governor and the Sangguniang Panlalawigan, if needed. The Department Heads and other concerned officers cannot or may not limit the authority of APIAO if such is in the discharged of its functions.

Moreover, APIAO shall, in the conduct of its audit functions, have the authority to require all the Department Heads and all its personnel under the provincial government to submit or furnish documents, information and explanation on subjects or topics of its audit activity. They must give their full support and cooperation to APIAO.

3.7 ACCOUNTABILITY

The HAPIAO shall be primarily accountable to the Governor. He or she must submit an annual assessment report to the latter with a copy furnished to the Sangguniang Panlalawigan of the Province of Aklan that presents the status and results of the implementation of the Annual Audit Plan, the status of the implementation of the Audit Recommendations that are regularly monitored, and the budgetary resources status of APIAO.

3.8 STANDARDS OF AUDIT PRACTICE

The Aklan Provincial Internal Audit Office shall observe the following standards in audit practice:

a. Constitutional Provisions;

b. Laws, rules and regulations on public governance and accountability, and applicable jurisprudence;

c. Government policies, standards, guidelines, and regulatory issuances;

d. Philippine Government Internal Audit Manual;

e. Code of Ethics of the Association of Government Internal Auditors (AGIA) and IIA, Inc.;

f. Standards and other issuances of intergovernmental organizations such as the United Nations specialized committees and agencies, in particular the INTOSAI Guidelines for Internal Control Standards for the Public Sector;

g. Relevant or applicable standards and best practices in governance, accountability, and operations, both local and international, such as the International Organization for Standardization (ISO) and other officially recognized organizations and associations; and

h. International Standards for Professional Practice of Internal Auditing (ISPPIA).

It is hereby emphasize that the APIAO strongly adopts and upholds the Institute of Internal Auditors Code of Ethics, and the Code of Ethics of the Association of Government Internal Auditors (AGIA), which provides the following:

1. Observe the Code of Ethics and Ethical Standards for Public Officials and Employees;

2. Uphold the time-honoured principle of public office being a public trust;

3. Exercise independence, honesty, objectivity, and diligence in the performance of his duties and responsibilities;

4. Exhibit loyalty to the institution and to the public to whom he renders services;

5. Refrain from entering into any activity which may be conflict with the interest of the Aklan Provincial Government that would prejudice the ability to carry-out objectively the duties and responsibilities;

6. Shall not solicit or accept directly or indirectly any gift, gratuity, favour, entertainment, loan, or anything of monetary value from an employee, client or customer of the institution where she or he belongs;

7. Be prudent in the use of information acquired in the course of his duties and shall not use any information for personal gain, for building public image of any official or employee, nor shall he make any premature disclosure of information which might lead to speculation;

8. In presenting audit findings, shall exercise all reasonable care to obtain sufficient factual evidence to warrant such observation;

9. Disclose material facts known, which, if not revealed, could either distort the reports of the results of operations under review or conceal the unlawful practices; and

10. Strive for improvement in the proficiency and effectiveness of his service.

CHAPTER 4

AUDIT OPERATIONS

4.1 RISK ASSESSMENT

Primarily, the goal of the risk model is to heighten the assignment of audit resources through a comprehensive understanding of the audit universe and the risks associated with each universe item. An audit risk model will be used to quantify the risk rating of each audit unit. Audits will be scheduled by priority.[42]

The Audit Plan's Risk model is based on six factors or elements of risk. They are:

1. Prior audit findings
2. Perceived sensitivity
3. The control environment
4. Confidence in operating management
5. Changes in people or systems, and
6. Complexity.[43]

Each item in the audit universe will be rated on these 6 factors using a numeric rating of 1 to 3. The ratings are 1 = "probably not a problem," 2 = "possibly a problem" and 3 = "probably a problem." The results of these rating judgments are totalled and then multiplied by an audit aging factor. The aging factors used are:[44]

100% if a similar audit was completed within 24 months,

125% if the audit was completed between 24 and 36 months,

150% if the audit was completed between 36 and 60 months,

200% if the audit is over 60 months old.[45]

The resulting ratings will range between 6 and 36. Once the ratings are complete, they are sorted into 4 strata by risk rating. The top 10 percent stratum represents high risk. The next 30 percent stratum represents sensitive risk. The next stratum, representing 40 percent of the audit universe, is considered moderate risk. The audit units in the lowest 20 percent are

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[42] Province of Guimaras, Internal Audit Operations Manual
[43] Ibid.
[44] Ibid.
[45] Province of Guimaras, Internal Audit Operations Manual

considered low risk. The framework for the annual audit plan is then built from samples from these 4 strata using the following coverage targets.[46]

Audit entities considered high risk will be audited 100 percent. The sensitive risk strata will be audited 50 percent. A 25 percent sample will be audited from the moderate risk group, and the low risk group will be audited by selecting a 10 percent sample. The lower risk groups are sampled to see if the rating process is working and confirm that the levels of risk are appropriately stacked.[47]

While the risk model still requires judgments, the individual ratings are documented and subject to critical review and challenge. The model also promotes uniform definition of each segment's audit universe. Thus, audit risks at each department location or audit area can be compared with audit risks at other area on a subjective basis. This will guide the use and geographic basing of personnel.[48]

Defining the audit universe is the first prerequisite to risk ranking. The audit universe to which this risk assessment will be applied will be determined by the Aklan Provincial Internal Audit Office. Their determination of the audit universe will be based on their knowledge of the Province strategic plan and province operations, a review of organization charts and function and responsibility statements of all Aklan Provincial Government organizations, and discussions with responsible management personnel.

4.1.1 GUIDELINES FOR RISK RANKING CRITERIA[49]

1. **Prior Audit Findings**- previous audit findings are evidence of what is the status of the internal control discipline within an organization. Usually, problems are characterized by significant control deficiencies, large adjustments, a greater than normal number of findings, and repetitive findings not fixed. Equally, the lack of findings or timely correction of previous findings indicates control discipline.

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[46] Ibid.
[47] Ibid.
[48] Ibid.
[49] Province of Guimaras, Internal Audit Operations Manual

2. **Sensitivity**- it is the evaluation of the inherent risk in relation to a specific area being rated. It is an analysis or evaluation of the circumstances which may cause delay or error and its possible effect or reactions. The risks may be related to loss or impairment of assets, undetected error, liability not recognized or not accurately quantified or adverse publicity, legal liability, etc. The rating of sensitivity also should consider the size of the universe item, potential exposure and the likelihood of occurrence.

3. **Control Environment**- represents the collective policies, procedures, routines, physical safeguards and employees in place. More importantly, tone at the top, compliance or conformity with policies and procedures, reliable systems, prompt detection and correction of errors, adequate staffing and controlled turnover of personnel are essential ingredients of a favourable controlled environment. On the other hand, the following are symptoms of poor control environment; absence or poor supervision, high error rates, no proper documentation, voluminous workloads, high turnover, and non-routine transactions.

4. **Confidence in Operating Management**- this criterion reflects the confidence that audit management places in management directly responsible for the audit unit and management's commitment to internal control. Comfort is characterized by factors such as past audit interaction, experience of management in the work environment, and feelings about the quality and level of staffing.

5. **Changes in People/Systems** – Provincial history indicates that changes impact internal controls and financial reporting. Change usually occurs to effect improvement in the long term, but often has short-term offsets that require increased audit coverage. Changes include reorganizations, business cycle swings, rapid growth, new product lines, new systems, acquisitions and divestitures, new regulations or laws and personnel turnover. Audit units not subject to change require less audit coverage.

6. **Complexity**- this risk factor reflects the potential for errors or misappropriation to go undetected because of a complicated environment. The rating for complexity will depend on many factors. Extent of automation, complex calculations, interrelated and interdependent activities, number of products or services, the time spans of estimates, dependency on third parties, customer demands, processing times, applicable laws and regulations and many other factors, some not recognized, affect judgments about the complexity of a particular audit. The refinement of the risk rating model will remain an on-going priority of Internal Audit. Our objective will be to assign audit resources in the optimum manner to audits with the greatest risk, savings, or recoveries.

4.2 PLANNING

The involvement of the Aklan Provincial Internal Audit Office personnel is vital in the formulation of an Annual Plan as its initial output for its institutionalization. The input of the plan instigated from a thorough deliberations of each offices by means of defining and identifying the risk on their daily official undertakings. The risk and the event that causes the risk will be the basis of formulating a comprehensive and dependable Annual Plan.

The objectives of Audit planning are to formulate:

a) A Strategic Audit Plan which identifies the priorities of the internal audit activity over three to five years providing the direction, scope, objectives and timetables of audit activities. It is also updated on a regular basis to keep track of the changes and improvements imbedded in the system and;

b) An Annual Audit Plan which involves setting out plans for audit assignments realizable within a year period.

4.2.1 STRATEGIC PLAN

The provision of clear and concrete plans of what APIAO aims to achieve in a range of three to five years is a step towards sustained development. Anchoring on the Strategic Development Framework of the Provincial Government, APIAO's audit undertakings shall lead to promote a responsive, honest and reliable government system through improved operations and services.

APIAO's Strategic Audit Plan for 2013-2015 will involve all offices in the province. Assessment and review of the Risk Matrices shall be done on the preceding year target to validate the veracity and accuracy of the risk and events identified.

The plan shall include the incentive target of the PRMF as indicated in the Graduation Strategy for 2013-2015. It will be done every three (3) years and shall be approved by the Provincial Governor and will be endorsed to the Sangguniang Panlalawigan Members for adoption.

4.2.2 ANNUAL AUDIT AGENDA PREPARATION

The approved Risk Matrices of the government offices in the province will be accepted in writing by the Governor and endorsed to APIAO for appropriate action. APIAO will review and assess the Risk Matrices.

Prioritization of high risks result based on risk ranking criteria with consideration to office resources will be accomplished first. Then, Audit Agenda will be prepared based on prioritized high risks areas and incorporates revision based on the requirements of the Office of the Governor. The Annual Audit Agenda will then be submitted to the Office of the Governor for approval.[50]

4.2.3 ANNUAL AUDIT PLAN PREPARATION

The APIAO will develop an Annual Audit Plan based on the approved Annual Audit Agenda. This plan indicates audit coverage within the constraints of available resources for a period of one year. The Audit Plan shall be submitted to the Provincial Governor for approval, copy furnished the Sangguniang Panlalawigan.[51]

4.3 AUDIT APPROACHES

4.3.1 RISK-BASED

Risk Assessment is the over-all process of risk identification, analysis and evaluation to ascertain existing and potential risks and determine the

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[50] Province of Guimaras, Internal Audit Operations Manual
[51] See Page 145, Flow-Chart No. 3.

appropriate response[52] that may affect the successful achievement of agency objectives. It is the basis for determining how those risks should be managed, to assess the relative susceptibility of agencies to uncertainties due to internal and external opportunities and threats, conscious or unintended abuse, and misuse of resources, errors or factors which could affect operational efficiency.

The Philippine Government mandates the establishment of standards on risk management in public service organizations. The context for risk assessment may be external and internal. The external context can include, but is not limited to:

- Cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local;
- Key drivers and trends having impact on the objectives of the organization; and
- Perceptions and values of external stakeholders.

On the other hand, the internal context can include, but is not limited to:

- Capabilities, understood in terms of resources and knowledge (e.g., capital, time, people, processes, systems and technologies);
- Information Systems, information flows and decision making processes;
- Internal stakeholders;
- Policies, objectives, and the strategies that are in place;
- Standards and reference models adopted by an organization;
- Structures (e.g., governance roles and accountabilities).

1) RISK IDENTIFICATION

This refers to the identification of opportunities and threats to the achievement of the control objectives.

The purpose of doing risk identification is to generate a comprehensive list of risks based on factors that might enhance, prevent, degrade or delay the achievement of the control objectives. This will include

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[52] Cited in Province of Guimaras, Internal Audit Operations Manual, Page 37, Philippine Government Internal Auditing Manual

identifying the risks in case of not pursuing an opportunity. Comprehensive identification is very important because a risk that is not identified will not be included in the next step of analysing risks.

Risk identification is important to identify the most important areas to which resources in risk assessment should be channelled. It would also determine responsibility for the management of the risk.

The provincial government will apply risk identification tools and techniques which are suited to its objectives and capabilities, and to the risk faced.

Relevant and up-to-date information is important in identifying risks. This should include suitable background information where possible. People with appropriate knowledge should be involved in identifying risks. After the identification, it is necessary to consider possible causes and scenarios that would show what consequences can occur.

2) RISK ANALYSIS

Risk Analysis is the systematic use of information to identify sources and to estimate the risk. This is about developing an understanding of the risk and providing an input to risk evaluation and to decisions on whether risks need to be responded to, as well as on the most appropriate response strategies and methods. This involves consideration of the causes and sources of risks.[53] Factors that affect consequences and likelihood should be identified. An event can have multiple consequences and can affect multiple objectives. Thus, existing risk controls and their effectiveness should be taken into account.

The way in which consequences and likelihood are expressed and the way in which they are combined to determine a level of risk will vary according to the type of risk, the information available, and the purpose for which the risk assessment output is to be used. This should all be consistent with the risk criteria. It is also important to consider the interdependence of different risks and their sources.

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[53] Cited in Province of Guimaras, Internal Audit Operations Manual, Page 38, Philippine Government Internal Auditing Manual

The confidence in the determination of risks and their sensitivity to preconditions and assumptions should be considered in the analysis, and communicated effectively to decision makers and other stakeholders, if required. Risk analysis can be undertaken with varying degrees of detail depending on the risk, the purpose of the analysis, and the information, data and resources available

3) RISK EVALUATION

This is the process of evaluating the significance of the risk and assessing the likelihood of its occurrence. With risk evaluation, management would become aware of the actions which need to be undertaken and their relative priority. The objective of evaluating risks is to assist in coming up with a decision on which risks need treatment based on the results of the risk analysis.

The results of risk evaluation are an input to prioritizing treatment implementation. Decisions should take into consideration the tolerance of the risks by parties other than those which benefit from the same and should be made in accordance with legal, regulatory and other requirements. In some cases, risk evaluation may lead to a decision to undertake further analysis or a decision not to treat the risk in any way but maintain existing risk controls.[54]

4.3.2 CONTROL SELF-ASSESSMENT (CSA)[55]

CSA is a relatively new method for examining and evaluating the organization's system of internal control. It is an amalgam of traditional internal auditing concepts, risk analysis, and self-assessment approaches.

CSA has the following elements:[56]

1. Front-end planning and preliminary audit work.
2. The gathering of a group of people into a same time/same place meeting, study of relationships among elements of information (for example fluctuation in recorded interest expense compared to changes in related debt balances) typically involving a facilitation seating arrangement (U-shape table) and a meeting facilitator. The

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[54] Cited in PGG, Internal Audit Operations Manual, INTOSAI Guidelines for Internal Control Standards for the Public Sector
[55] Province of Guimaras, Internal Audit Operations Manual
[56] Province of Guimaras, Internal Audit Operations Manual

participants are "process owners" – management and staff who are involved with the particular issues under examination, who know them best, and who are critical to the implementation of appropriate process control.

3. Structured agenda which the facilitator uses to lead the group through an examination of the process's risks and controls. Frequently, the agenda will be based on a well-defined framework or model so that participants can be sure to address all necessary issues framework for that project.

4. Optionally, the presence of a scribe to take an on-line transcription of the session and of electric voting technology to enable participants to anonymously voice their perceptions of the issues.

5. Reporting and the development of action plans

CSA's BASIC PHILOSOPHY[57]

Is that the control is the responsibility of all employees in the organization. The people, who work within the process, including employees as well as the managers of the process, are asked for their assessments of risks and controls in their process.

CONTROL SELF-ASSESSMENT[58]

ADVANTAGES	DISADVANTAGES
1) Very cost effective.	1) Requires significant facilitation skills and team leading ability.
2) Provides overall, annual assessment of the organization's system of internal control	2) Requires auditors to change their paradigm
3) Helps managers with problems of importance to them.	3) Requires significant interface with management and employees.
4) Uses ideas and concepts understood by managers rather than by auditors only.	4) Requires significant planning and Coordination
5) Provides opportunity to train management and employees on	5) Provides only a high-level review of the organization's internal

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[57] Ibid.
[58] Province of Guimaras, Internal Audit Operations Manual

how controls work to achieve business objectives of importance to them.	controls.
6) Fosters buy-in to recommendations and action plans since employees participated in their development.	

4.4 TYPES OF AUDIT

The APIAO shall only engage on the following types of audit:[59]

- **_Operational/Management Audit._**   Audit activities which may be performed to assist management in the review or examination of policies, systems and procedures. They focus on the ability of an organization to achieve its business objectives in the areas of efficiency and effectiveness of operations.

- **_Compliance Audit._**   Audit that is largely directed at evaluating compliance with established policies, laws, procedures, regulations, contractual provisions, etc.

- **_Information Systems Audit_**.   It is the process of collecting and evaluating evidence to determine whether a computer system (information system) safeguards assets, maintains data integrity, achieves organizational goals effectively and consumes resources efficiently. [60]

- **_Fraud Audit/Forensic Audit_**. Where fraudulent activity is present or suspected, specialized audit activities may be performed to assist management in detecting or confirming the presence and extent of fraud and in providing necessary evidence for legal purpose.   Also called forensic auditing or investigative auditing.

- **_Special Audit._**   Audits that maybe assigned other than those identified as regular audit activities in the Annual Audit Plan.

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[59] Province of Guimaras, Internal Audit Operations Manual
[60] The IS Audit Process (http://www.isaca.org)/Weber, Ron, EDP Auditing—Conceptual Foundations and Practice

4.5 INTERNAL AUDIT PROCESSES

4.5.1 PROJECT ASSIGNMENT

The Project Assignment, usually prepared by the Head of the project, initiates the start of Internal Audit Activity's projects. It is to be completed before any work is done on the project. The Project Assignment assigns the project name and number, provides direction as to what the project's objectives are and any special concerns or considerations, determines the audit period, and assigns audit personnel and time budget. The estimated time budget is initially obtained from the annual audit plan.

4.5.1.1 ASSIGNING THE AUDIT

Upon approval of the audit plan, the HAPIAO assigns audit to the Audit Team. The Audit Engagement Assignment Form (APIAO Form No.1) will be filled up by the HAPIAO and forwarded to the Audit Team for the commencement of the audit work.

4.5.1.2 AUDITEE NOTIFICATION

The APIAO will notify the Auditee through a Notice of Entrance Conference (APIAO Form No. 2) that an audit has been scheduled. The notice shall specify the scope of the audit, date, time, venue, attendees of the conference and the documents to be distributed.

4.5.2 CONDUCT OF PRELIMINARY SURVEY

In this stage, the Audit Team gathers relevant information about the unit in order to obtain a general overview of operations. The Audit Team will talk to key personnel and reviews reports, files, and other sources of information.

4.5.2.1 FAMILIARIZATION[61]

During this stage, the Audit Team should obtain significant background information and a practical working knowledge of the following:

- Department or program objectives.
- Applicable laws, regulations, and departmental policies and procedures.
- Management and financial controls.
- Operating procedures.

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[61] Province of Guimaras, Internal Audit Operations Manual

- Size and scope of the activities under review.

- Organization and staffing.

- Current goals and areas of emphasis.

- Specific objectives.

- Significant programs and activities.

- Principal delegations of authority.

- A concise picture of the organizational arrangement, particularly how the program, function, entity, or activity to be audited fits into the overall operation.

In addition, the Audit Team should obtain the following information:

- Audit programs (if there's any).

- Prior audit work papers (if there's any).

- Public laws, legal opinions, and special rulings.

- Operating procedures.

- Organizational charts.

- Functional statements and position descriptions.

- Processing flow charts and system narratives.

- Management, budget, financial, and operating reports.

4.5.2.2 IDENTIFICATION OF POTENTIAL PROBLEM AREAS

Survey is conducted to identify possible problem areas. In this process, the Audit Team will identify the programs, activities, and functions that are significant. In this stage, the Audit Team will identify areas which have no bearing or does not require detailed audit attention.

After all the important programs and activities have been identified the Audit Team's next step is the assessment and evaluation of management controls. The Audit Team should identify in its assessment or evaluation areas where basic control is weak, non-functioning, or missing. The Audit Team must assess if how much reliance can be placed on the entity's management controls to protect its assets, assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results.

The Audit Team while on the process of identification of possible problem areas. Here are some of the more typical red flags:

- An absence or insufficiency of planning;

- A plan of office that does not provide for segregation of duties appropriate for safeguarding of assets, or permits duplication of effort by employees or between organizational units, or performance of work that serves little or no useful purpose;

- A system of authorization and record procedures inadequate to provide effective control over assets, liabilities, disbursements, receipts and expenses;

- Procedures, whether officially prescribed or merely followed, that are ineffective or more costly than justified, or written procedures that are unclear and confusing;

- Absence of an established system of practices to be followed in performance of duties and functions of each organizational unit, or overstaffing and understaffing in relation to work to be done;

- A lack of coordination where the work of the audited entity is closely related to that of other units, departments, or outside entities;

- Large expenditures or receipts;

- Abnormally high or low program participation or accomplishment;

- Unusual program participation or transactions;

- Programs, functions, entities, or activities never audited before;

- Conflict of interest of personnel in a position to influence the organization policies and actions;

- Transactions at or near control limits; and

- A lack of information feedback (management records, financial reports, inspections, etc.) necessary to keep managers adequately informed about their operations.

The Audit Team-in-Charge should discuss with Division Chiefs including the Department Head of the office to be audited who are often a good source of information about problems, sensitive issues, and other matters where audit attention may be needed.

4.5.3 AUDIT WORK PROGRAM PREPARATION

It is a step by step plan for activities to be executed during audit proper. Usually, audit work program preparation is done after the conclusion of preliminary survey. It must be a well-defined program to ensure efficiency in the completion of audit project.

The entire audit planning process must be properly documented. Audit Objectives and Planning Checklist (APIAO Form No. 3) must be completed by the Audit Team-in-Charge before each audit activities commence.

The checklist is devised to document the following planning information:

1. Evaluating previous audit work papers, scope and reports, and audit follow up required;
2. Evaluating previous audit time vis-à-vis findings and conclusions on controls, and the impact on the present audit;
3. Reviewing existing audit risk and audit concerns;
4. Converse the audit with outside auditors, determine the effect of their work on present audit coverage;
5. Formulate audit objectives;
6. Budget and allocate time and resources necessary to meet the audit objectives;
7. Developing and approving the detailed audit program;
8. To talk to interested persons who need to know about the audit;
9. Recording the basis for choosing audit entrance- and exit-level management to see to it that the management level chosen has the power to implement or execute the remedial measures agrees upon;
10. Having a formal dialogue with the auditee department regarding the audit objectives, and obtaining their comments and suggestions to facilitate positive audit results;
11. If necessary, reviewing the detailed audit program, to reflect the result of the dialogue between the Audit Team and the Auditee department or to reflect the preliminary survey conducted; and
12. Approving the audit work plan and target completion date.

A well-constructed program provides:

1. A systematic plan for each phase of the work that can be communicated to all audit personnel concerned.

2. A means of self-control for the audit staff assigned.

3. A means by which the audit supervisor/manager can review and compare performance with approved plans.

4. Assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.

5. The basis for a summary record of work actually performed.

6. An aide to APIAO making possible a reduction in the amount of direct supervisory effort needed.

7. Assistance in familiarizing successive audit staff with the nature of work previously carried out.

The program contains steps on how to execute the activity. It should specify the objectives of the operation being reviewed. For each part of the audit, the program must:

1) list the risks that must be covered;

2) show the controls that exist or that are needed to protect against the specified risk;

3) specify in every listed controls the process required to test the effectiveness of those controls, or set forth the recommendations that will be required to install needed controls; and

4) provide space for initials of auditor completing the audit step, reference to the related audit work papers, and brief comments.

Following completion of the Audit Work Program (APIAO Form No. 4), the Audit Team forwards it to the HAPIAO for review and approval. However, if the HAPIAO finds it incomplete; it will be returned back for refinement to the Audit Team, together with its comments and recommendations.[62]

4.5.4 CONDUCT OF ENTRANCE CONFERENCE

After completing the preliminary planning stage of the audit assignment, and prior to commencing the audit fieldwork, the Audit-Team-in-Charge should meet with the auditee Departments' Head and Division Chiefs.

The opening conference provides the opportunity to begin building good relationships. Points that should be discussed during the opening conference include:

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[62] See Page 147 , Flow-Chart No. 5

a. **Scope and objectives** – describe the basic scope and objectives planned for the audit. Outline the general audit work plan.

Explain that the audit being conducted is for the purpose of adding value to the organization and to assist management by providing analysis, appraisals, recommendations, and information concerning the activities reviewed.

b. **Audit process** - the approach or methodology to be followed, the schedule and the locations covered.

c. **Audit findings** – Discuss how audit findings will be handled, e.g., resolution of minor findings, in this way, the auditee may be given an opportunity to make amend or make any corrective action, the exit conference at the completion of the field work, the review of the report draft, and the distribution of the formal audit report. Explain the current status of prior audit findings.

d. **Audit progress** – explain to the auditee department the importance of acquainting their personnel of the audit progress and findings. However, event and circumstances must be considered in giving the auditee with a timeline. It includes estimated dates of fieldwork, interim meetings, exit meeting, audit report issuance, and follow-up audits.

e. **Consulting activities** - Ask for suggestions of problem areas where the auditors can be of assistance to local management. Auditors can often be in the position to consult with audit customers about "best practices" existing in other functions within the organization.

f. **Cooperative administration** - Inquire about working hours, access to records, available work area for participating auditors, the audit customer's various work deadline requirements, and any other information which will help schedule the audit activities to fit into the office routine with minimal disruption to the audit customer's personnel.

g. ***Introduction and tour*** - Arrange to meet other personnel the auditor will be working with during the audit. Also arrange for a familiarization tour of the physical facilities. Effective communication at the beginning of the audit fieldwork can significantly influence the atmosphere in which the entire audit is conducted. It can mean the difference between active cooperation and open hostility. It deserves the auditor's careful attention and best efforts.

4.5.5 FIELDWORK

After the Opening Conference, an Entrance Conference Summary Sheet (APIAO Form No. 5) should be accomplished and a revised Audit Work Program which has been agreed upon, then, the field work will immediately start. The Audit-Team-in-Charge shall discuss the testing methodology and the method of gathering the data including survey techniques.

4.5.5.1 DATA GATHERING AND VALIDATION

In gathering of data, the Audit Team may employ the following techniques:

a) ***Interviewing*** – The survey includes the use of interviews in each major functional area. Interviews must be planned in advance, keeping in mind that the purpose of the survey is to disclose problem areas.

b) ***Comparative Analysis*** – This technique involves comparing data, sometimes from various sources, to identify unusual situations or deviations. It is a valuable technique available to the auditor.

c) ***Flowcharting*** – This technique involves using a diagrammatic network to chart steps that must be completed before a program or activity can be concluded successfully. This technique can be particularly useful to the auditor in identifying possible bottlenecks in operations.

d) ***Analytical Review*** – This technique involves comparing results such as income, expenses, etc. For the same office or the organization as a whole from period to period. It also can be used when evaluating changes in results that are dependent or affected by other factors.

e) ***Exploratory Sampling*** – The exploratory sampling method uses random sampling as a tool for use in conjunction with selected

audit tests – normally employed for fiscal, compliance, and management audits.

f) ***Visual Observation*** – A tour of the office to be audited may disclose material weaknesses in the operations. Visual observations also include scanning records and reports for unusual items.

4.5.5.2 EVALUATION AND ANALYSIS OF GATHERED DATA

Audit Team evaluates the relevance, sufficiency and completeness of evidence; analyse and interpret data to determine whether it will substantially conclusion in writing the audit report.

4.5.5.3 PREPARATION OF AUDIT ACTIVITIES

Work papers serve both as tools to aid the Audit Team or auditor in performing their/ her/his work, and as written evidence of the work done to support the Audit Team or Auditor's report. Audit work papers should be sufficient, competent, relevant, and useful to achieve the engagement's objectives and provide a sound basis for audit findings and recommendations.[63]

In the preparation of the Audit Work papers, the Audit Team must ensure that sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

4.5.5.4 AUDIT WORK PAPER REVIEW

An important part of the Department's quality control program is a timely and thorough review of work papers by the HAPIAO and the Audit Team assigned to each audit. The purpose/objective of audit work paper review is to evaluate the adequacy of audit work performed and to determine if the predetermined audit objectives have been met. The term "audit work paper" in this context applies to both hard copy audit work papers and to electronic work.

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[63] Cited in PGG, Internal Audit Operations Manual, Section 2300 of the *Standards for the Professional Practice of Internal Auditing*

Audit work papers must be a set of stand-alone documents from which the reader will be able to identify the actions taken by the auditor to satisfy the objectives of the detailed audit program and prepare the final audit report. A clear audit trail must exist.

Documentation of work paper review is the responsibility of the Audit Team. The Project Checklist and Audit Considerations (APIAO Form No. 8) or similar process can be used to uniformly document this process.

4.5.5.4.1 HAPIAO REVIEW

The HAPIAO is usually responsible for periodic review of work papers during the course of the audit; generally this review should take place as each segment of the audit program is completed. The review process should be designed to ensure:

1. Adequate documentation for all findings with cross-references to specific supporting work paper. An Audit Finding Data Sheet or similar documentation should support each finding.
2. Each recommendation includes the five attributes of a well-developed finding.
3. Consistency in the work paper numbering scheme.
4. Notes of any audit program steps which still remain open.

Pertinent work papers/schedules with source of data basis for selecting sample data, tick mark legend, and conclusion. Also, all pertinent work sheets/schedules should be cross-referenced to specific audit program step(s) and to the applicable Audit Finding Data Sheet if they support an audit finding.

Necessary cross-referencing to ensure there is a complete tie-in to all work paper pages for a complete audit trail.

The HAPIAO will assess and review the work papers performed by the Audit Team. This will be accomplished by reviewing the work papers for some of the criteria stated above. The HAPIAO'S review should be performed at the completion of the audit and prior to the review of the draft report.   The audit paper review should be made during the course of the audit and not await completion of fieldwork and

preparation of the report draft. The HAPIAO should also be alert to the following qualities for good working papers:

a) ***Accuracy***- the Audit Team or auditor must always keep in mind that the report must be completely factual. Every statement, every figure, and every reference must be based on hard evidence. Statements of fact must carry assurance that the audit personnel personally observed or validated every fact stated in the report.

b) ***Clarity***- Clarity means conveying to the reader what was in the Auditor's mind when the report was written. Lack of clarity in the mind of the auditor is the prime impediment to clear writing. If the auditor does not have a firm grasp of the subject, then writing should not begin until more fieldwork or research is performed.

c) ***Conciseness***- Conciseness means cutting out what is superfluous and eliminating what is irrelevant and immaterial. The words, sentences, and paragraphs that do not help the auditor get across the central theme of the report should not be included in the report.

d) ***Tone***- the report should maintain an objective professional tone. The Audit Team or more specifically the auditors needs to consider the report's effect upon the area that is being reviewed. The report should always avoid the use of slang words and technical terms that would not be familiar to all individuals receiving the report. Use of inflammatory or unnecessarily harsh wording should be avoided.

Further, the HAPIAO should observe the following in the evaluation of the work papers:

e) ***Descriptive Headings*** – All work papers should include the title of the audit, title of the work papers, preparer's initials, date prepared source of information, and purpose of the work papers. If applicable, the work papers should also include the audit stamp and/or audit project number.

f) ***Tick marks*** – The auditor makes frequent use of a variety of symbols to indicate work that has been done. These symbols are commonly referred to as tick marks. As these tick marks have no special or uniform meaning in themselves, an explanation of each tick mark should be made on the schedule on which it appears.

g) ***Cross-referencing*** – Cross-referencing within work papers should be complete and accurate. Work papers should be cross-referenced to the Audit Findings. Audit Findings should be crossed-referenced to the exit conference memo and/or the audit report, to indicate final disposition of the item. Cross-referencing should be done in the margins of audit report drafts. These references readily provide direct access to the working papers.

h) ***Indexing*** – The system of indexing audit work papers should be simple, yet leave room for flexibility. A fully numeric indexing system using decimal positions for identifying different sections/work papers provides the greatest flexibility. This type of indexing allows insertion of new work papers without interrupting the numbering scheme.

i) ***Carry forward*** – The Audit Team should make full use of the work papers developed in the prior audit, if there is any. Flowcharts, system descriptions, and other data may still be valid. Those papers which remain useful should be made a part of current information, renumbered, referenced and initialled and dated by the Audit Team or auditor assigned.

4.5.5.5 ATTRIBUTES OF A WELL-DEVELOPED AUDIT FINDING

Attributes of a Well-Developed Audit Finding must include:

A. Statement of Condition (What is!)
B. Criteria (What should be!)
C. Effect (So what?)
D. Cause (Why did it happen?)
E. Recommendation (What should be done?)

A. Statement of Condition

The condition identifies the nature and extent of the finding or unsatisfactory condition. It often answers the question: "What was wrong?" Normally, a clear and accurate statement of condition evolves from the auditor's comparison or results with appropriate evaluation criteria.

B. Criteria

This attribute establishes the legitimacy of the finding by identifying the evaluation criteria, and answers the question: "By what standards was it judged?" In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

C. Effect

This attribute identifies the real or potential impact of the condition and answers the question: "What effect did it have?

The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives, are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g., dollars, number of personnel, units of production, quantities of material, number of transactions, or elapsed time. If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

D. Cause

The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: "Why did it happen?"

If the condition has persisted for a long period of time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

E. Recommendations

This final attribute identifies suggested remedial action and answers the question: "What should be done?"

The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action will most likely be feasible and appropriately directed.

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change will be made is the client's responsibility. More generalized recommendations (e.g., greater attention be given, controls be re-emphasized, a study be made, or consideration be given) should not be used in the audit report, but they are sometimes appropriate in summary reports to direct top management's attention to compliance-type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. Whenever possible, the benefits should be quantified in terms of additional revenue, lower costs, or enhanced efficiencies. The cost of implementing and maintaining recommendations should always be compared to risk.

Recommendations should be directed to the individual responsible for taking corrective action.

F. Summary

Well-written audit findings should result in recommendations that add value to the organization and include: the nature of the findings, the criteria used to determine the existence of the condition; the cause of the condition; the significance of its impact; and what the auditors think should be done to correct the situation. Fully developed findings containing each of these five attributes are easily understood and convey impact and significance to appropriate management officials.

Each finding should be supported by an Audit Finding Data Sheet filed in the working paper.

4.5.5.5.1 MAJOR (SIGNIFICANT) FINDING

Is one where the errors discovered are systemic, and which the impact is adverse and tremendous to the people, property and the Provincial Government as a whole. This kind of findings is necessary to be responded to immediately, by the auditee department or the Local Chief Executive.

a) **Major (significant) finding for Operations Audit**

Findings involving fraud, forgery and other forms of deceptive machinations committed in the day-to-day operations of the department or the province is considered major.

Findings on error involving the actual implementation of a certain plan of a department can be considered major.

Findings on the employee's non-observance of "No Noon Break Policy" for all government offices can be considered as major (significant) findings.

b) **Major (significant) finding for Management Audit**

Findings on the failure or breakdown of control system implemented by the management can be considered major or significant.

Non-compliance or non-conformity to orders of the Local Chief Executive and to the existing laws such as the Civil Service Laws, the Anti-red tape law, COA Rules, DBM and DOF Circulars as well as to the recommendations and previous findings of Internal Audit Team and COA can be considered major finding for management audit.

Findings on non-compliance of employees on the Civil Service Law requirements for filing of leave applications can be considered as major findings.

Findings on the departments lack of formulated citizen's charter, especially those involve in the delivery of front-line services can be considered as major (significant) finding.

The major (significant) findings requiring corrective action should be discussed in detail using the write-ups in Audit Finding Data Sheets (APIAO Form No. 10). Data presented for each finding should include a statement of the adverse condition, supporting facts and test results, effect of the condition, and, if appropriate, the cause of the condition, and a recommendation for corrective action or a statement of action by the personnel responsible.

Compliance to major (significant) finding requires immediate action of the auditee department concerned or the Provincial Government as a whole. The Internal Audit Team with the auditee department or with the key officials of the Province of Aklan must agree as to the process and procedure to immediately address the major (significant) finding.

4.5.5.5.2 MINOR (LESS SIGNIFICANT) FINDING

Is one which discusses a deficiency in the auditee's current systems that has a small or minimal impact to the department concerned and/or to the Provincial Government as a whole when no immediate

action is being taken to address the deficiency, especially on the efficiency and effectiveness of its operation. Moreover, finding is minor or less significant, when the perceived impact is minimal; however, there is still a need to comply with Internal Audit Team's recommendation.

a) **Minor (less significant) Finding for Operations Audit**

Certain findings in a specific department, with respect to its day-to-day operations can be considered minor or less significant if the degree of non-compliance with what is specified in the prescribed plan of the department is not detrimental to the quality of services provided and does not cause adverse impacts to the financial condition of the province.

b) **Minor (less significant) Finding for Management Audit**

Findings on the lack of proper classification and labelling or tagging of archived documents and other records of the Provincial Government can be considered as minor (less significant) findings.

Non-compliance to existing department policies and procedures will be observed. If findings of non-compliances adversely impact over-all performance and efficiency, then this will not be considered as minor.

Findings and comments that can be categorized as minor (less significant) should be included on a separate listing. A statement should be made at the end of the audit report that indicates, "A separate listing of minor (less significant) findings was provided to concerned management for their consideration/corrective action."

These findings would be documented in Audit Finding Data Sheets and noted as less significant. Minor (less significant) audit findings will generally not require a management response for report purposes; however, they should be provided to the appropriate management for resolution.

Determination of whether a finding or comment is included in the report is based on the Audit Team or Auditor's Judgement as to the impact and/or exposure of the finding. The format of Audit Finding Data Sheets facilitates this judgement. Further, review and assessment of the Audit Team or auditor's judgement will be made by the HAPIAO.

The Internal Audit Team will later on come up with compliance standards on minor (less significant) findings.

4.5.5.6 AUDIT REPORT FORMAT

The report is the opportunity of the auditor or audit team's opportunity to get management's undivided attention. Reports are circulated to the highest levels of management. They are also an important tool in evaluating the Audit Team or auditor as well as the function/organization audited. While a well-written and well thought out report will never make up for substandard fieldwork, an excellent report will highlight the audit team or auditor's accomplishments. On the other hand, skilful, creative, and constructive audit efforts will be avoided by a poorly written report.

All reports should incorporate the following characteristics:
   a) *Accuracy* – All reports must be supported with facts. It is extremely important that the credibility of the internal audit activity and each auditor be maintained at the highest level by factual, unbiased, and objective reporting.
   b) *Objective* – Objective communication is factual, unbiased, and free from distortion. Audit report observations, conclusions, and recommendations should be included without prejudice.
   c) *Clarity* – All reports must be understandable and clear. Clear communication is easily understood and logical. Clarity is improved by avoiding unnecessary technical language and providing sufficient supportive information.
   d) *Quantification* – All comments must be quantified to the maximum extent possible to identify the seriousness and impact of the points made. Examples of quantification are dollar amounts, number of test exceptions, and scope of testing.

e) **Conciseness** – All reports must be to the point. This does not necessarily mean short.

f) **Constructive** – All reports should maintain a diplomatic balance with respect to the sensibilities of all readers. Emphasis should be on improvement, not on criticism of people or the past.

g) **Complete** – Audit reports should be complete. It is very important that our reports do not require interpretation or oral comment to fill in the gaps. The report should stand by itself.

h) **Timeliness** – All reports must be issued in a timely manner upon completion of the assignment. The goal is within two weeks. An Audit Report Monitor (APIAO Form 9) should be prepared for each audit report.

i) **Resolution** – All reports must contain action plans, cite the what, who, and when of remedial action. Without specific responses and assignment of responsibility, effectiveness is lost.

Audit Reports should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The quality of our findings and how our findings are reported significantly affect perceptions about the audit function.

The format for audit reports will generally be as follows:

a. Cover Letter on Official Letterhead

The cover letter of the report will include:

1. The date of the report, who the report is addressed to, and the title or subject of the audit;

2. A brief description of the scope and objectives of the audit and when applicable, the time period covered;

3. A paragraph stating the date that a review meeting or exit conference was held and that the report was finalized through a draft report;

4. If all findings were not resolved or committed to future action that is judged satisfactory to Internal Auditing, a paragraph should be included to escalate such matters; and

5. A summary of the most significant points/comment that highlight the results of the audit.

b. Audit Scope and Objective

The second page of the audit report should include the heading "Scope and Objectives" which should generally include:

1. The authority and basis for the conduct of the audit activity;

2. A more detailed description of the audit objective(s), the period of time covered, the specific audit scope and areas tested and any limitations on testing;

3. This section may also include the name of the auditor(s) who performed the audit; and

4. The names of personnel who attended the report review meeting.

c. Background Information

The background Information should be used when the auditor believes the various report readers do not have the first-hand knowledge necessary to correctly interpret the audit report.

4.5.6 CONDUCT OF EXIT CONFERENCE

The purpose of the exit conference is to inform management of the organisation audited about the audit results and the report process, reach agreement on findings, and learn of corrective action measures planned or taken to correct any deficiencies disclosed by the audit.

Prior to the exit conference, there must be:

- A Notice of Exit Conference (APIAO Form No. 11) to be sent to the Auditee;

- A review of the audit objectives, scope and reporting process before discussing the audit findings. Where practical, audit findings and recommendations should then be discussed by the individual who developed the audit findings or audited that area. Consideration should also be given to noting any commendable practices or procedures observed. One audit employee should be assigned to document all discussion during the meeting. The goal is to have an accountable audit customer supervisory and management personnel at the meeting;

- A discussion of all aspects of potential audit findings with the person performing the function;

- Fully-developed audit findings using the Audit Finding Data Sheet or similar documentation in accordance with the attributes of well-developed audit findings;

- A discussion of fully-developed audit finding and recommendations with the responsible Department Head. Also discuss any items requiring follow-up and document the audit customer's response to the finding;

- A presentation strategy should be developed. Related issues may be combined, and a presentation sequence should be observed. Avoid initial points which establish a tone of audit customer disagreement;

- A Notice of Exit Conference then put the Audit Project No. (fill up the 6 boxes) in the right side below the title of the audit, then format the date, venue, time, then below the list of participants, then the last Document(s) for Distribution: then the space for signature and name of the APIAO.

During the conference, the Audit Team with the HAPIAO will determine attendance at the exit conference. One audit employee should be assigned to document all discussions using an Exit Conference Summary Sheet (APIAO Form No. 12) where its finding discussed should be considered.

4.5.7 FINAL AUDIT REPORT PREPARATION

In the preparation of the final audit report, all issue considered and agreed in the exit conference shall be incorporated in the report. A Post Audit Review Form (APIAO Form No. 13) is also needed.

Final reports will be distributed to the audited offices. Internal Audit Reports are confidential and are not to be distributed outside of PGA. The APIAO Final reports will be distributed to the applicable management personnel with direct responsibility for the facility, function or department audited. Additional distribution to higher-level management personnel will be determined by the APIAO.

The HAPIAO is responsible for communicating the final results to individuals who can ensure that the results are given due consideration.

The final report shall be submitted to the Governor for adoption, copy furnished the Sangguniang Panlalawigan of the Province of Aklan for information and guidance.

4.5.8 CONDUCT OF MONITORING (FOLLOW-UP PROCESS)

One of the primary responsibilities as professional auditors is determining that the audit customer takes corrective action or recommendations. This applies in all cases except where "the Governor has accepted the risk of not taking action."[64]

Being an integral part of the internal audit process, follow-up should be scheduled along with the other steps necessary to perform the audit. However, specific follow-up activity depends on the results of the audit and can be carried out at the time the report draft is reviewed with concerned management personnel or after the issuance of the report.

Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit recommendation or when management elects to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should be scheduled to monitor the situation or confirm completion of the changes that were planned. These same factors establish whether a simple telephone call would suffice or whether further audit procedures would be required.

Follow-up activities may generally be broken down into three areas:

Casual - This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical findings.

Limited- Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, is not accomplished through memos or telephone conversations with the audit customer.

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[64] Standard 2500, Standards for the Professional Practice of Internal Auditing

Detailed- Detailed follow-up is usually more time consuming and can include substantial audit customer involvement. Verifying procedures and audit trails, as well as substantiating account balances and computerized records, are examples. The more critical audit findings usually require detailed follow-up.

Either casual, limited or detailed monitoring is applied; still, a monitoring/follow-up report should be generated by the Audit Team or Auditor assigned. Then, it should be submitted to the HAPIAO for a thorough review and approval. At the end of each quarter, a summary follow-up report is prepared. This report reflects all current period findings with appropriate comments to reflect end-of-quarter status.

The intent of this summary report is to track all findings so that they are appropriately resolved. Additionally, this report highlights all outstanding findings from prior periods and their status. However, the report should be send back to the Auditor for improvement if the committee has corrections.

Finally, the same with other processes, the flow of activities is usually end up with an effective filing and safekeeping of files in their designated filing cabinets or vault for documents that is considered as confidential.

4.6 REQUESTS FOR SPECIAL AUDIT

APIAO will conduct special audit upon request or upon instruction of the Governor. Either the Governor or the Department Head can request for audit. A customize letter request should be filled-up by the requesting party and hand-over to APIAO.

In general, a typical audit includes the following sequential steps:
- Scheduling an opening conference to discuss the audit objectives, timing and report format and distribution.
- Assessing the soundness of the internal controls or business systems and operations.
- Testing the internal controls to ensure proper operation.
- Discussing with management the draft audit report and their responses, if available, prior to release of the final audit report.

- Following-up on critical issues raised in audit reports to determine if they have been successfully resolved.

- Auditors will be familiar with the organization's fraud policy (as appropriate) and be alert to situations involving possible fraud or irregularities. In cooperation with the Aklan Provincial Legal Office, the following guidelines will be followed if such a situation is encountered.

If shortages or irregularities are found, carefully avoid openly accusing anyone.

Contact HAPIAO, and provide the following details:

a. The name(s) of the employee(s) who has/have knowledge of the situation.

b. The approximate amount of the suspected or potential fraud or irregularity.

c. A brief description of the evidence which substantiates the suspected or potential irregularity.

Maintain confidentiality about possible shortages/ irregularities/ fraud until the HAPIAO has approved an investigation plan. Aklan Provincial Internal Audit Office (APIAO) management will consult with the Aklan Provincial Legal Office regarding the investigation plan and the appointment of an investigation team. Audit management will provide an additional instruction if a full investigation is indicated.

CHAPTER 5

STAFF QUALIFICATIONS AND DEVELOPMENT

5.1 POSITION DESCRIPTION

a) **Department Head-** Salary Grade 26. She/He shall be the head of the Internal Audit Office and perform the following functions:

Administrative Functions

    i. Submits work and financial plan of APIAO;

    ii. Submits annual procurement plan of APIAO;

    iii. Submits accomplishment reports; and

    iv. Submits performance evaluation, targets and ratings of the staff.

Operational Functions

    i. Establishes the annual goals, objectives and performance targets of APIAO;

    ii. Establishes internal auditing standards guidelines and procedures for the guidance of internal audit staff;

    iii. Determines the extent of the coordination with the Commission on Audit to avoid duplication of report;

    iv. Ensures support of management in the conduct of internal audit;

    v. Responsible for work performance and discipline of the staff;

    vi. Reviews internal audit plan and submits it to the governor for approval;

    vii. Discusses internal audit scope and objectives with the department or personnel to be covered prior to the conduct of audit;

    viii. Reviews and approves internal audit reports;

    ix. Discusses audit results with auditee before the report is finalized;

    x. If necessary, discusses the conclusions and the recommendations in the report with the appropriate level of management;

    xi. Follows-up actions to determine if audit recommendations have been carried out or not and inquires for the reasons for non-implementation;

    xii. Investigates anomalies discovered in audit and submits reports and recommendations for enhancement of the internal audit functions;

xiii. Reviews and approves recommendations for enhancement of the internal audit functions; and

xiv. Does related works.

Qualification Requirements:

Education: Master's Degree in Accounting, Public Administration, Criminology, Information Technology/Computer Science, and other related disciplines relevant to the job.

Experience: 5 years of relevant experience in positions involving Management/ Supervision and a combination of the following: Public Administration, Internal Auditing, Administrative or Criminal Investigation, Forensics (e.g. Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems, and other related disciplines)

Training: 32 hours of training in management/supervision.

Eligibility: Career Service Professional, Second Level Eligibility, CESO, CPA, Lawyer would be an advantage.

b) **Internal Auditor IV**- Salary Grade 22. She/He shall have the following functions:

i. Under direct supervision, assists in supervising the Internal Audit Units tasked with internal audit functions;

ii. Establishes the annual goal, objectives and performance targets of the internal audit unit;

iii. Reviews internal audit plans with audit team leaders;

iv. Reviews written internal audit reports;

v. Determines training needs of internal audit staff;

vi. Rates performance of audit staff; and

vii. Does related work.

Qualification Requirements:

Education: Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/ Computer Science and other disciplines related to the job.

Experience: 3 years of relevant experience involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)

Training: 16 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)

Eligibility: Career Service/ Secondary Level Eligibility or Bar/ board passer related to the job.

c) **Internal Auditor III-** Salary Grade 18. She/he shall head the Operations Audit Section and perform the following function:

i. Under general supervision of the Internal Audit Head, reviews agency organizational structure, staffing administrative systems and procedures;

ii. Draft audit plans for review of immediate supervisor;

iii. Conducts internal audit assignments;

iv. Discuss research findings with the Internal Audit Unit Head;

v. Drafts report on the result of the audit completed;

vi. Follows-up actions on audit recommendations;

vii. Does related work.

Qualification Requirements:

Education: Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/ Computer Science and other disciplines related to the job.

Experience: 2 years in position/s involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)

Training:	8 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)
Eligibility:	Career Service/ Secondary Level Eligibility or board passer on disciplines related to the job.

d) **Internal Auditor II**- Salary Grade 15. She/ he shall be under general supervision, conducts researches to obtain background information on the activities to be audited. Discusses research findings with the leader of the auditing team, perform simple auditing work, drafts report on the results of audit and does related work.

Qualification Requirements:

Education:	Bachelor's degree relevant to the job (Law, Accounting, Public Administration, Criminology, Information Technology/ Computer Science and other disciplines related to the job.
Experience:	1 year in position involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g. Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)
Training:	4 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g. Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)
Eligibility:	Career Service/ Secondary Level Eligibility

e) **Internal Auditing Assistant-** Salary Grade 8. She/ He shall be under the immediate supervision of the Internal Audit Officers, assists internal auditors in the conduct of internal audit and does related work.

Qualification Requirements:

Education:	Completion of 2 years of study in college

Experience:	1 year in position involving Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)
Training:	4 hours of training in Internal Auditing, Administrative or Criminal Investigation and/or Forensics (e.g., Accounting, Information Technology, International Organization for Standardization (ISO) Management Systems and other related disciplines)
Eligibility:	Career Service (Sub-Professional)/ First Level eligibility

f) **Administrative Aide III-** Salary Grade 3.

   Qualification Requirements:

Education:	Completion of 2 year studies in college
Experience:	None required
Training:	None required
Eligibility:	Career Service (Sub-Professional), First Level Eligibility

g) **Administrative Aide I**- Salary Grade 1.

   Qualification Requirements:

Education:	Must be able to read and write
Experience:	None Required
Training:	None Required
Eligibility:	None Required

5.2 STAFF DEVELOPMENT AND TRAINING PROGRAM

To ensure the proficiency, effectiveness and efficiency of the internal auditors, continuing internal auditing education is necessary. As a newly-created department, APIAO must be equipped with necessary knowledge and skills in internal auditing. Hence, capacity development training is very vital in the department's development.

Please refer to Table 1 (in the appendices) for the Trainings and Programs needed for APIAO's Staff Development.

5.3 ASSESSING DEVELOPMENT TRAINING PROGRESS

The HAPIAO must develop a Capability Training Schedule, wherein she/he must identify what specific areas in the Internal Audit Office needs development training, who and what specific position needs to undergo development training, based on the result of annual performance evaluation and the Three (3) Year Strategic Plan of APIAO.

Before the start of training, the pre-identified division, person or position in the Capability Training Schedule must undergo a pre-seminar or pre-training evaluation on their knowledge of the subject which they are going to attend. At the end of the training seminar and workshop attended by APIAO personnel, there must be a competency and capability assessment of the personnel who attended the seminar.

It is the primary responsibility of the HAPIAO to formulate or devise a tool or questionnaire to measure or evaluate the development training progress of her/his staff. She/he can ask the assistance of the PHRMO in formulating a tool to attain this goal.

Furthermore, HAPIAO must also conduct a quarterly review of the training schedule to keep her/him informed of the trainings conducted as well as the personnel who has undergone capability development training.

5.4 STAFF ROTATION POLICY

The HAPIAO must develop a staff rotation schedule, wherein, after a period of three (3) years, the internal auditors will be assigned to another types or areas of projects, e.g. from management to operations or to special projects. The above-mentioned rotation policy is necessary in order for them to be more well-rounded internal auditors, well-verse and to develop their competence in every field of internal auditing. In addition, the same is in pursuant to APIAO's vision, to be a multidisciplinary office and Internal Auditors.

5.5 PERFORMANCE APPRAISAL

Periodically assessing performance and addressing opportunities for improvement can help maximize the efficiency and effectiveness of the internal audit functions. Measuring performance is also the means whereby the internal

audits own performance is assessed and internal audit is held accountable for the use of its resources. By adopting appropriate indicators, implementing a rigorous performance measuring system and acting on the results, internal audit can demonstrate that it practices what it preaches, and thus encourage acceptance of its role within the organization.[1]

5.5.1 STAFF PERFORMANCE APPRAISAL

Performance assessment has three interrelated elements:

a) Performance measurement, which refers to the systematic analysis of performance against goals taking account of reasons behind the performance and the influencing factors.

b) Rating refers to the judgment of progress-good or bad-based on the indicators. This can also include rating another performance dimension.

c) Indicators, which are used to verify if progress towards results has taken place.

The key performance indicators used to measure performance should focus on matters that receive the highest priority. It is important, therefore, that KPI's for internal audit are aligned with the internal audit strategic plan and annual work plan and help drive the performance with what the Governor expects from internal audit.[2]

It is also important that performance is measured over time in order to identify trends against both qualitative and quantitative targets. Such targets should be challenging but realistic.

Individual staff of APIAO shall be evaluated by the HRMO every semester through the Performance Evaluation System (PES) prescribed by the Civil Service Commission. All internal audit personnel must fill-up the Personnel Evaluation Systems Form to appraise her/him if he is performing well in her/his job. The result of the evaluation shall be communicated to the staff concerned for proper action or for improvement needed in her/his work performance.

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[1] Page 70, Philippine Government Internal Auditing Manual
[2] Philippine Government Internal Audit Manual

5.5.2 OFFICE PERFORMANCE APPRAISAL

At any time, before the end of the fiscal year, the Office of the Provincial Governor with the assistance of the Provincial Human Resource Management Office, shall review the performance of the APIAO through the various reports/ outputs (i.e. baseline assessment report, assessment of internal audit risk report, annual audit plan, audit engagement report, audit customer survey results, audit follow-up report and performance monitoring evaluation report) that are submitted to its office.

The Governor being the Local Chief Executive shall be directly responsible for the installation, implementation and monitoring of internal control system (ICS), and it shall review the adequacy of the internal audit as part of the ICS.[3]

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[3] Page 151,Philippine Goverment Internal Audit Manual

CHAPTER 6
AUDIT ADMINISTRATION

6.1 PERSONAL CONDUCT AND INDEPENDENCE

Internal Auditors must at all times conduct themselves with professionalism and independence in dealing with other offices and employees of the Provincial Government. They must also exercise and exhibit integrity and diplomacy in such dealing.

During the course of audit activity, internal auditors will be in constant contact with other offices and employees in the Provincial Government. Hence, it is necessary that they maintain harmonious relationship with these offices. Internal Auditors must not only be impartial in their appreciation of the facts and in the examination of audit evidence but they must also appear and perceived to be as such.

Internal Auditors must exercise self-restraint in discussing with their family members, relatives or friends any subject related to an on-going audit activity.

6.2 AUDIT SCHEDULES AND ASSIGNMENTS

It is the primary responsibility of the HAPIAO that during the preparation of Annual Audit Plan, audit schedules and assignments are properly included. HAPIAO should also ensure that all audit assignments and schedules are being faithfully done by the Audit-team-in-charged. The Audit schedules and assignments should specify the audit areas, the time and the duration of the audit activity. In the allocation of audit time, the scope and nature of audit work to be performed and various unforeseen contingency that will somehow affect the timely completion of audit assignment must be considered. The time allocated must be sufficient enough to finish the assigned audit area and must be flexible enough to accommodate any unexpected circumstances.

The HAPIAO must conduct a monthly monitoring or updates of assigned audits, the status and implementation of the work plan.

Each Audit Team must devise a strategy to accomplish its audit assignment. In devising a strategy, they must consider its available resources, the time allotted

for the audit assignment and other circumstances which will affect the team in completing its audit assignment on time. In the event that the Audit Team encounter potential problems during the engagement, the same must be brought immediately to the attention of the HAPIAO for appropriate remedial actions.

6.3 QUALITY ASSURANCE REVIEW

Basically, the main purpose of quality assurance is to ensure that APIAO achieves its mission, objectives and has properly executed its functions. In addition, it is a guarantee that in the performance of its functions, such, is geared towards adding value and improving the processes of each and every department in the Provincial Government. Furthermore, it is also designed to ensure that, internal audit processes and internal audit activities are in accordance with the standards set by law, such as, the 1987 Philippine Constitution, the Philippine Government Internal Audit Manual, the International Standards for Professional Practice of Internal Auditing, Code of Ethics of the Association of Government Internal Auditors (AGIA), the Civil Service laws, rules and regulations, COA rules and regulations, Department of Budget and Management circulars, rules and regulations and the Code of Conduct and Ethical Standards for Public Officers and Employees, etc.[1]

Quality Assurance Review is composed of the following areas: Internal Review, Administrative Review, Audit Customer Interviews and Survey, and External Review.

6.3.1 POLICY

APIAO is committed towards providing the highest standards of professional audit services to Provincial Government of Aklan, which focuses on the giving or recommending measures to the Provincial Governor and to Department Heads on how to improve its processes and establish an effective and efficient internal control system in the Provincial Government.

The HAPIAO, with the assistance of Human Resource Management Office, shall be responsible for making a periodic internal review of the APIAO every semester. The HAPIAO may use self-assessment scheme, or request an

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[1] International Standards for Professional Practice of Internal Auditing

external person or consultant to conduct an internal review of the APIAO processes and organization.

6.3.2 OBJECTIVES OF THE INTERNAL REVIEW

The Internal Review has the following objectives:

a) Assess the performance of the Internal Audit Personnel as to their productivity and efficiency relative to the performance of their audit functions.

b) Assess the quality and accuracy of audit reports and findings on completed audits based on the APIAO Internal Audit Manual, the PGIAM, and International Standards for Professional Practice of Internal Auditing and other laws, rules and regulations.

c) To recommend measures or programs to improve the APIAO's performance and enhance office processes.

d) To identify what areas in the internal audit processes or functions that needs to be strengthen or needs attention in order to deliver the highest degree of professional audit service to the Provincial Government, more particularly to the Governor, and help the Department Heads add value and improve their own office processes.

6.3.3 TEAM SELECTION

The Internal Review Team must be selected on the basis of seniority or the Senior Staffs of APIAO should be composing the team. Aside from seniority, however, due consideration must be given also as to who conducted the audit activity. For example, the personnel who conducted the audit are from the operations audit division, personnel or senior staffs from the management audit division should make the review. The ideal composition of the Internal Review Team is the HAPIAO, as the head of the team, and two (2) Internal Audit Senior Staffs.

6.3.4 BACKGROUND INFORMATION

The Internal Review Team, before conducting its review functions, should be knowledgeable with the following areas:

a) International Standards for the Professional Practice of Internal Auditing;

b) The Code of Ethics of Association of Government Internal Auditors (AGIA);

c) The Code of Conduct and Ethical Standards for Public Officials and Employees;

d) Audit Practices and Advisories; and

e) Relevant Rules, regulations and circulars issued by COA, DBM, DOF, DILG and other agencies related to internal auditing.

6.3.5 SURVEY OF AUDIT CUSTOMER

After the final audit report has been issued by APIAO, a survey questionnaire shall be sent to the audit customer or auditee. The answers to the questionnaire shall then be used as basis for the evaluation of the performance of the Audit Team and its members, the internal audit process, and the APIAO as a whole. The questionnaires with the answers (Form No. 15) shall then be returned to the HAPIAO and the latter shall provide a copy of it to the division that had conducted the audit. Another copy shall also be given to the Office of the Governor and the Head of Provincial Human Resource Management Office (PHRMO) that will provide them information on how to evaluate the Internal Audit function of APIAO.

6.3.6 ADMINISTRATIVE REVIEW

During the internal review, there must be a comprehensive appraisal of the administrative activities of APIAO by checking its compliance with the Standards for the Professional Practice of Internal Auditing.

6.3.7 AUDIT CUSTOMER INTERVIEWS AND SURVEY SUMMARY

There must be an interview or survey of the staff and management on internal audit functions that must be conducted during fieldwork. The summary of the interview and survey will be used to determine the scope of the future audit activity.

6.3.8 REPORTING METHODS

In the presentation of the audit reports, the major and minor audit findings and recommendations or the suggested remedial measures to address the audit findings must be clearly and systematically presented.

6.3.9 QUALITY PROGRAM – INTERNAL AND EXTERNAL ASSESSMENTS

It is the primary responsibility of the HAPIAO to install, develop and maintain a quality assurance program that is comprehensive enough to encompass all

aspect of internal audit activity of the APIAO. Basically, quality program is composed of Internal and External Quality Assurance Review. It may also include appropriate supervision and on-going monitoring of quality assurance. [2]

6.3.9.1 INTERNAL QUALITY ASSURANCE REVIEW PROGRAM

This program must include the continuous monitoring of the internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices. [3]

The following are the processes and tools used in internal assessments:

a) Engagement supervision;

b) Checklists and procedures as to whether or not APIAO Operations Manual are being followed;

c) Reactions from auditee and other concerned departments in the form of survey questions/checklist;

d) Reviews of audit work papers by audit staff not involved in audit activity subject of review; and

e) Budget, time allocation on audit activity and audit time frame on preparation of various works such as audit plan completion.

Internal Quality Assurance Review may include thorough survey and interview of the concerned stakeholders or the same may be conducted by the audit personnel themselves through control-self assessment. It is important to have a periodic Internal Quality Assurance Review before conducting an External Quality Assurance Review to facilitate and minimize its costs.

The HAPIAO must formulate the manner of reporting the results of the Internal Quality Assurance Review that can ensure the reliability and objectivity of the report. The HAPIAO must submit a report on the results of the Internal Quality Assurance Review to the Provincial Governor.

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[2] International Standards for Professional Practice of Internal Auditing
[3] Ibid.

6.3.9.2 EXTERNAL QUALITY ASSURANCE REVIEW PROGRAM

The APIAO must conduct an External Quality Assurance Review a month after the end of Internal Quality Assurance Review or whenever the HAPIAO determine on his judgement that there is a need to have an External Quality Assurance Review or at least once every five years. The APIAO must ask the assistance of an outside-independent Reviewer. It may invite reviewers from the other PRMF-partner provinces and other provinces with their own Internal Audit Office to review the APIAO's operations. The APIAO may invite individuals who are competent in the professional practice of internal auditing and external assessment process. Preferably, an independent reviewer is a Certified Internal Auditor.[4]The report of the result of the external assurance review shall be submitted to the Governor, copy furnished to the PHRMO and the Sangguniang Panlalawigan.

6.3.10 INTERNAL AUDIT-CAPABILITY MODEL

APIAO personnel pass through levels or stages of professional development in their internal auditing career as they undergo capability development training. The following are the five levels of internal audit development advocated by the Internal Audit-Capability Model as shown by the graphic below:[5]

Figure A-1 – Five Levels of Internal Audit Development[6]

6.3.10.1 ELEMENTS OF THE INTERNAL AUDIT CAPABILITY MODEL

The capability model assesses the functioning of internal audit along six or seven elements. As the internal audit function evolves it increases in

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[4] International Standards for Professional Practice of Internal Auditing
[5]Republic of the Philippines, Department of Social Welfare and Development, Internal Audit Service, Three Year Strategic Plan, CY 2012-2014.

[6]Ibid.

capacity in each of these elements as explained in the following paragraphs.

Element 1 - Services and role of internal audit

The capability of an internal audit function can be assessed in light of the services it provides to the organization.[7]

At Level 1, the internal audit function is performing ad hoc audits that are mostly reviews of documents and transactions, checking for accuracy and compliance.[8]

At Level 2, the internal auditors are able to discharge effective compliance audits which give assurance based on attribute sampling of the overall compliance with the applicable law, regulation, or policy.[9]

When they reach Level 3, they are able to plan and perform performance audits and value-for-money audits as well as risk-based financial audits. At this stage management starts relying upon internal audit for advisory services as well as assurance services.[10]

When the internal audit scope has expanded and the function has matured it is expected to have an overall opinion annually on governance, risk management, and control processes. This would be considered Level 4.[11]

At Level 5, internal audit is being relied upon for a full range of assurance and advisory services across the organization and is recognized as being a key agent of change.[12]

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[7]Ibid.

[8]Ibid.

[9]Ibid.
[10]Ibid.
[11]Ibid.
[12]Ibid.

Element 2 - People management[13]

Internal auditing is a service – a service performed by professionals. One of the critical elements of an internal audit function, therefore, is the audit staff themselves.[14]

At Level 1, the output of the internal audit function is dependent upon the skills of individuals with no established organisational capabilities.[15]

As the internal auditors develop and skilled people are recruited, the function is able to move to Level 2. [16]

When audit staffs obtain professional qualifications, such as the Certified Internal Auditor, Certified Government Audit Professional, or Certified Information Systems Auditor, among others, the auditors are able to bring specialized competencies to their audit work and they are considered to be at Level 3.[17]

When management development in an organization includes a rotation in internal audit and audit staffing plans are integrated into the overall organizational workforce plan, the function has reach Level 4.[18]

At Level 5 the HAPIAO and the whole team may serve in leadership positions with professional internal auditing bodies.[19]

Element 3 - Professional practices

In assessing internal audit capability it is also important to assess not only 'what' they audit, but also 'how' they audit.[20]

At Level 1, the internal audit function has not established audit methodology to guide internal auditors to conduct their work. [21]

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[13]Ibid.
[14]Ibid.
[15]Ibid.

[16]Ibid.
[17]Ibid.
[18]Ibid.
[19]Ibid.
[20]Ibid.
[21]Ibid.

At Level 2, the internal audit functions has a documented audit methodology consistent with a professional practices framework but are basing their audit work-plan mostly on management and other stakeholder priorities.[22]

Internal auditors use the term 'audit universe' to refer to all of the auditable entities within its scope. When the HAPIAO establishes a process to conduct an over-arching annual risk assessment of the entire audit universe on which the annual audit plan is based and executed, and puts in place a quality assurance framework, the internal audit function is considered to be at Level 3.[23]

At Level 4, management has in place a proper risk management framework and the HAPIAO is able to use management's risk framework as the starting point in making the auditor's own assessment of risk and in devising the audit plan.[24]

At Level 5 the internal audit function has in place a program to continually monitor its practices and a strategic plan to improve them.[25]

Element 4 - Performance management and accountability

The maturity of an internal audit function can also be assessed based on its accountabilities.[26]

When the internal audit function does not have its own budget it is considered to be at Level 1.[27]

At Level 2, the internal audit office prepares an audit plan outlining the resources required to deliver its mandate and receives its own operating budget.

At Level 3, the HAPIAO develops performance measures and reports on the performance of the APIAO against its budget.

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[22]Ibid.

[23]Ibid.
[24]Ibid.
[25]Ibid.
[26]Ibid.
[27] Ibid.

When the internal audit function reaches Level 4, it has integrated both qualitative and quantitative aspects into its performance measures.

At Level 5, the effectiveness of the internal audit function is publicly reported.

Element 5 - Organizational relationships and culture

The way the internal audit function relates within an organization is also important.

At Level 1, the internal audit function is imbedded within another organizational unit.

At Level 2, the internal audit function is managed within a self-contained unit.

The internal audit function reaches Level 3 when the HAPIAO is an integral component of the management team and coordinates the work of the internal audit function with other review groups such as the COA, AGIA and others.

When the HAPIAO becomes a respected advisor able to influence top management, the internal audit function has reached Level 4.

At Level 5, ongoing respect and influence continues.

Element 6 - Governance structure

The sixth element that is used in the Internal Audit Capability Matrix is a measure of the internal audit function's independence.[28]

At Level 1, the internal audit function is not consolidated and its scope is limited.[29]

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[28]Republic of the Philippines, Department of Social Welfare and Development, Internal Audit Service, Three Year Strategic Plan, CY 2012-2014.

[29]Ibid.

At Level 2, the internal audit function has a defined reporting structure and has full access to the public sector organization's information, assets and people.[30]

At Level 3, the internal audit function has its own funding mechanisms but is still under the oversight of management.[31]

When the HAPIAO reports to a top-level authority in the public sector body with independent oversight of the internal audit function, the internal audit function has reached Level 4. [32]

At Level 5, the internal audit function exercises independence, power, and authority.[33]

Element 7 - Use of Information and Communications Technologies - ICT

The final element is the use of information technology by the internal auditor. The auditors all over the world are using IT to enhance the efficiencies of their audit processes. They are also using various IT based audit software tools and are required by the standards to acquire the skills to conduct audits in IT environments.[34]

At Level 1, the internal auditors do not use any computers at all and all the processes are performed manually.[35]

At Level 2, the internal audit function has acquired a number of personal computers which are mostly used for office productivity software like word processing and excel.[36]

At Level 3, the internal audit function is connected to a network and most of the auditors has access to computers, are IT literate and

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[30] Ibid.
[31] Ibid.
[32] Ibid.
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] Ibid.

frequently use email to communicate with each other. Some internal auditors have acquired the knowledge of auditing IT systems.[37]

Moving one level up at Level 4 the internal audit function has integrated the use of electronic working papers software in their audit processes.[38]

At Level 5 the internal audit has moved to a totally paperless environment and is using IT to keep track of audit issues and for measuring performance/ Internal auditors have acquired the skills to review security and system control of highly complex systems.[39]

In addition, the Governor upon recommendation of the Aklan Provincial Internal Audit Office shall identify focal persons from each department/offices of the provincial government who will augment the existing personnel of the APIAO in the conduct of internal audit activity and processes. The Governor shall issue an Executive Order identifying the focal persons from each department, defining their powers and functions.

6.4 RECORDS MANAGEMENT

The APIAO shall be solely responsible for the custody, retention and disposition of all records of documents, papers and materials pertaining to or obtained in the course of the performance of their functions or the conduct of internal audit activity. Documents under the custody of APIAO cannot be released or divulged by any personnel or internal auditor without the knowledge of the HAPIAO and the written permission or approval of the Governor or upon lawful order of the proper court or tribunal.

6.4.1 PHYSICAL CONTROL

The APIAO shall maintain in its office a place wherein, important documents, pieces of evidence and audit reports shall be stored. All documents pertaining to or obtained in the exercise of audit functions must be under the physical control of APIAO.

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[37] Ibid.
[38] Ibid.
[39] Ibid.

6.4.2 STORAGE

The APIAO must make it sure that all documents under its custody are properly secured or safely kept. It must be safe from embezzlement, theft or destruction, be it natural or man-made.

Records which are covered by attorney-client privilege or documents which are the subject or related or necessary to a pending litigation must be preserved and should not be destroyed until after the finality of judgment.

6.4.3 RETENTION

All Internal Audit Work Products, such as papers, documents and pieces of evidence obtained in the conduct of internal audit activity are considered property of the Provincial Government. Hence, such must be under the sole responsibility and custody of the APIAO.

Moreover, all other records that consist of reports, documents, analyses, and other materials produced to support the operations of the APIAO shall be retained by the office for a minimum period of seven (7) years and a maximum period of ten (10) years or unless the same is the subject of or involved in a litigation. In this case, retention period may exceed seven (7) years until the case has been terminated.

The following are some of the documents that must be retained and must be properly disposed by APIAO:

Name of documents	Period of Retention
a) Audit Engagement Assignment	Ten(10) years
b) Notice of Entrance Conference	Ten(10) years
c) Audit Objectives and Planning Checklist	Ten(10) years
d) Audit Work Program	Ten(10) years
e) Entrance Conference Summary Sheet	Ten(10) years
f) Internal Control Questionnaire	Ten(10) years
g) Summary of Control Weaknesses	Ten(10) years
h) Project Checklist and Audit Consideration	Ten(10) years
i) Audit Report Monitor	Ten(10) years
j) Audit Finding Data Sheet	Ten(10) years

k)	Notice of Exit Conference	Ten(10) years
l)	Exit Conference Summary Sheet	Ten(10) years
m)	Audit Recommendation Compliance Status Monitor	Ten(10) years
n)	Audit Work Paper of every audit activity use as evidence or reference in its audit findings	Ten(10) years
o)	Written communications or answers of Auditee to the query of the Audit Team	Ten (10) years
p)	Certified Machine copy of relevant pertaining to the audit activity being conducted which is part of working paper of the Audit Team	Ten (10) years
q)	Flow Charts of Auditee Department	Ten (10) years
r)	Administrative Records not directly related to any audit activities or any other audit investigations	Seven (7) years
s)	Audit Customer Survey Questionnaire	Seven (7) years
t)	Post Audit Review Form	Seven (7) years

Personal notes of internal audit personnel, documents, papers and drafts of reports which are not part of audit work papers must be properly destroyed after every final audit report has been issued.

However, the following are the documents where disposal are not authorized:

a) Communications or Correspondence- Policy and Procedural Matters; and

b) Directives or Issuances- Issued by or for the agency reflecting its policies, organization, functions, procedures and processes.

The HAPIAO together with the administrative staff assigned in the record management must from time to time review the list of documents due for disposal to ensure that all the documents are properly disposed of. Review is also necessary in order to de-clog the APIAO storage.

CHAPTER 7
FINAL PROVISIONS

7.1 AMENDMENT OR REVISION

No amendment or revision to this Operations Manual and Charter can be made within one year from its effectivity and from its last amendment or revision. The proposal shall originate from APIAO, and an ordinance shall be passed to effect an amendment or revision.

7.2 EFFECTIVITY

This Operations Manual and Charter shall take effect immediately upon the approval by the Sangguniang Panlalawigan and signed by the Governor.

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