

Status, Problems, and Prospects on Internal Audit Services of State Universities and Colleges in the Philippines Towards Strengthening Internal Control System

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— *Review of* —
**Integrative
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— *Research* —

I. INTRODUCTION

Executive Order Number 119 was signed into law on March 29, 1989 under the leadership of President Corazon C. Aquino. The said Executive Order was issued to direct the strengthening of the Internal Control Systems of government offices, agencies, government-owned or controlled corporations and local government units in their fiscal operations. Among the highlights of the provisions of the Executive Order is the declaration that responsibility for the fiscal operation of offices and agencies of the government reside on the respective Heads of each office and government agency. For the said purpose, each and every office, agency, corporation and local government unit is mandated to strengthen its internal control system and/or organize systems and procedures to that effect in coordination with the Department of Budget and Management.

In 1989, Administrative Order Number 278 was issued to include among the provisions of Executive Order 119 the organization of Internal Audit Services (IAS) as an integral part of the office/organization and shall assist the institution management in the effective discharge of its responsibilities insofar as the same would not encroach on or be adversarial with those of the auditors of the Commission on Audit.

The issuance of Administrative Order Number 70 in April 14, 2003 paved the way for the creation of Internal Audit Services (IAS) among State Universities and Colleges. The AO is entitled “Strengthening of the Internal Control Systems of the Government Offices, Agencies, Government-Owned and/or Controlled Corporations, including Government Financial Institution, State Universities and Colleges and Local Government Units”. Section 1 of the said AO mandates all heads of SUCs to organize an Internal Audit Service (IAS) in their respective offices. The same section further emphasized the function of IAS to be in accordance with Republic Act 3456 as amended by Republic Act No. 4177.

The creation of IAS among SUCs is aimed at looking into the strengthening of internal control system. It is aimed at ensuring attainment of the SUCs’ vision of providing globally competitive quality education to stakeholders in a most efficient use of limited resources. In

fact, Section 5 of AO 70 directs all heads of SUCs to submit report of compliance to the Office of the President through the Office of the Secretary within one year from the effectivity of the Order. It further states that the accomplishment of IAS shall be included in the Agency Annual Report.

The above cited issuances for the creation of IAS are sound basis for SUCs to install their respective IAS manned by competent staff. The SUCs must have realized the important role to the IAS in lending support to the attainment of the programs and projects of SUCs' Presidents. Department of Budget and Management (DBM) Circular 2004-4 was issued in March 22, 2004 to provide guidelines on the organization and staffing of IAS. It is very clear that all provisions were provided to ensure installation of IAS among SUCs.

On August 18, 2005, Memorandum Circular 89 was issued to reiterate compliance with AO 70 of 2003. The MC highlighted the mandate of SUCs to install their respective IAS. On October 23, 2008, DBM Circular 2008-8 entitled "National Guidelines on Internal Control Systems" (NGICS) was issued. Consistently, the NGICS emphasized the importance of strengthening internal control system among SUCs and the mandate to install IAS to ensure that internal control system of the SUCs are placed, monitored and strengthened.

In light of the above discussions on the mandate of SUCs to install IAS and strengthen internal control system, the research was conducted. A similar study on this topic was conducted by the author among SUCs in Region III and the findings also led to the conduct of the study among SUCs in the Philippines.

II. Statement of the Problem

The study looked into the status, problems and prospects of IAS among SUCs in the Philippines towards strengthening internal control system. Specifically it sought answers to the following questions:

1) What is the status of IAS among SUCs in the Philippines on the areas of:

- 1.1 Name of Office
- 1.2 Basis of Creation
- 1.3 Number of Staff
- 1.4 Positions Occupied by staff
- 1.5 Appointment of Head of the Unit
- 1.6 Internal Audit Activities Conducted
- 1.7 Problems Encountered

- 2) What are the suggested policy inputs of the respondents?
- 3) What policy inputs can be given toward strengthening installation of IAS among SUCs?

III. METHODS AND MATERIALS

The research used the questionnaire as the main tool in gathering needed data. The questionnaire was designed to answer the problems raised in the study. The questionnaire was focused on gathering data on the status, problems and prospects of IAS among SUCs in the Philippines. The questionnaire was answered by the head of the IAS of SUCs of the Philippines or by the representatives of the SUCs that are represented during the annual conference of the Association of Government Internal Auditors (AGIA). The following is the profile of the SUCs as to place represented:

Place	Number
Region III	11
Northern Luzon	2
Metro Manila	5
Visayas	4
Mindanao	3
Total	25

Twenty five SUCs were represented in the said conference, which is 23% of the SUCs of the Philippines. Interview was also used to gather pertinent data of the research.

IV. Findings and Discussions

This section presents and discusses the findings of the study based on the problems raised:

1. Status of the IAS among SUCs in the Philippines

The respondents were asked if there exist an IAS in their respective SUC. The findings revealed the following:

SUCs with IAS	15	60%
SUCs without IAS	10	40%
Total	25	100%

It must be noted that while it is mandated that all SUCs are to install IAS in their respective offices, there are only fifteen or 60% of the SUC-respondents with IAS and the ten or 40% do not have or have not installed IAS as of the date of the gathering of data.

Name of the Office of Internal Audit

The SUC-respondents with IAS representing 60% of the total respondents, were asked to indicate the name of their respective offices. Table I presents the responses:

Table I
Status of the IAS among SUCs as to the Name of the Office

Name of Office	f	%
Internal Audit Services (IAS)	7	47
Internal Audit Office	3	20
Internal Control Office/Unit	3	20
Internal Audit & Quality Assurance	2	13
Total	15	100

It is interesting to note that of the fifteen SUCs with IAS, seven or 47% named their office as Internal Audit Services (IAS) as mandated by AO 70 series of 2003. One of the seven SUC-respondents installed an IAS as a Division office.

There are three or 20% of SUCs with IAS that named their office as Internal Audit Office (IAO), another three or 20% of the SUCs named the office as Internal Control Office/Unit and two or 13% named the office as Internal Audit and Quality Assurance.

Interviews revealed that SUCs which IAS is named Internal Control Office/Unit refers to the unit under the Accounting or Financial Management Services Office.

Basis of Creation

The status of the IAS among SUCs as to the basis of the creation of the office was also asked from the respondents. Table II presents the findings.

Table II
Status of IAS among SUCs as to Basis of the Creation of the Office

Basis of Creation	F	%
SUC Board Resolutions	9	60

Office Order	3	20
Memo from the University President	1	7
AO 70, series of 2003	1	7
SUC Reorganization of 1988	1	6
Total	15	100

The head of the SUCs are mandated by AO 70, series of 2003 to create the office of the IAS. Table II revealed that nine or 60% of the SUC-respondents created their IAS office through a University Board Resolution. This means that the creation was presented and was approved by the respective SUC Board of Regents. Three of the SUC-respondents created their IAS through Office Order, one or 7% of the SUC-respondents created it office through a memorandum from the Office of the President and another one or 7% created its IAS through AO 70, series of 2003.

One of the SUC-respondents created its IAS office based on its reorganization of 1988. This would imply that the said SUC created its IAS as early as 1988. This means that its creation was not based on AO 70, series of 2003 but based on earlier pronouncements on strengthening internal control system among SUCs.

Number of Staff

DBM Circular 2004-4 prescribes the organization and staffing of IAS among SUCs. It is in this context that the SUC-respondents were asked to indicate the number of staff that the IAS offices have. The findings are presented in the Table that follows.

Table III
Status of IAS of SUCs as to Number of Staff

Number of Staff	f	%
1 - 2	9	60
3 - 4	3	20
5 - 6	2	13
Over 6	1	7
Total	15	100

Nine or 60% of SUC-respondents have 1-2 staff. Of the nine SUCs, four have only one staff in the IAS office. Said staff is the head of the office himself. This means that the IAS offices of the four SUCs do not have staff to assist the head of the Unit.

There are three or 20% of SUC-respondents with 3-4 staff in the office, two or 13% of the SUC-respondents have 5-6 staff and one or 7% of the SUC-respondents has over six or 9

staff in the office. There are nine staff in the office since the SUC is a big University in Metro Manila and the IAS is created as a Division.

Appointment of the Head of the Unit

One of the main highlights of the DBM Circular 2004-4 on staffing of IAS is the “scrap and build” policy. This means that the SUCs are not given new items for the creation of their IAS. Instead, if the SUCs decide to man the IAS office they need to either designate staff, especially the head of the office or scrap exiting vacant items and create IAS positions. Another way of looking at it as provided in the said DBM Circular is the renaming of existing item to IAS item. The table that follows present the status to the appointment of the head of the IAS office.

Table IV
Status of the IAS of SUCs as to the Nature of Appointment
of the Head of the Office

Nature of Appointment	f	%
Permanent Position	1	7
Designation	13	87
Others: Substitute	1	6
Total	15	100

The table above clearly reveals that thirteen or 87% of the SUC-respondents designate the head of the IAS. The main reason for this is the fact that SUCs do not have vacant positions to use for the IAS staff. Another reason revealed through interview is the fact that the IAS head designated is co-terminus with the University President’s appointment. It was further found out that in most cases than not, SUCs designate head with concurrent capacity. Some are faculty members, while others occupy another permanent position or assignment such as Dean and Director of other offices.

Only one SUC has a permanent position for its head of IAS. This is the head whose item was created based on the reorganization of the University in 1988.

One SUC even indicated that the head of the IAS unit is a substitute faculty member and was designated to head the office of IAS.

Internal Audit Activities Conducted

The functions of IAS are clearly stipulated in the DBM Circular 2004-4 and the DBM Circular 2008-8. The provisions of the said circulars are the basis for the internal audit activities

of all IAS of SUCs. Thus it is deemed significant to find the internal audit activities conducted by the SUC-respondents.

Table V
Status of IAS among SUCs as to Internal Audit Activities Conducted

Internal Audit Activities	F	%
Inspection of deliveries	15	100
Signing of documents on inspections of deliveries	15	100
Taking physical inventories	13	87
Signing documents on physical inventories	13	87
Pre-audit of vouchers	12	80
Ascertaining and reviewing the systems established to ensure compliance with government policies, plans and procedures, laws and regulation which have impact on operations.	12	80
Ascertaining the reliability and integrity of financial and operational information	10	67
Reviewing operations or programs to ascertain whether or not results are consistent with established objectives and goals.	9	60
Recommending corrective actions on operational deficiencies observed	9	60
Ascertaining the means used to identify, measure, classify and report financial and operational information.	7	47
Ascertaining the extent of compliance	7	47
Ascertaining that operations or programs are being carried out as planned.	7	47
Development and installation of systems and procedures	7	47
Evaluating the quality of performance of groups/individuals in carrying out their assigned responsibilities	6	40
Counter-signature of checks	2	13
Maintaining property records	1	7

Table V reveals that all of the IAS of SUC-respondents are doing inspection of deliveries of goods and are signing documents of inspection of deliveries. Section 2 of AO No. 278 series of 1992 mandates that the IAS may be called upon to perform special assignments by the Head of the Agency but it shall not be responsible for or required to participate in procedures which are essentially a part of regular operating activities or in operations which are primarily responsibility of another unit in the organization. Further the same section specifically states that IAS shall be detached from all functions of routine operating character, such as inspection of deliveries, although the internal auditor may, as part of his examination, observe inspection. However, interviews revealed that the IAS SUC-respondents perform the inspection of deliveries as part of their regular functions.

There are thirteen or 87% of the SUC-respondents include in their audit activities the taking of physical inventories and the signing of documents on physical inventories. Section 2 of AO no. 278 series of 1992 and supported by DBM Circular No. 2008-8 also reveals that the taking of physical inventories and the signing of documents on physical inventories are routine operating activities that the internal auditor should be detached from. However, as stated earlier, the auditor may be invited as an observer of the said activities.

Pre-audit of vouchers is one of the “must not” to do of IAS. Table V however reveals that there are twelve or 80% of IAS SUC-respondents that do pre-audit of vouchers.

Ascertaining and reviewing the systems established to ensure compliance with government policies, plans and procedures, laws and regulation which have impact on operations is the major role of IAS. Not all of the SUC-respondents are doing this since Table V reveals that there are only twelve or 80% of IAS SUC-respondents that do this as part of their internal audit activities.

There are ten or 67% of IAS SUC-respondents that ascertain the reliability and integrity of financial and operational information. Nine or 60% of IAS SUC-respondents are reviewing operations and programs to ascertain whether or not results are consistent with established objectives and goals. Another nine or 60% are recommending corrective actions on operational deficiencies observed.

The internal audit activities that include ascertaining the means used to identify, measure, classify and report financial and operational information, ascertaining the extent of compliance, ascertaining that operations or programs are being carried out as planned, and development and installation of systems and procedures are done by seven or 47% of IAS SUC-respondents.

There are six or 40% of IAS SUC-respondents that evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities.

There are two or 13% of IAS SUC-respondents that countersign checks issued.

There is one or 7% of IAS SUC-respondents that maintains property records.

Problems Encountered in the Conduct of Internal Audit Services

The conduct of internal audit in the SUCs is faced with problems. It is in this context that respondents were asked to identify the problems encountered in the conduct of internal audit services. These are presented on Table VI.

Table VI
Problems Encountered in the Conduct of Internal Audit Services

Problems	f	%	Rank
Insufficient staff/personnel	13	86.67	2
No available items/permanent positions for IAS staff	13	86.67	2
No available item/permanent position for head of IAS unit	13	86.67	2
Expectations of people towards IAS	12	80.00	4
Duties and responsibilities are not well defined	10	66.67	5
People look at IAS as a unit to be manned by CPAs alone	7	46.67	6
Lack of support from management	6	40.00	7.5
Lack of training	6	40.00	7.5
Others			
• Lack of budget	2	13.33	9.5
• Audit work is very limited to daily routine operations	2	13.33	9.5
• With only one designated personnel	1	6.67	11.0

Rank 2 with thirteen SUC-respondents representing 86.67% of the respondents identify as problems encountered in the conduct of audit the insufficient staff/personnel, no available items/permanent positions for IAS staff and no available item/permanent position for head of IAS staff.

Insufficient staff/personnel is a problem that affects the conduct of internal audit since according to the respondents interviewed, internal auditing need people to look into the systems and procedures of internal control of the SUC. Related to this problem, is the unavailability of items or permanent position both for IAS staff and the head of the unit.

The “expectations of people toward the IAS” ranks 4 among the problems encountered by SUC-IAS. According to respondents, people look at the IAS office as responsible to look into the financial transactions of the administration and more so, look into mistakes committed by the management. This expectation affects the internal audit services of the unit.

While government issuances clearly states the duties and responsibilities of internal audit, the SUC-respondents still identified “duties and responsibilities are not well-defined” as one of the problems encountered. This problem is rank 5 with seven or 66.67% of the respondents.

Rank 6 among the problems encountered in internal audit is that the people look at IAS as a unit to be manned by Certified Public Accountants (CPAs). DBM Circular 2004-4 prescribes the qualification standards of the IAS staff. The said circular does not require the head of the unit to be a CPA. Primarily it is because the IAS looks into the internal control system of the SUC. It does not focus its work into the financial transactions of the SUC. However, the misconception of the role of IAS by people that the unit is expected is to be headed by a CPA.

Lack of support from management and lack of training are problems identified by six or 40% of the respondents. These problems rank 7.5. Some of the SUC-respondents believe that

management does not fully support the internal audit services because management itself looks at the unit as a “fault-finding” unit. Further, IAS staff members are not send to needed training.

Two SUC-respondents identified as other problems affecting internal audit services are lack of budget and audit work is limited to daily routine work. One SUC-respondent indentified “with only one designated personnel” as a problem affecting internal audit services.

2. Suggested Policy Inputs by the Respondents

Table VII
Suggested Policy Inputs by Respondents

Suggested Policy Inputs	f	%	Rank
Creation of permanent positions for internal audit office	13	86.67	1.5
Allocation of budget by DBM for the creation and maintenance of IAS office	13	86.67	1.5
Strengthening tone at the top on internal control and internal audit	12	80.00	3.5
Conduct of forum for unit/department heads on strengthening internal control	12	80.00	3.5
DBM to monitor implementations of Government pronouncements	11	73.33	5.5
Establishing strong linkage with the Association of Government Internal Auditors (AGIA)	11	73.33	5.5
Creation of internal audit office	7	46.67	7
Creation of internal audit office as a department	5	33.33	8
Head of the internal audit office should only be designated	4	26.67	9

SUC-respondents suggested that there be a creation of permanent positions for internal audit office and that allocation of budget by DBM for the creation and maintenance of IAS office. There are thirteen or 86.67% of the SUC-respondents that gave these as policy inputs and rank 1.5. The suggestions are anchored on the previously identified status of the staff of the IAS and the problems identified on Table VI. As earlier stated, most of SUC-respondents are designated in the IAS office since there are no available permanent positions.

Another important policy inputs suggested by the SUC-respondents on strengthening the role of IAS are strengthening tone at the top on internal control and internal audit and conduct of forum for unit/department heads on strengthening internal control. Circulars on strengthening internal control specifically state that the responsibility of strengthening internal control rests on the head of the agency. It is believed by twelve or 80% of the respondents that this is an important policy input for strengthening internal audit services. Further, it is believed that

unit/department heads are to be oriented on their role on strengthening internal control and the role of IAS on monitoring internal control. These policy inputs are both rank 3.5.

Circulars issuances specify that DBM is tasks to monitor the installation of internal audit. It is identified as policy input that DBM is to monitor implementations of Government pronouncements on internal audit services. There are eleven or 73.33% of SUC-respondents that identified this as policy inputs. This is rank 5.5.

Also rank 5.5 among the policy inputs given is establishing strong linkages with the Association of Government Internal Auditors (AGIA). EO states that AGIA is recognized as a provider of training for all members. AGIA do provides continuing professional education among its members through trainings and seminars. More than that, AGIA also works for the strengthening of the installation and operation of internal audit services.

Other policy inputs given by SUC-respondents are creation of internal audit office with seven or 46.67% of SUC-respondents, head of the internal audit office should only be designated with five or 33.33% of the SUC-respondents and creation of internal audit office as department with one or 6.67% of SUC-respondents.

It is interesting to note that there are five SUC-respondents that gave as policy input that the head of the internal audit service should only be designated. One of the respondents said that IAS head are to be designated only since the office is expected to support the programs and projects of the SUC President. Thus, “unhealthy” relationship between the head of the IAS and the SUC President could affect the operation of the SUC.

The SUC-respondent that gave as policy input the creation of internal audit office as a department is a big SUC. Thus, it is believed that the IAS should be created as a department.

3. Suggested Policy Inputs

Based on the findings of the research the following are suggested for policy inputs:

- 1) DBM could create a technical working committee composing of representatives from SUCs that could look into the strengthening of the installation and operation of IAS among SUCs. This is due to the fact that SUCs have peculiar requirements from that of GOCCs, GFIs and LGUs as to the kind of office to be established, the number of staff to be assigned and the item and the nature of appointment that the head of IAS could occupy among others.

- 2) Creation of permanent positions for IAS staff could be looked into by the DBM and the Civil Service Commission. Such position could be studied based on the profile of SUCs.
- 3) Issuances and pronouncements on strengthening of internal control could be reviewed in order to “localized” to SUCs provisions for internal audit services. This is in as much as SUCs are educational institutions that has different organizational structure and has different merit systems for assignment of items and promotion.
- 4) Strong linkages with the AGIA could be established to ensure continuous trainings that are focused on SUCs internal control and audit services.
- 5) PASUC could make advocacy in strengthening internal control through internal auditing. PASUC can create a committee that would oversee the said tasks.
- 6) DBM could strengthen its monitoring mechanisms to ensure that all SUC IAS will be implementing proper internal audit services.

References

Administrative Order 119 of 1989 issued on March 29, 1989

- directs the strengthening of the internal control systems of Government offices, agencies, Government owned or controlled corporations, and Local Government Units in their fiscal operation

Administrative Order 70 of 2003 – Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges and Local Government Units

DBM Circular 2008-8 issued on October 23, 2008

- National Guidelines on Internal Control Systems (NGICS) of the Philippines

Memorandum Circular 89 of 2005 issued on August 18, 2005

- Reiterating compliance with a.o. 70, s. 2003 "strengthening of the internal control systems of the government offices, agencies, government-owned and/or controlled corporations, state universities and colleges and local

government units" and its implementing guidelines under dbm budget circular no. 2004-4.

Memorandum Order No. 277 – directs DBM to promulgate the necessary rules, regulations or circulars for the strengthening of the internal control systems (ICS) of government agencies

President Decree 1445 of 1978 – Ordaining and Instituting a Government Auditing Code

Republic Act 8292 of 1977 – Higher Education Modernization Act of 1997

Republic Act of 3456 – Internal Auditing Act of 1962

- It mandates the creation, organization, and operation in all departments, bureaus and offices of the National Government, Internal Audit Services which assist management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions