CIRCULAR

No. : 2018-003
Date: NOV 21, 2018

To: All Heads of Departments, Bureaus, Offices, Agencies and Instrumentalities of the National Government, Chief Executives of Local Government Units (LGUs), Managing Heads of Government-Owned and/or Controlled Corporations (GOCCs), including their Subsidiaries, Heads of State Universities and Colleges, and Heads of Water Districts, COA Assistant Commissioners, COA Directors, COA Auditors, and All Others Concerned

Subject: Prescribing the use of the Internal Auditing Standards for the Philippine Public Sector and Internal Control Standards for the Philippine Public Sector

1.0 Rationale

Article IX-D of the 1987 Constitution vests in the Commission on Audit (COA) the exclusive authority to promulgate auditing rules and regulations. Further, it provides that where the internal control system of the audited agency is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as necessary and appropriate to correct deficiencies.

Section 4 of Republic Act (RA) No. 3456, or the Internal Auditing Act of 1962, as amended by RA No. 4177, provides that the Auditor General shall be responsible for the promulgation and enforcement of general policies, rules and regulations on internal auditing; and shall also develop for execution, working plans and training programs to continuously maintain the effectiveness of these internal audit services.

The Internal Audit Service (IAS) has a vital role in enhancing good governance, transparency, accountability, and efficiency and effectiveness of government operations, including risk management and the internal control framework of all government entities. The existing rules and regulations require all government agencies to establish a sound Internal Control System (ICS). The ICS aims to achieve four general objectives - operations (orderly, ethical, economical, efficient, and effective), reporting (accountability), compliance (with laws and regulations), and safeguarding of resources.
In view of the lapse of more than three decades since the promulgation of Presidential Decree No. 1445 (The Government Auditing Code of the Philippines) and more than five decades since the promulgation of RA No. 3456, as amended by RA No. 4177, it is deemed necessary to adopt the internal auditing standards, update the existing rules and regulations on the internal control system, and keep abreast with the recent developments in the internal auditing profession and in the internal control system.

In line with the foregoing, this Commission hereby promulgates and prescribes the use of the Internal Auditing Standards for the Philippine Public Sector (IASPPS) and Internal Control Standards for the Philippine Public Sector (ICSPPS).

2.0 Coverage

The IASPPS provides guidance essential for the professional practice of internal auditing to improve the effectiveness of governance, risk management, and control processes in all agencies of the government. It comprises two main categories: Attribute and Performance Standards, as shown in Annex A.

On the other hand, the ICSPPS provides guidelines on a basic framework and is integrated with the essential management processes of planning, executing, and monitoring. It consists of the four general objectives, five components of internal control, and levels of agency's structure, as shown in Annex B.

3.0 Repealing Clause

All existing COA circulars, memoranda, and rules and regulations inconsistent with this circular are hereby amended/modified accordingly.

4.0 Effectivity

This Circular shall take effect on NOV 2 i 2018.

MICHAEL G. AGUINALDO
Chairperson

JOSE R. PASTIA
Commissioner

ROLAND C. PONDIC
Commissioner
INTERNAL AUDITING STANDARDS FOR THE PHILIPPINE PUBLIC SECTOR

Attribute Standards

1000 – Purpose, Authority, and Responsibility
   1010 – Recognizing Guidance in the Internal Audit Charter

1100 – Independence and Objectivity
   1110 – Organizational Independence
   1111 – Direct Interaction with the Head of Agency or the Governing Board/Audit Committee
   1112 – Roles of Head of Internal Audit Beyond Internal Auditing
   1120 – Individual Objectivity
   1130 – Impairment to Independence or Objectivity

1200 – Proficiency and Due Professional Care
   1210 – Proficiency
   1220 – Due Professional Care
   1230 – Continuing Professional Development

1300 – Quality Assurance and Improvement Program
   1310 – Requirements of the Quality Assurance and Improvement Program
   1311 – Internal Assessments
   1312 – External Assessments
   1320 – Communicating Results of the Quality Assurance and Improvement Program
   1321 – Use of "Conforms with the Internal Auditing Standards for the Philippine Public Sector"
   1322 – Disclosure of Nonconformance

Performance Standards

2000 – Managing the Internal Audit Service
   2010 – Planning
   2020 – Communication and Approval of Internal Audit Service Plan
   2030 – Resource Management
   2040 – Policies and Procedures
   2050 – Coordination and Reliance
   2060 – Reporting to the Head of Agency or the Governing Body/Audit Committee
2100 – Nature of Work
   2110 – Governance
   2120 – Risk Management
   2130 – Control

2200 – Engagement Planning
   2201 – Planning Considerations
   2210 – Engagement Objectives
   2220 – Engagement Scope
   2230 – Engagement Resource Allocation
   2240 – Engagement Plan and Work Program

2300 – Performing the Engagement
   2310 – Identifying Information
   2320 – Analysis and Evaluation
   2330 – Documenting Information
   2340 – Engagement Supervision

2400 – Communicating Results
   2410 – Criteria for Communicating
   2420 – Quality of Communications
   2421 – Errors and Omissions
   2430 – Use of “Conducted in Conformance with the Internal Auditing Standards for the Philippine Public Sector”
   2431 – Engagement Disclosure of Nonconformance
   2440 – Disseminating Results
   2450 – Overall Opinion

2500 – Monitoring Progress

2600 – Communicating the Acceptance of Risks
INTERNAL CONTROL STANDARDS FOR THE PHILIPPINE PUBLIC SECTOR

General Objectives

A. Operations Objectives - pertain to effectiveness and efficiency of the agency's operations, including operational and financial performance goals. The government agency's operations should be orderly, economical, efficient, effective, and ethical. These objectives should be consistent with the agency's mission.

B. Reporting Objectives - relate to internal and external financial and non-financial reporting. These objectives may encompass developing, maintaining, and making available reliable and relevant financial and non-financial information; fair disclosure of information in timely reports to internal as well as external stakeholders; and other terms as set forth by regulators, recognized standard setters, or the agency's policies.

C. Compliance Objectives - deal with agency's adherence to laws, rules and regulations, contracts, managerial policies, and management directives.

D. Safeguarding of Assets or Resources Objectives - concern with the safeguard of resources against loss, misuse, and damage due to waste, abuse, mismanagement, errors, fraud, and irregularities.

Components

A. Control environment - sets the tone of an agency, influencing the control consciousness of its staff. It is the foundation for all the other components of internal control, providing discipline and structure.

B. Risk assessment - the process of identifying and analyzing relevant risks to the achievement of the agency's objectives and determining the appropriate response.

C. Control activities - the policies and procedures established to address risks and to achieve the agency's objectives. Internal control activities are responses to risk designed to contain the uncertainty of outcome that has been identified.

D. Information and communication - effective processes and systems that identify, capture, and report among other things the operational, financial, non-financial, compliance, and other related information in a form/content and timeframe that enable people to carry out their responsibilities.

E. Monitoring - the process that assesses the quality of the internal control system's performance over time.
Levels of Agency Structure

The levels of the agency's structure, where internal control operates, are as follows:

A. Government Agency refers to any of the various units of the government, including a department, commission, bureau, office, instrumentality, government-owned and/or controlled corporations and its subsidiaries, any self-governing board or commission of the government, a local government unit or a distinct unit therein, and any other entity or instrumentality of the government.

B. Division/Office refers to any major functional unit, within the framework of a government agency, where functions are defined by law or regulation.

C. Operating Unit refers to a government institution/unit charged with carrying out specific substantive functions or which directly implements program, activity, and project of a government agency.

D. Function refers to the program, project, activity, or process in the government agency.