

MEMORANDUM

No.: _____

Date: _____

TO: All Officials and Employees of this Commission

SUBJECT: Guidelines on the Delineation of Authority and Responsibility in the Conduct of Fraud Audit and Reporting Thereof

I. RATIONALE

II. DEFINITION OF FRAUD

III. DISPOSITION OF COMPLAINTS AND/OR REQUEST FOR FRAUD AUDIT

IV. CONDUCT OF FRAUD AUDIT

V. REPORTING

VI. RECORD KEEPING

VII. REPEALING CLAUSE

VIII. EFFECTIVITY

I. RATIONALE

Mindful that fraud and corruption impede economic growth through diversion or misuse of government resources and undermine the credibility of and weaken state institutions, COA recognizes the need to hasten its capability and effectiveness to prevent, detect and report fraud and corruption in government operations. Its proactive role in the promotion of transparency and accountability is indispensable to spur the country's development and improve the quality of life of the people.

In line with the vision to promote good governance, the Fraud Audit Office (FAO) under the Special Services Sector (SSS), is primarily tasked to conduct fraud audit and respond to the increasing public demand for fidelity in the use of government funds and property. With the increasing number of reports from stakeholders alleging fraud, as well as requests for fraud audit, FAO alone cannot meet COA's commitment to immediately respond to the increasing public demands. Hence, there is a need to involve active participation of the Operating Sectors in the prevention and detection of fraud and corruption.

[BACK](#)

II. DEFINITION OF FRAUD

1. The XVI International Congress of Supreme Audit Institutions (INCOSAI) defines fraud as an act of deceit, trickery, concealment or breach of confidence used to gain some unfair or dishonest advantage; an unlawful interaction between two entities where one party intentionally deceives the other through means of false representation in order to gain illicit and unjust advantage.
2. The Philippine Supreme Court defines fraud as referring to all kinds of deception -- whether through insidious machination, manipulation, concealment or misrepresentation -- that would lead an ordinarily prudent person into error after taking the circumstances into account. In contracts, a fraud known as *dolo causante* or causal fraud is basically a deception used by one party prior to or simultaneous with the contract, in order to secure the consent of the other. (*Tankeh vs. Development Bank of the Philippines, et al.*, G.R. No. 171428, November 11, 2013 citing *Solidbank Corporation v. Mindanao Ferroalloy Corporation, et al.* 502 Phil. 651, 669 (2005))

[BACK](#)

III. DISPOSITION OF COMPLAINTS AND/OR REQUEST FOR FRAUD AUDIT

Requests for fraud audit irrespective of source, such as those coming from the Office of the Ombudsman, other government agencies, private organizations and individuals, anonymous complaints or those sent to the Fraud Alert Section of the COA website and Citizen's Desk shall be responded to/addressed as prescribed herein.

1. All requests for fraud audit received by the Office of the Chairperson/ Commissioner, FAO, the Citizen's Desk, or any other office of the Commission shall be transmitted to the concerned Sector Head for appropriate action, copy furnished FAO.
2. The concerned Sector Head shall refer the complaint for action within 5 working days from receipt thereof to any Cluster/Regional Director (CD/RD) who, in turn, shall refer the same within 5 days from receipt to a Supervising Auditor (SA) competent to address the audit issues therein.
3. The SA shall, within 30 days from receipt of the referral, make an initial assessment or evaluation of the referral and shall be guided by the Complaint Assessment Form (CAF), attached as Annex "A" to ensure that all areas of concern are addressed.
4. The results of evaluation by the SA shall be in the form of an Evaluation Report (ER) which should contain the following minimum information/ documentation:

[4.1 Brief statement](#) [4.2 Previous audit actions](#)

[4.3 Status of implementation](#)

[4.4 Results of investigation](#)

[4.5 Original or certified true copy](#)

[4.6 Comments and recommendations](#)

[4.7 Other information](#)

5. The SA shall forward the ER to the CD/RD within five (5) days upon completion of the evaluation. The CD/RD shall review the results of evaluation and transmit the duly reviewed ER to the Sector Head within 5 days upon completion of evaluation. The Sector Head shall review and approve the ER within 10 working days upon receipt for proper disposition of the case including the need for the conduct of fraud audit as may be warranted. The duly approved ER and the Sector Head's recommendations shall then be forwarded to FAO within 5 days upon completion of review, together with all pertinent documents such as but not limited to: the ER duly signed by concerned SA, reviewed by the Director, and approved by the Sector Head; certified true copy of Audit Observation Memorandum (AOM), Notice of Suspension or Disallowance (NS/ND); pertinent portion of the Annual Audit Report (AAR) or other reports; and other relevant documents to support the conclusion and recommendations.
6. If the conduct of fraud audit is recommended but the amount involved is less than P50 million, the ER shall be accompanied by an audit program and a proposed Office Order creating a team from the Sector to conduct fraud audit for signature of the Chairperson. FAO shall handle cases involving at least P50 million.
7. Within 10 working days upon receipt of the results of evaluation from the Sector Head, FAO shall conclude its evaluation and prepare a Fraud Case Evaluation Report (FCER), Annex "B" hereof. The

same shall be forwarded to the Chairperson covered by a Memorandum containing the recommended final disposition. The duly approved Memorandum by the Chairperson containing the final disposition of the case shall be forwarded by FAO to the concerned Sector for appropriate action.

8. FAO shall maintain a record of all complaint/requests for fraud audit, indicating their status, results of audit/evaluation and any further actions taken thereon by the concerned Sector. For this purpose, the concerned Sector Head shall submit a report to FAO on the status of actions taken on the recommendations in the ER approved by the Chairperson.
9. The requesting party shall accordingly be informed by the concerned Sector of whatever action is taken by the Commission on his/her request.
10. The same procedures shall apply to all requests for fraud audit emanating from any audit team. The SA of the audit team shall make the initial assessment/evaluation and submit the ER and all supporting documents to the concerned CD/RD; the CD/RD reviews the ER and transmit the same to the Sector Head; the Sector Head shall review and make the appropriate recommendation to be submitted to FAO.

[BACK](#)

IV. CONDUCT OF FRAUD AUDIT

- [1. Team Composition](#)
- [2. Preparation of the Audit Work Program](#)
- [3. Initial/Exit Conference](#)
- [4. Assistance in the Audit](#)
- [5. Execution and Documentation of the Audit](#)
- [6. Communication of the Results of Audit for Comment by the Auditee](#)
- [7. Duties and Responsibilities of the Special Audit Team](#)

[BACK](#)

1. Team Composition

1.1 Extreme care shall be observed in selecting the composition of the team taking into consideration the magnitude and sensitivity of the transactions involved. The team, which shall be under the direct supervision of a Director assigned by the concerned Sector Head, shall be composed of Team Supervisor (TS), Team Leader (TL) and Team Members (TMs) having adequate skills, experience, training and proficiency in the conduct of fraud audit. The team shall maintain independence, avoid conflict of interest, and be able to face and defy pressure and temptation. Fraud audits undertaken by FAO shall be under the direct supervision of the FAO Director.

1.2 Should there be a need for technical personnel, the Sector Head shall request assistance from the Technical Services Office (TSO) indicating the number of technical personnel needed to assist the audit team for inclusion in the proposed Office Order.

1.3 The Office Order creating the Team shall be signed by the Chairperson upon recommendation of the concerned Sector Head/FAO Director.

1.4 Within 5 days upon approval of the Office Order for the conduct of fraud audit, the SA and ATL of the agency subject of fraud audit shall accordingly be informed by the concerned Director.

[BACK](#)

2. Preparation of the Audit Work Program

2.1 The audit team shall be guided by an audit work program prepared by the TL, reviewed by the TS, and duly approved by the concerned Director. The objectives and procedures to be undertaken for each specific audit areas, which should be determined based on the allegations in the complaint, shall be clearly defined in the audit work program. The assignment of each member as well as the time frame to accomplish the work should be indicated in the audit work program.

2.2 If the audit program prepared by the TL is later on determined to be not feasible/implementable, necessary modifications shall be made to suit the actual condition. In all cases, the audit program shall be discussed to the team members.

[BACK](#)

3. Initial/Exit Conference

3.1 The audit team shall set an appointment in writing with the agency head and other officials concerned for the conduct of initial conference. The team shall consider the availability of all concerned officials in the scheduling of initial conference. The ATL and SA of the agency subject of fraud audit shall be invited to attend the initial conference.

3.2 The audit team shall discuss during the initial conference, the general purpose and timetable of audit, the general audit objectives, the cooperation required of the agency, the designation of a focal person to attend to the audit requirements of the team, and other matters that will facilitate the conduct of audit. The team shall prepare the list of documents needed to be submitted by the auditee.

3.3 The audit team shall also inform the concerned officials of the agency that they will be advised of the results of the audit in the form of Audit Highlights (AH) for their comment before the release of the report and that their comments will be considered in the finalization of the report and incorporated thereon where appropriate. Should they need further clarification on any issue raised in the AH, they may request for an exit conference.

3.4 For highly important and sensitive audits, the initial conference shall be presided over by the concerned Director.

3.5 The audit team shall document the proceedings of the initial and exit conferences to form part of the working papers.

[BACK](#)

4. Assistance in the Audit

4.1 The audit team shall request assistance from the ATL of the agency under examination particularly in the retrieval of documents and clarifications on issues that may have already been covered in the audit conducted by the ATL. However, in cases where the ATL is implicated in the reported anomaly, the coordination should be with the SA. In extreme cases where the SA or ATL are implicated as a result of the audit, the audit team shall submit a Confidential Report thereon to the Chairperson.

4.2 The concerned Director may collaborate with other investigative bodies such as the National Bureau of Investigation (NBI), Office of the Ombudsman (OMB), Civil Service Commission (CSC) and Anti-Money Laundering Council (AMLC) to undertake procedures beyond the capability of the team to perform but necessary in gathering or firming up evidence.

4.3 For highly sensitive cases, where the security of the special audit team is at risk, the concerned Director shall coordinate with the proper law enforcement authority for the provision of security personnel for the team.

[BACK](#)

5. Execution and Documentation of the Audit

5.1 The team shall ensure that its activities are in accordance with the audit plan. The TS shall closely monitor audit activities to ensure that the work is being carried out properly and promptly. The team is, however, not precluded from performing audit procedures not initially included in the plan but deemed necessary in the attainment of audit objectives. In such case, the audit plan shall be revised to include actual procedures undertaken.

5.2 The audit shall be properly and sufficiently documented. The audit team must obtain sufficient competent evidence and must adhere to the rules and 1.1 standards in the gathering of evidence in support of its judgment and conclusion. It should always consider that evidence gathered could be the basis for legal action; hence, it must ensure that these conform to the legal requirements.

5.3 The audit team must be aware of its responsibility to secure original copies of documents for questionable transactions. The documents gathered must be properly inventoried and listed and formal transfer of the responsibility in the custody of documents from the ATL to the audit team shall be properly documented.

5.4 Should there be a need, the audit team shall issue subpoena, in the format attached as Annexes C-D hereof, to the concerned officials/employees of the agency audited and to other entities/parties required to submit relevant documents/evidence. The authority of the team to issue subpoena must be specifically stated in the Office Order.

5.5 The audit team shall ensure the reliability of evidence by verifying from the source documents and validating from the issuing office/establishment or from the payees, beneficiaries or third parties as may be warranted.

5.6 The audit team shall develop adequate working papers during the fieldwork.

5.7 The team may issue AOM in the course of the audit to communicate to management the initial findings/observations noted. Sensitive issues shall not be discussed in an exit conference if disclosure thereof would pose a threat to the life and safety of the audit team, or the confidentiality of the evidence gathered.

[BACK](#)

6. Communication of the Results of Audit for Comment by the Auditee

6.1 The Head of the Agency shall be informed of the results of the audit through the issuance of AH for their comments and justifications. The audit highlights containing the initial audit findings and recommendations of the team should be labeled Confidential thru water mark and shall be placed in a sealed envelope also duly marked as Confidential. The AH shall be transmitted by the concerned Director with the information that any audit observation thereon should be treated with confidentiality to preclude premature disclosure of information, and the same are tentative and may be revised or amended depending on their comments and justifications. The AH will not only provide management opportunity to submit additional documents but likewise be able to take immediate remedial actions to avert further losses even before the release of the final report.

6.2 Should the Head of the Agency needs further clarification on the AH, he/she may request for an exit conference for the Audit Team to personally discuss the initial findings and observations. The same shall be conducted at the COA Central/Regional Office, as the case may be.

6.3 The exit conference should be presided over preferably by the concerned Director or in his absence, by the Assistant Director. In all cases the TS shall be present.

6.4 The Director shall make it clear to the agency officials that only their written comments supported with relevant documents, shall be properly evaluated and considered in the finalization of report. Verbal comments which cannot be validated from available documents will not be considered in the report.

6.5 The written comments with proper documentation shall be required to be submitted within 15 working days from the date of the exit conference or receipt of the audit highlights. Any request for extension of period within which to submit comments may be granted by the concerned Director, but only once and for a period not exceeding 15 working days.

6.6 Upon the lapse of the period to submit comment, the report shall be finalized with or without management's comment.

[BACK](#)

7. Duties and Responsibilities of the Special Audit Team

[7.1 Team Member \(TM\) is responsible for:](#) [7.2 Team Leader \(TL\) is responsible for:](#)

[7.3 Team Supervisor \(TS\) is responsible for:](#)

[7.4 Concerned Director is responsible for:](#)

[7.5 The concerned Sector Head](#)

[BACK](#)

V. REPORTING

[5.1 Fraud audit reports](#) [5.2 Contents of the fraud audit report](#)

[5.3 Preparation, Review, Approval and Transmittal](#)

[BACK](#)

5.1 Fraud audit reports with findings of fraudulent acts discovered in audit/investigation shall serve as basis for the filing of cases against persons liable/responsible therefor.

[BACK](#)

5.2 Contents of the fraud audit report

5.2.1 The findings vis-à-vis the allegations in the complaint;

5.2.2 The amount of loss or damage to the government shall be specified.

5.2.3 The laws, rules and regulations violated. The citation of the laws, rules and regulations shall be accurate.

5.2.4 The names of the persons liable, their position/designation, salary grade and nature/extent of participation in the transaction shall be indicated.

5.2.5 The evidence in support of the findings. The list of evidence shall be attached to the report together with the pieces of evidence. To avoid loss or tampering of documents, original copies thereof and all documents gathered during the audit shall be turned over to the designated RMO of the concerned Director for safekeeping and production during court trial or upon order of competent authority.

5.2.6 The report shall contain the Table of Contents, Executive Summary, List of Acronyms, Part I - Introduction, Part II - Findings and Recommendations and Part III - Annexes.

[BACK](#)

5.3 Preparation, Review, Approval and Transmittal

5.3.1 The report shall be prepared with extreme care and caution and supported with competent evidence.

5.3.2 The TL shall be primarily responsible for the preparation of the report. He shall discuss the audit findings with the concerned team members to ensure accuracy and clarity. The report shall be duly signed by the concerned Directors, TS, TL and TMs, and approved by the Sector Head.

5.3.3 The working papers, evidence and audit report shall be thoroughly reviewed by the TS and the audit report reviewed by the Director and recommended for approval by the Sector Head. Upon approval by the Sector Head, the audit report shall be transmitted by the concerned Director to the Head of the Agency audited; copy furnished the concerned ATL and CD/RD as well as other interested parties.

5.3.4 A copy of the report shall be forwarded to the OMB when filing of cases against responsible officials is recommended, covered by a letter signed by the Chairperson. For this purpose, the audit team shall execute an Auditors' Affidavit which shall be submitted together with the report to the OMB. The Prosecution and Litigation Office (PLO) Legal Services Sector (LSS) shall be furnished a copy of the audit report, auditor's affidavit and transmittal letter to the OMB. Where a report is the result of an audit/investigation requested by the OMB, a copy of the report shall be forwarded thereto whether or not filing of cases, based thereon, is recommended. Likewise, the report shall be furnished to oversight bodies and committees under a letter signed by the Chairperson.

[BACK](#)

VI. RECORD KEEPING

The concerned Director shall assign an RMO, who shall be responsible for the custody and safekeeping of all records, reports, original documents and working papers/evidences turned over by the TLs. The designated RMO shall make these documents available to the team for presentation to court as witness upon a subpoena issued by the OMB, Sandiganbayan or any courts.

The PLO, SSS shall be responsible in the monitoring of cases filed with the OMB, Sandiganbayan, and lower courts, and shall provide legal assistance to the audit team in all matters relating to the conduct of fraud audit. The PLO shall submit to the Office of the Chairperson within 10 days after the end of each quarter, a Quarterly Report of Cases Filed with the OMB indicating their status.

[BACK](#)

VII. REPEALING CLAUSE

All COA issuances inconsistent with the herein Memorandum are deemed repealed or amended accordingly.

[BACK](#)

VIII. EFFECTIVITY

This Memorandum shall take effect immediately.

Quezon City, Philippines.

MARIA GRACIA M. PULIDO TAN
Chairperson

[BACK](#)

4.1. Brief statement of the transaction/s complained of;

[BACK](#)

4.2. Previous audit actions on the subject transaction/s and observations and recommendations noted in the course of regular audit, if any;

[BACK](#)

4.3. Status of implementation of the audit recommendations;

[BACK](#)

4.4. Results of investigation or validation of each allegation if not yet covered by the regular audit conducted;

[BACK](#)

4.5. Original or certified true copy of supporting schedules, audit work papers, documents, contracts, bid documents, disbursement vouchers and other material and relevant evidence in support of the ER;

[BACK](#)

4.6. Comments and recommendations on the disposition of the request for fraud audit; and

[BACK](#)

4.7. Other information deemed necessary for the Sector Head to form a conclusion on the proper disposition of the request.

[BACK](#)

7.1 Team Member (TM) is responsible for:

7.1.1 Performing all audit procedures assigned to him as reflected in the audit program and other audit procedures necessary to meet the objectives of the audit upon consultation with the TL.

7.1.2 Preparing the necessary working papers, summarizing results of audit and drafting AOM, whenever necessary taking into consideration the elements of a finding (condition, criteria, cause and consequence) and the necessary evidence gathered to support the same.

7.1.3 Informing the TL, for his/her consideration in the revision of the work program, all additional procedures undertaken not included in the original audit program.

7.1.4 Assisting the TL in the preparation of the fraud audit report, particularly in relation to his assigned audit areas.

7.1.5 Retrieving necessary documents/evidence pertinent to his assigned audit areas.

7.1.6 Attending to all summon/subpoena duces tecum and/or testificandum issued by any investigating body/court pertaining to his assigned area.

7.1.7 Performing such other procedures or activities as may be determined by the TL and TS to be necessary for the completion and release of the report to the concerned parties.

[BACK](#)

7.2 Team Leader (TL) is responsible for:

7.2.1 Closely considering which activities require the assistance of the ATL assigned in the agency as well as the agency personnel and officials.

7.2.2 Close monitoring of the activities of the TMs to ensure adherence to the audit program.

7.2.3 Assisting the TMs as the need arises, and performing his/her assigned tasks including preparation of necessary working program.

7.2.4 Determining the need to take additional procedures to meet the audit objectives.

7.2.5 Preparing the audit plan and revising the same to include additional procedure/s undertaken.

7.2.6 Conducting initial review of AOMs prepared by the TM or drafting of AOMs in the course of the audit for further review by the TS.

7.2.7 Finalizing the AOM and jointly signing with TS, and serving the same to agency officials for their comments/compliance.

7.2.8 Preparing fraud audit report with the assistance of the TMs and upon consultation with the TS within 60 days after the completion of the field work.

7.2.9 Preparing NDs or NCs for disallowed transactions or uncollected income, respectively, for review of the TS and finalizing upon review.

7.2.10 Serving the original copies of NDs and NCs to the concerned personnel/officials through the ATL of the agency audited. Copies of ND and NC shall be attached to the audit report.

7.2.11 Ensuring that all original documents pertinent to the audit are retrieved from the ATL and/or officials of the agency audited.

7.2.12 Discussing with the TS or the concerned Director urgent/significant matters requiring their attention.

7.2.13 Organizing the working papers and evidence supporting the findings included in the report, arranging and cross-referencing from the top schedule to supporting schedules and source documents.

7.2.14 Turning-over printed and soft copies of the original report, original documents and working papers/evidence to the Records Management Officer (RMO) designated by the concerned Director.

7.2.15 Attending to all summon/subpoena duces tecum and/or testificandum issued by any investigating body/court resulting from the fraud audit.

7.3 Team Supervisor (TS) is responsible for:

7.3.1 Supervising the conduct of audit to ensure completion within the audit period set and compliance with audit standards, applicable laws, rules and regulations.

7.3.2 Resolving significant accounting, auditing and legal questions raised during the audit..

7.3.3 Reviewing the appropriateness of the audit working papers to ensure that they adequately address the audit objectives and clearly reflect the audit procedures performed by the audit team.

7.3.4 Ensuring the adequacy of evidences gathered to support audit conclusions.

7.3.5 Reviewing and co-signing the AOM, fraud audit report and ND/NC.

7.3.6 Reporting to the Chairperson, thru the concerned Director, involvement of the auditor in the fraud being investigated and recommending the relief of the said auditor when necessary.

7.3.7 Determining, in coordination with the TL, the assistance needed from other offices and preparing the request for such assistance for review and signature of the concerned Director.

7.3.8 Supervising the organization of all working papers and evidence gathered during the audit for eventual turn-over to the RMO designated by the concerned Director together with printed and soft copies of the fraud audit report.

[BACK](#)

7.4 Concerned Director is responsible for:

7.4.1 Conducting periodic progress meetings with the TS to assess the status of the audit and any problem areas.

7.4.2 Setting time lines for the preparation, review, and finalization of the audit reports in order to avoid unnecessary delays that might adversely affect the effectiveness and significance of the reports.

7.4.3 Presiding over exit conferences at the conclusion of the audit, unless for good reason, he delegates such function to the Assistant Director.

7.4.4 Reviewing and recommending the approval of the fraud audit report by the Sector Head.

7.4.5 Transmitting to the Head of the Agency the audit report and NDs/NCs issued by the fraud audit team.

7.4.6 Providing the Sector Head with a quarterly report on the status of on-going fraud audits including list of reports forwarded to the OMB.

[BACK](#)

7.5 The concerned Sector Head shall oversee the proper implementation of the audit; review and approve the fraud audit report; and prepare and submit a letter for signature of the Chairperson transmitting a copy of the audit report to the OMB for the filing of appropriate case and to oversight bodies and agencies.

[BACK](#)