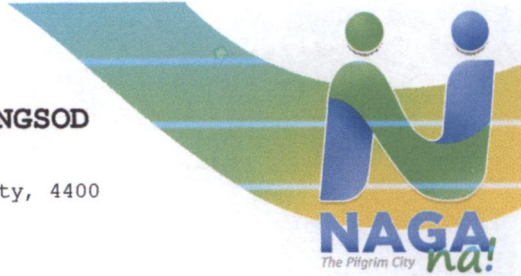


Republika ng Pilipinas
TANGGAPAN NG SANGGUNIANG PANLUNGSOD
Lungsod ng Naga

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 205-2980 local 2060



ORDINANCE NO. 2021-016
 VVVVVVVVVVVVVVVVVVVVVVV

AN ORDINANCE STRENGTHENING THE INTERNAL AUDIT SERVICE IN THE CITY GOVERNMENT OF NAGA BY ESTABLISHING THE NAGA CITY INTERNAL AUDIT SERVICES OFFICE (NCIASO), CREATING CERTAIN PLANTILLA POSITIONS THEREOF, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES:-

Author: **Hon. Joselito S.A. del Rosario, Ph.D.**
 Co-authors: **Hon. Salvador M. del Castillo**
Hon. Ghiel G. Rosales
Hon. Elmer S. Baldemoro
Hon. Gregorio R. Abenal

EXPLANATORY NOTES

Internal audit plays a crucial role in reform, especially in recommending courses of action to ensure effective, efficient, ethical, and economical operations of agencies.

Republic Act No. 3456, otherwise known as the "Internal Auditing Act of 1962" as amended by R.A. No. 4177, established the internal control system in all government agencies, subdivisions and instrumentalities of the national government, including local government units, and required the said agencies to create, establish and organize an Internal Audit Service in their respective offices. Subsequently, numerous laws, issuances and orders were promulgated to further strengthen internal audit system in the country.

Since 1988, the City Government of Naga has built a reputation for being a model local government unit that pioneered innovations in local governance. In fact, innumerable international, national and local awards were given to the city government as manifestation of its quest for excellence.

However, there are challenges in the compliance, operations, and management implementation that we need to address.

This paved the way to call for the strengthening of the internal audit services in the City Government of Naga as a tool for achieving efficient and effective administration and to ensure transparency and accountability in public management. Strengthening the internal audit services will further boost the integrity of the governance processes in the City Government of Naga.

Early on, Administrative Order No. 2015-004 dated September 1, 2015 creating an Internal Audit Unit (IAU) in the City Government of Naga was issued. However, full backing and support of the executive and legislative branches of the local government—coupled with the proper and adequate staffing pattern—are needed so that the desired outcome related thereto be vigorously pursued

Hence, this ordinance.

NOW, THEREFORE, be it ordained by the Sangguniang Panlungsod of the City of Naga, that:

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SECTION 1. - Title. - This ordinance shall be known as the "**Internal Audit Services Ordinance of Naga City**".

SECTION 2. - Policy, Objectives and Purposes. - This ordinance is enacted to achieve the following policy, objectives and purposes:

- (a) *Policy* -to pursue good governance in public financial management by ensuring that the government spends within means, invests in the right priorities, and delivers measurable results within an environment that empowers citizens through greater transparency, accountability, and meaningful citizen's participation.
- (b) *Purpose* -to improve existing systems and procedures, and promoting transparency and accountability in various aspects of the operations of the city government.
- (c) *Objectives* -to obtain the following value and benefits, to wit:
 - (1) *To improve the effectiveness of risk management, controls, and governance processes* - this will help the city government to accomplish its objectives by establishing a source of continuous assessment of internal controls, and also a continuous source of recommendations for improvement.
 - (2) *To instill public confidence in the city government's ability to operate effectively* - this will help to establish citizen's trust that the city government's resources are effectively and efficiently managed for optimum service delivery.
 - (3) *To strengthen the mechanism for ensuring the accountability of the city government to its constituents* - this will help the city government demonstrate the principle of holding its officials answerable for the use of public funds seriously.

SECTION 3. - Definition of Terms. - For purposes of this ordinance, the following terms and phrases are hereby defined as follows:

- (a) *Accountability* - the obligation of an individual or institution to account for its activities, accepts responsibility for them, and disclose the results in a transparent manner.
- (b) *Compliance Audit* - review of the degree of adherence with laws, regulations, managerial policies and

operating procedures of government, including compliance with accountability measures and ethical standards and contractual obligations. It is a necessary first step to, and part of management and operations audits.

- (c) *Head of Internal Audit* - refers to the head or highest official of the Internal Audit Service Office of the City Government of Naga. He/she has overall responsibility for auditing the city government, managing the entire audit cycle and a team of internal auditors, and ensuring the quality of audit products produced by the team.
- (d) *Internal Control* - refers to the plan of organization and all the coordinated methods adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.

Internal control comprises that plan of organization and all the methods and measures adopted within an agency to ensure that resources are used consistent with laws, regulations, and policies; resources are safeguarded against loss, wastage, and misuse; financial and non-financial information are reliable, accurate, and timely; and operations are economical, efficient, and effective.

- (e) *Internal Audit* - the evaluation of management control and operations performance and the determination of the degree of compliance with laws, regulations, managerial policies, and contractual obligations. It is the appraisal of the plan of organization and all the coordinate methods and measures to recommend courses of action on all matters relating to management control and operations audit.
- (f) *Management Audit* - the separate evaluation of the effectiveness of the internal controls adapted in the operating and support services units/systems, whether it achieves the control objective over a specific date or period of time. It is a review and appraisal of systems and processes, organizational structure and staffing, operations and management practices, records, reports and performance standards of the agencies/units covered. It includes the determination of the extent of compliance with laws, rules, regulations, managerial policies, operating procedures, accountability measures and contractual obligations covering specific timeframes. Examples of support services systems are

human resource management system, financial management system, quality management system, risk management system, and their sub-systems; while operating systems of bureaus, regional offices and local government units include, among others, the rules of engagement in the conduct of arrest, search and seizure in the case of investigating agencies, and rules on vaccination and immunization in case of health facilities.

- (g) *Operations Audit* - the separate evaluation of the outcome, output, process and input to determine whether government operations, including management and personnel structure in programs/projects are effective, efficient, ethical and economical. Operations audit of organizations, programs, and projects involves an evaluation of whether or not expected results were achieved and targets were attained.
- (h) *Related Audit Services* - related activities such as being a resource person (e.g. attending to functions outside the organization) for external organizations like COA, Office of the Ombudsman, the oversight or regulatory bodies and financing institutions; training of IASO staff, and intervening activities or tasks that may be assigned to the IASO.

The definitions are based on existing laws.

SECTION 4. - Legal Bases for Internal Audit. - The following laws, executive and administrative issuances on the organization, staffing, functions, and activities of internal audit are hereby made as legal bases and integral part of this Ordinance:

- (a) Republic Act No. 3456 (Internal Auditing Act of 1962), as amended by RA No. 4177, which created and organized an IAS/U in all government agencies to help management achieve an efficient and effective fiscal administration and assist in the performance of agency affairs and functions.
- (b) Presidential Decree No. 1 (Reorganizing the Executive Branch of the National Government), which abolished the IAS/U created under RA No. 3456, as amended by RA No. 4177. The function was subsequently merged with the Management Division of the Financial and Management Service in the Departments pursuant to Item 3, Article IV, Chapter I, Part IV of the P.D.
- (c) Section 1 of Administrative Order (AO) No. 119 dated 29 March 1989, which mandated government entities to strengthen their internal control systems and organize systems and procedures in coordination with DBM.

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- (d) Memorandum Order No. 277 dated 17 January 1990, directing the DBM to promulgate the necessary rules, regulations, and circulars for the strengthening of the internal control systems of government offices, agencies, government-owned or controlled corporations (GOCCs), and LGUs.
- (e) Section 3(b) of RA No. 7160 (The Local Government Code of 1991), which mandated the establishment of an accountable, efficient, and dynamic organizational structure and operating mechanisms that will meet the priority needs and service requirements of its communities in every LGU. Section 474(b) further provides for the qualifications, powers, and duties of an Accountant, among which is the mandate to take charge of both the accounting and internal audit services of the LGU.
- (f) AO No. 278 dated 28 April 1992 [Directing the Strengthening of the Internal Control Systems of Government Financial Institutions (GFIs) and LGUs, in their Operations], which provided for the functions, duties, and activities of the IAS/U. It also provides that IAS shall be detached from all functions of routine operating character.
- (g) AO No. 70 dated 14 April 2003 [Strengthening of the Internal Control Systems of Government Offices, Agencies, GOCCs, including GFIs, State Universities and Colleges (SUCs) and LGUs], which reiterated the authority for the creation of the IAS/U and its functions.
- (h) DBM Budget Circular No. 2004-4 dated 22 March 2004 (Guidelines on the Organization and Staffing of IAUs) which provided for the policy guidelines in the organization, staffing, positions, and salary grades of the IAS/U in Departments/Agencies/GOCCS/GFIs/LGUs concerned.
- (i) DBM-CSC Joint Resolution No. 1 dated 12 May 2006 (Rationalization Program's Organization and Staffing Standards and Guidelines), which provided for the creation of the IAS/U with its functions in line with Executive Order No. 366, as supplemented by CSC MC No. 12 s. 2006 issued on 22 June 2006.
- (j) DOJ Opinion No. 007 dated 29 January 2007 (in response to the query on whether or not RA No. 3456, as amended by RA No. 4177, is still the enabling law on the establishment of the internal audit function in

government agencies), which cited the evolution of the IAS/U from RA No. 3456, as amended by RA No. 4177 and P.D. No. 1. The IAS/U was abolished but its functions were merged with the Management Division under the FMS. It also recognized DBM Budget Circular (BC) No. 2004-04 in setting the Guidelines on the Organization and Staffing of IAUs. However, the DOJ opined that the query should be coursed to the Office of the Government Corporate Counsel (OGCC) and/or DBM.

- (k) OGCC Opinion No. 099 dated 30 May 2007, which stated that P.D. No. 1 recognized that the IAS/U had been abolished but that its functions had been merged with the Management Division under the FMS and DBM BC 2004-04.
- (l) DBM Circular Letter No. 2008-5 dated 14 April 2008 (Guidelines in the Organization and Staffing of an IAS/U and Management Division/Unit in Departments/Agencies/GOCCs/GFIs concerned), which provides the guidelines in the organization of the IAS/U, clarifies its functions, and specifies the rank and salary grade of the head of the IAS/U. The circular states that the head of the IAS/U shall directly report to the Department Secretary/Head of the Agency in the case of Departments and regularly attached agencies, and to the Audit Committee of the Governing Board in the case of GOCCs/GFIs.
- (m) DBM Circular Letter No. 2008-8 dated 23 October 2008 [National Guidelines on Internal Control System (NGICS)], which provides guidance to heads of departments and agencies in designing, installing, implementing, and monitoring their respective ICS, taking into consideration the requirements of their organizations.

SECTION 5. - Creation of the Naga City Internal Audit Service Office. - There is hereby created the Naga City Internal Audit Service Office (NCIASO), which shall be an integral part of the City Government organization and shall assist the 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.

SECTION 6. - Functions of the Naga City Internal Audit Service Office. - The Naga City Internal Audit Service Office (NCIASO), pursuant to the Administrative Code of 1987, and as reiterated in Item 3.5.4 of the National Guidelines on Internal Control System (NGICS) and Section 3.2 of the Scope of Internal Audit of the PGIAM, shall perform the following functions:

- (1) Advise the City Mayor or the Sangguniang Panlungsod on all matters relating to management control and operations audit of the executive and other offices;
- (2) Conduct management and operations audit of city government functions, programs, projects, activities, and outputs and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations;
- (3) Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports, and performance standards of the city government;
- (4) Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and
- (5) Perform such other related duties and responsibilities as may be assigned or delegated by the City or as may be required by law.

Section 7. - Divisions. - The Office of the Naga City Internal Audit Service shall have two divisions, namely, the Operations Audit Division and Management Audit Division. They shall perform the following functions and duties:

- (1) *Management Audit Division* - 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 of the LGU and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5 and Section 1.1.2, AO 278, s. 1992);
 - (b) Review and appraise systems and procedures/processes, organizational structure, assets management practices, financial and management records, reports, and performance standards of the LGUs covered (Section 2.4c, DBM Circular Letter No. 2008-5);

- (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 (Section 4.1.1.2, DBM Budget Circular No. 2004-4);
- (d) Ascertain the reliability and integrity of financial and management information and the means used to identify, measure, classify, and report such information (Section 1.1.1, AO No. 278, s. 1992);
- (e) Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds (Section 1.1.3, AO 278, s. 1992);
- (f) Review and evaluate the soundness, adequacy and application of accounting, financial and management controls and promote the most effective control at reasonable cost (Section 1.1.4, AO 278, s. 1992);
- (g) Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278, s. 1992);
- (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 (4.1.1.4, DBM Budget Circular No. 2004-4); and
- (i) Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

(2) *The Operations Audit Division* - The Operation 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 audit of activities of the LGU and its departments and determine the degree of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations (Section 2.4b, DBM Circular Letter No. 2008-5);

- (b) Review and appraise systems and procedures/processes, organizational structure, operations practices, operations records, reports, and performance standards of the LGU and the departments covered (Section 2.4c, DBM Circular Letter No. 2008-5);
- (c) Verify and analyze operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate, and valid (Section 4.1.1.2, DBM Budget Circular No. 2004-4);
- (d) Ascertain the reliability and integrity of operational information and the means used to identify, measure, classify, and report such information (Section 1.1.1, AO No. 278 s. 1992);
- (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 (Section 1.1.5, AO 278 s.1992);
- (f) Evaluate the quality of performance of groups/individuals in carrying out their assigned responsibilities (Section 1.1.6, AO 278 s. 1992);
- (g) Recommend courses of action on operational deficiencies observed (Section 1.1.7, AO 278 s. 1992);
- (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 (Section 4.1.1.4, DBM Budget Circular No. 2004-4); and
- (i) Perform miscellaneous services, including special investigations and assistance to outside contacts such as COA (Section 4.1.1.5, DBM Budget Circular No. 2004-4).

SECTION 8. Relationship of Internal Audit Service with Key Stakeholders and the corresponding Roles of the LCE and SP in furtherance hereof.

To be effective, the IAS must have the trust and confidence of the key stakeholders it works with. This can only be established and maintained by fostering effective

working relationships and delivering high-quality and timely internal audit services.

A. Local Chief Executive

The IAS must report directly to the Local Chief Executive (LCE). The LCE is not the client of the IAS. Instead, a superior subordinate relationship exists between the LCE and the internal auditors. This means that the Head of Internal Audit (HoIA) is accountable to the LCE. This relationship should be used as an opportunity for internal audit to gain insights into new and emerging issues and concerns facing the LGU and to discuss the role that the LCE requires the IAS to fulfill in line with the latter's mandated function.

B. Roles and Responsibilities

B.1 Local Chief Executive

Pursuant to Section 124 of the Government Auditing Code of the Philippines and the Administrative Code of 1987, the LCE has the direct responsibility to install, implement, and monitor a sound system of internal control. However, the LCE may task the IAS to undertake the appraisal of the internal control within the LGU. The LCE disseminates managerial policies through the issuance of guidelines and standards. They are issued to guide the personnel in the proper execution of their individual and unit tasks that collectively contribute to the attainment of LGU goals.

B.2 Sanggunian Panlungsod

The Sanggunian, as the local legislature, has a key role in establishing the IAS through the enactment of an ordinance creating the IAS, and by providing funding support in accordance with the provisions set out in AO No. 278 and DBM Budget Circular No. 2004-04.

SECTION 9. - Creation of New Plantilla Positions in the Office of the Naga City Internal Audit Service. - The following positions under the Naga City Internal Audit Service Office are hereby created:

- (1) One Internal Auditor V (SG 23) (Head of Office)
- (2) One (1) Internal Auditor IV (SG-22)
- (3) Two (2) Internal Auditor III (SG-18)
- (4) Two (2) Internal Auditor II (SG-15)
- (5) Two (2) Internal Auditor I (SG-11)
- (6) Two (2) Internal Auditing Assistant (SG-8)
- (7) One (1) Senior Administrative Assistant II (SG 14)

(8) One (1) Administrative Aide II (SG-2)

SECTION 10. - Qualification Requirements of Positions of the Office of the Internal Audit Service. - In consonance with the CSC Memorandum Circular No. 12, s. 2006 and to complete the Qualification Standards (QS) of all proposed positions in this Ordinance, the following are herein created for this purpose:

(1) Internal Auditor V (SG 23)

Education: Baccalaureate Degree
Experience: 4 years in position/s involving management and supervision and 3 years of relevant experience in Internal Auditing
Training: 24 hours of training in management and supervision and 40 hours training in Internal Auditing
Eligibility: Career Service Professional (Second Level Eligibility)

(2) Internal Auditor IV (SG-22)

Education: Bachelor's degree relevant to the Job
Experience: 3 years of relevant experience
Training: 16 hours of relevant training
Eligibility: Career Service Professional (Second Level Eligibility)

(3) Internal Auditor III (SG-18)

Education: Bachelor's degree relevant to the Job
Experience: 2 years of relevant experience
Training: 8 hours of relevant training
Eligibility: Career Service Professional (Second Level Eligibility)

(4) Internal Auditor II (SG-15)

Education: Bachelor's degree relevant to the Job
Experience: 1 year of relevant experience
Training: 4 hours of relevant training
Eligibility: Career Service Professional (Second Level Eligibility)

(5) Internal Auditor I (SG-11)

Education: Bachelor's degree relevant to the Job
Experience: None required
Training: None required
Eligibility: Career Service Professional (Second Level Eligibility)

(6) Senior Administrative Assistant II (SG 14)

Education: Completion of two-year studies in College
Experience: Three (3) years of relevant experience
Training: Sixteen (16) hours of relevant training
Eligibility: Career Service Subprofessional (First Level Eligibility)

(7) Internal Auditing Assistant (SG-8)

Education: Completion of two years studies in college
Experience: 1 year of relevant experience
Training: 4 hours of relevant training
Eligibility: Career Service Subprofessional (First Level Eligibility)

(8) Administrative Aide II (SG 2)

Education: Must be able to read and write/ Elementary School Graduate
Experience: None required
Training: None required
Eligibility: None required

SECTION 11. - Additional Duties and Functions and Detachment from Regular Functions. - In addition to the duties and functions as provided in Section 6 and 7 above, the NCIASO may be called upon to perform special assignments by the City Mayor or the Sangguniang Panlungsod.

However, 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 the primary responsibility of another unit in the organization.

The NCIASO shall be detached from all functions of routine character, such as the following:

- (a) Pre-audit of vouchers and counter-signature of checks;
- (b) Inspection of deliveries, although the internal auditor may, as part of his examination, observe inspection;
- (c) Preparation of treasury and bank reconciliation statements;
- (d) Development and installation of systems and procedures; however, in exceptional cases, the internal auditor may assist by way of giving suggestions;
- (e) Taking physical inventories; however, the internal auditor may review the plans in advance and observe and test-check the accuracy of counting, costing and summarizing;
- (f) Maintaining property records; and
- (g) All other activities related to operations.

SECTION 12. - Management Support. - The NCIASO shall be provided with sufficient support from the top management to gain

the cooperation/confidence of the auditee. For this purpose, all officials, department heads, chief of offices and employees of the City Government of Naga shall cooperate with internal auditors and ensure that:

- (a) In the performance of their function, the internal auditors should be able to exercise independence to render impartial and unbiased judgments essential to the proper conduct of the audit.
- (b) The auditor should be able to gather sufficient evidential matters in support of his findings and recommendations.
- (c) The Head of NCIASO shall report directly to the City Mayor but shall maintain its independence in the performance of its functions.

SECTION 13. - Conduct of Internal Audit. - Internal audit shall be performed with proficiency and due professional care.

- (a) The NCIASO shall provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audit to be performed.
- (b) Internal auditors shall possess the knowledge, skills and discipline needed to carry out the audit responsibilities of NCIASO.
- (c) The internal auditors shall ensure that internal audits are properly supervised and performed with due professional care.
- (d) The NCIASO shall conduct the audit in conformity with the Philippine Government Internal Audit Manual (PGIAM), Internal Audit Manual for Local Government Units (IAM for LGUs) and the Internal Standards for the Professional Practice of Internal Auditing.
- (e) The Code of Ethics promulgated by the Association of Government Internal Auditors (AGIA) shall be strictly observed to maintain high standards of honesty, dedication, objectivity, diligence and loyalty.

SECTION 14. - Standard of the Internal Auditing Profession.

- The head of NCIASO shall ensure that internal audit practices, methods and procedures in the agency are improved and updated through continuing education and that all audit works are conducted in conformity with the standards of the internal audit profession. For this purpose, the NCIASO head and staff shall cooperate and actively participate in the activities of the Association of Government Internal Auditors (AGIA).

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SECTION 15. - Appropriations. - The funding requirements for the creation and operationalization of the Naga City Internal Audit Service Office shall be incorporated in City's Annual Budget, beginning in FY 2021.

SECTION 16. - Separability Clause. - Should any provision in this ordinance be declared unconstitutional by any competent court, the remaining provisions shall remain valid and legal.

SECTION 17. - Repealing Clause. - Any ordinance, rules and regulations and executive issuances found inconsistent with the provisions of this ordinance are hereby repealed or modified accordingly.

SECTION 18. - Effectivity. - This ordinance shall take upon its approval.


ENACTED: February 16, 2021

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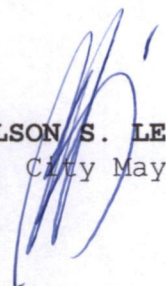
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WE HEREBY CERTIFY to the correctness of the foregoing ordinance.


GIL A. DE LA TORRE
Secretary to the
Sangguniang Panlungsod

CECILIA B. VELUZ-DE ASIS
City Vice Mayor
& Presiding Officer

APPROVED:


NELSON S. LEGACION
City Mayor 2/2/21 