



6 May 2021

MEMORANDUM NO. 422
Series of 2021

T O: Ms. Maria Teresa A. Cruz – Head, OHIA

R E: Compliance of the Audit Observation Memorandum (AOM) from the Commission on Audit

In reference to AOM No. 2021-012 (2020), dated April 29, 2021, as Head of the Internal Audit Office, you and your office are reminded and mandated to comply the following functions and responsibilities based from the Philippine Government Internal Audit Manual, pursuant to the Administrative Code of 1987, and as reiterated in the NGICS:

- a. Advise the department or unit head on all matters relating to management control and operations audits;
- b. Conduct management and operations audits of department or unit functions, programs, projects, activities with outputs, and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;
- c. Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports and performance standards of the department proper, bureaus and regional offices;
- d. Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and
- e. Perform such other related duties and responsibilities as may be assigned or delegated by the Secretary or the Governing Board or as may be required by law.

Kindly see attached AOM on your audited observations and comments by COA. Furthermore, please be reminded of the BOR approved functions of 2019 Organizational Structure, which was based on DBM and CSC Executive Committee on the Rationalization Program, Resolution No. 1 Series of 2006, adopted on 12 May 2006.

For strict compliance.

EDGARDO E. TULIN
President

cc: IASO
COA
Records
File



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. VIII
Leyte Government Center, Candahug, Palo, Leyte

**NGS - State Universities and Colleges and
Other NGS Stand - Alone Agencies, Team R8-4**

AOM No.: 2021-012 (2020)
Date: April 29, 2021

AUDIT OBSERVATION MEMORANDUM (AOM)

For: **DR. EDGARDO E. TULIN**
President, VSU
Visca, Baybay City

Attention: **MARIA TERESA A. CRUZ**
Head, OHIA

*for info and
appropriate action.
Alfred*

We have evaluated the efficiency of the operations of the Office of the Head of Internal Audit as part of the Internal Control System and noted the following:

The Office of the Head of Internal Audit (OHIA) as an integral part of the Visayas State University performs limited functions contrary to the duties and responsibilities prescribed under RA No. 3456, AO No. 278, and the revised PGIAM, thereby affecting the efficient and effective fiscal administration and performance of agency affairs and functions.

Sections 2 and 3 of the Republic Act (RA) No. 3456 known as the Internal Auditing Act of 1962 dated June 16, 1962 has been amended by RA No. 4177 and provides thus:

Sec. 2. There shall be created, organized and operated in all branches, subdivisions and instrumentalities of the government, including government-owned and/or controlled corporations to be known as agency for purposes of this Act, internal audit services *which shall assist management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions.* (emphasis supplied)

Sec. 3. The Internal Audit Service shall be **under the direct administrative supervision and control of the heads and/or assistant heads of the agency.** It shall be organized as an independent staff unit and shall correspondingly perform staff functions. It shall be responsible for instituting and conducting a program of internal audit for the agency.

The chief of the Internal Audit Service shall have the rank and salary equivalent to the third ranking official of the agency. He shall report directly to the head or assistant head of the agency.

Likewise, Administrative Order No. 278 dated April 28, 1992 provides:

1.1 The Internal Audit Service (IAS) shall be 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. Xxx. The internal audit activities shall include the following:**

- 1.1.1 Ascertaining the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information;
- 1.1.2 Ascertaining the extent of compliance and reviewing the systems established to ensure compliance with government policies, plans and procedures, laws and regulations which have impact on operations;
- 1.1.3 Ascertaining the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds;
- 1.1.4 Reviewing and evaluating the soundness, adequacy and application of accounting, financial and other operating controls and promoting the most effective control at reasonable cost;
- 1.1.5 Reviewing 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;
- 1.1.6 Evaluating the quality of performance of groups/individuals in carrying out their assigned responsibilities; and
- 1.1.7 Recommending corrective actions on operational deficiencies observed.

2.0 In addition to its above duties, **the IAS may be called upon to perform special assignments by the Head of the Agency. 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 IAS shall be detached from all functions of routine operating character, such as the following:

- 2.1 Pre-audit of vouchers and counter-signature of checks;
- 2.2 Inspection of deliveries, although the internal auditor may, as part of his examination, observe inspection;
- 2.3 Preparation of treasury and bank reconciliation statements;
- 2.4 Development and installation of systems and procedures; however, in exceptional cases, the internal auditor may assist by way of giving suggestions;
- 2.5 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;
- 2.6 Maintaining property records; and
- 2.7 All other activities related to operations.

The Visayas State University (VSU) currently maintains 4 external campuses which include: Alangalang, Isabel, Tolosa and Villaba, having a centralized fiscal operations and administration with 4 types of fund clusters namely: 01-Regular Agency Fund (RAF), 05-Income Generating Fund (IGF), 06-Business Related Fund (BRF) and 07-Inter-Agency Trust Fund (IATF).

Presently, the organizational structure and/set-up of VSU reveals that it has an Office of the Head for Internal Audit (OHIA) under the Office of the University President.

Our interview with the Head of the OHIA and the evaluation of VSU's implementation of internal audit services revealed the following:

- a. The VSU's OHIA performs routine functions limited only to:
 - Post-audit of the FC 05-IATF and FC 06-BRF projects
 - Sending of confirmation letters to various debtors of FC 05-IATF and FC 06-BRF projects
 - Preparing official letters to concerned VSU officials for the excess phone subsidy
- b. Lack of Manpower Complement – there exists an inadequate number of staff properly equipped with an internal audit background, training and

competencies. The VSU OHIA is composed only of three personnel, including the Head and 2 staff members: one regular and one job order employee.

During the interview, the Director of OHIA also mentioned that the Department of Budget and Management (DBM)'s list of internal audit functions is very broad. In this matter, we would like to invite the Head of OHIA to take note of the following provisions of the Philippine Government Internal Audit Manual (PGIAM):

3. Scope of Internal Audit

3.1 Scope

Internal audit is an integral part of the internal control system of public service organizations. The scope of internal audit is broad and **involves all matters relating to operations and management control.**

Among others, **internal audit encompasses the appraisal of the adequacy of internal controls, the conduct of management audit and the evaluation of the results of operations**, focusing on the effectiveness of controls of operating systems and support services units/systems.

3.2 Functions of IAS/IAU

Pursuant to the Administrative Code of 1987, and as reiterated in the NGICS, the functions of the IAS/IAU are as follows:

- Govt. owned & controlled corp. - Govt. financial institution*
- a. Advise the DS/HoA or in the case of GOCCs/GFIs, the Governing Body through the Audit Committee, on all matters relating to management control and operations audits;
 - b. Conduct management and operations audits of Department/Agency/GOCC/GFI functions, programs, projects, activities with outputs, and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations;
 - c. Review and appraise systems and procedures, organizational structures, asset management practices, financial and management records, reports and performance standards of the department proper, bureaus and regional offices;

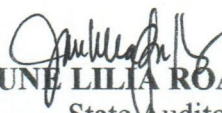
While it is the direct responsibility of the agency head to install, implement and monitor a sound system of internal control, the OHIA assists him by conducting a separate evaluation of the ICS to determine if controls are well designed and properly implemented.

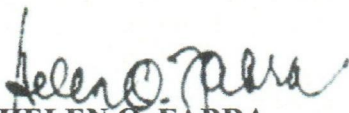
Considering the bulk of transactions and the increasing number of government programs/projects/activities to be implemented every year, VSU needs all the assistance it can get in the achievement of efficient and effective fiscal management and performance of its affairs, operations and functions.

We recommend that President:

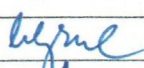

- a. define and discuss the functions and responsibilities of the OHIA to conform with the provisions of RA No. 4177 dated March 26, 1965, the AO No. 278 s. 1992, and the revised PGIAM so that the discharge of the Office's duties of overseeing the adequacy of internal control processes, conducting internal management audit and evaluating of the results of operations of the operating systems and support units can be efficiently implemented.
- b. provide OHIA with an adequate number of staff properly equipped with an internal audit background, training and competencies.

May we have your comments on the foregoing audit observations within fifteen (15) calendar days from receipt hereof.


JUNE LILIA ROA KIRONG
State Auditor IV
Audit Team Leader


HELEN O. FABRA
State Auditor IV
OIC-Supervising Auditor

Proof of Receipt of AOM:
(Pls. affix your respective signatures)

| Name | Designation | Date Received | Signature |
|----------------------|----------------------|---------------|---|
| Edgardo E. Tulin | University President | 5.5.21 |  |
| Maria Teresa A. Cruz | Director, OHIA | 5.5.21 |  |