



THE STATE OF INTERNAL AUDIT PRACTICE IN SELECTED PHILIPPINE GOVERNMENT AGENCIES: BASIS FOR POLICY ADVOCACY

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The Philippine initiatives against corruption have taken the form of law and anti-graft bodies created by the Constitution, Law and Executive Orders. In addition to the State, other institutions have been in the fight against graft and corruption.

The accountability of public officials is enshrined in the Constitution of 1987, as it has been in the Malolos Constitution of 1898, the Commonwealth Constitution of 1935 and then the Constitution of 1973, the Martial Law period. Article XI of the 1987 Constitution, entitled "Accountability of Public Officers," states the fundamental principle of public office, as public trust. It requires full accountability and integrity among public office, as public trust. It further requires full accountability and integrity among public officers and employees. The President, Vice President, members of the Supreme Court, members of the Constitutional Commissions and the Ombudsman may be impeached for violations of the Constitution, treason, bribery, graft and corruption, other high crimes, and for betrayal of public trust. Other public officials committing such acts can be investigated and prosecuted through the regular judicial process provided by law.

The Philippine government is directed to maintain honesty and integrity in the public service, and to take action against graft and corruption (Section 27, Art. II). It is also directed to give full public disclosure of all transactions involving the public interest (Section 28, Art II). This provision is complemented by the Bill of Rights within the Constitution, which gives people the right to information on matters of public concern, including official records, documents and papers pertaining to official acts, transactions or decisions, and to government research data used as the basis for policy development (Section, 7 Art. III).

The Anti-Graft and Corrupt Practices (RA.3019) was passed in 1960. It enumerates what

may be considered corrupt practices by any public officer, declares them unlawful and provides the corresponding penalties of imprisonment (1 month, 6 years and 15 years), perpetual disqualification from public office, and confiscation or forfeiture or unexplained wealth in the favour of the government. It also provides for the submission by all government personnel of a statement of assets and liabilities.

Among other relevant issuances are: (1) Presidential Decree (PD) No. 46 (1972), making it unlawful for government personnel to receive, and for private persons to give, gifts on any occasion including Christmas, regardless of whether the gift is for past or future favours. It also prohibits entertaining public officials and their relatives; (2) PD No. 677 (1975) requires the statement of assets and liabilities to be submitted every year; and (3) PD 749 (1975), granting immunity from prosecution to givers of bribes or other gifts and to their accomplices in bribery charges if they testify against the public officials or private persons guilty of these offenses.

Further, the Administrative Code of 1987 (Executive Order No. 292) incorporates in a unified document the major structural, functional and procedural principles and rules of governance. It reiterates public accountability as the fundamental principle of governance. In 1989, RA 6713, the Code of Conduct and Ethical Standards for Public Officials and Employees was passed. It promotes a high standard of ethics and requires all government personnel to make an accurate statement of assets and liabilities, disclose net worth and financial connections. It also requires new officials to divest ownership in any private enterprise within 30 days from assumption of office, to avoid conflict of interest. The Ombudsman Act of 1989 (RA6770) provides the functional and structural organization of the Office of the Ombudsman. The Act further



defining the Jurisdiction of the Sandiganbayan (RA 8249) makes it special court on par with the Court of Appeals.

The 1987 Constitution established special independent bodies to support the principles of honesty, integrity and public accountability. These are: (1) The Office of the Ombudsman as the people's protector and watchdog; (2) the Civil Service Commission as the central personnel agency; (3) the Commission on Audit as the supreme body responsible for auditing the government's expenditures and performance; and (4) the Sandiganbayan as a special court that hears cases of graft and corruption. To ensure that these organizations and their commissioners can fulfil their duties without fear of reprisal from other agencies of the government, the Constitution grants them fiscal autonomy. Finally, each President has instituted their own anti-corruption bodies.

Despite several efforts to deter graft and corruption in the country, still it remains to be prevalent. With this, a vigorous and credible program to combat corruption in the country is vital for several reasons. First, is that the Philippines is cited with increasing frequency (by business surveys, the media, and anticorruption watchdog agencies) as a country where corruption is a factor that inhibits foreign and domestic investment and which may be eroding the country's competitive position. Such investment is vital to economic growth and social well being. Second, is because corruption undeniably saps resources available for development, distorts access to services for poor communities, and undermines public confidence in the government's will and capacity to serve the poor, an anticorruption strategy therefore is an essential complement to the present administration's pro-growth stance. Finally, corruption has emerged as a pivotal international criterion for allocating scarce development aid resources, and the Philippine will be judged by their actions in combating corruption (World Bank, 1999)

Estimates by the Ombudsman, the Commission on Audit, and the Philippine Centre for Investigative Journalism suggest that very large amounts of public funds are being lost to both political and bureaucratic corruption. The best measure to estimate the total losses due to corruption is the amounts involved in cases filed with the Ombudsman. The Office of the Ombudsman (OMB) reported that about P9 billion was lost to government due to malversation, estafa (swindling) and violation

of the provision of RA 3019 (the Anti-Graft and Corrupt Practices Act) for a period of eight and a half years (1990 to June 1998) (OMB, 1998). In the Ombudsman's report, 63 agencies and departments contributed to the losses. However, the top ten of these agencies alone accounted for almost P8.5 billion (Moratalla, 2003).

The Ombudsman further claimed that, "the government lost P1.4 trillion and continues to lose P100 M daily since the Office began investigating corruption in government since 1988" (Desierto, 1999). This is similarly pointed out by Estrada (1999) when he said, "At least P24.13B of what the Philippine government spent for various projects was lost to graft and corruption, or barely 20% of all project funds are lost to grafters."

A clear example of the prevalence of corruption in the country is a report from Transparency International (2006) which stated that Filipino students are suffering from decades of corruption in the Philippines' educational system which has produced thousands of bad textbooks. Billions of pesos intended for the purchase of quality textbooks have disappeared into the pockets of influence peddlers, lobbyists and other government officials in the form of commissions. Forty percent (40%) commission was reported to be the standard amount given to these lobbyists and government officials which could have been gone a long way in providing better quality and more plentiful reading and learning materials for students. This situation has greatly contributed to the shameful textbook per student ratio of the country. The ideal ratio is one textbook per student. But what the Filipinos have now is a ridiculous 1:15 ration due to widespread corruption in the education bureaucracy.

In its 2006 Survey of Enterprises on Corruption, the Social Weather Stations (SWS) reported that majority of business managers still see "a lot" of corruption in the public sector, adding that most government agencies are seen as increasingly becoming less "sincere" in their efforts to curb corruption.

Over the years, the performance of the government in fighting graft and corruption was evaluated more poorly. It indicated that the government performance in fighting corruption has indeed been dismal. On the whole, the results of national and international surveys consistently depict the Philippines as riddled with corruption and unable to effectively fight corruption.



All these can possibly be due to weak internal controls among government agencies. Weak internal controls lead to waste and misuse of government resources and non-accomplishment of objectives. Poorly controlled government programs and projects generate frauds, wastage and abuse that result in tremendous losses aggregating to millions of pesos in government funds and property. Weak internal controls foster an environment that facilitates illegal acts and corrupt practices which channel funds intended for government purposes to private uses, thereby depriving intended beneficiaries of needed public services and defeating the objective of public organizations.

A case in point is when an audit was conducted in the office of one (1) Clerk of Court of the Municipal Trial Court of Bulacan (A.C.No. P02-1614) on September 18, 2001. Since she was on leave that day, the Court Interpreter handed to the audit team the office's cash on hand amounting to P2,740.00. Of this sum, P1,790.00 pertained to the Judiciary Development Fund (JDF), P860.00 to the Clerk of Court General Fund and P90.00 to the Legal Research Fund. Later that day, she arrived at her office and turned over to the team several stale checks in the total amount of P142,800.00, representing unwithdrawn confiscated bonds and fines.

The audit revealed the following findings: (1) there was an unremitted collection for the period of August 1, 2001 to September 16, 2001 in the Judiciary Development Fund in the amount of P23,477.25; (2) usually late in depositing collections; (3) made several deposits amount to P23,511.00 in the wrong savings account number, namely, Savings Account No. 159-011-65-1 instead of Savings Account No. 159-011-63-1. It was also found that some entries in the cash book for the Judiciary Development Fund was not certified true and correct by her; (4) she also incurred shortages in the Clerk of Court General Fund (CCGF); (5) she was also late in her remittances of the collections for the Clerk of Court General Fund; (6) She cancelled several official receipts but the amounts reflected therein were nevertheless deposited; and (7) Although the audit team was not able to finish its examination of the books of accounts for the Fiduciary Fund, it found that the Clerk of Court was delayed in her remittances in the said fund.

The Audit Team updated its findings regarding the collections in the JDF and CCGF and

found a shortage of P1,863.55 in the JDF remittances and an over-remittance in the CCGF of P11,441.45. It also discovered a shortage in the Fiduciary Fund in the amount of P7,216.00. The audit team also discovered that on July 31, 2001, respondent made a lump-sum deposit of P600,000.00 in the Fiduciary Fund.

Another case is when the Department of Finance (DOF) filed charges with the Ombudsman against three employees of the Bureau of Customs (BOC) for various offenses ranging from malversation of public funds to unexplained wealth. The filing of these charges is part of internal audit efforts and a sustained crackdown by the DOF on erring revenue officials. It must be noted that the Central Financial Management Office, under EO 292 or the Administrative Code of 1987, supervises the Department-wide activities relating, among others, to internal audit.

A complaint for violations of the Anti-Graft and Corrupt Practices Act and the National Internal REVENUE code was filed against two (2) BIR collection agents. Investigation by the DOFs Revenue Integrity Protection Services (RIPS) revealed that both failed to remit at least Php 32.5 million in taxes paid by one Mindanao-based large taxpayer from 1997 to mid-2002. Since the discovery of the anomaly, BIR Commissioner placed the taxpayer under the jurisdiction of the Large Taxpayer Service, which is based in the BIR National Office (DOF, 2006).

Complaint-affidavits for unexplained wealth were also filed against a BIR supervisor; and a Customs Collector at Poro Point in San Fernando, La Union. The complaints also alleged that they knowingly failed to report ownership of huge assets in their statements of assets and liabilities (DOF, 2006)

According to the complaint against him, the BIR supervisor earns approximately P15,500.00 per month. His statement of assets and liabilities (SAL) shows a net worth of P1.68 million consisting of two farmlands, and two residential lots in Isabela and in Benguet. However, an investigation uncovered assets that the BIR Supervisor failed to declare in his SAL consisting of two more lots, three commercial building and one warehouse with a tower transceiver, all of which are located in Northern Luzon and are valued at more than P7 million. Two of the building, were registered under the name of Agro-Industrial Corporation, an alledged dummy corporation. A



certified report from the Securities and Exchange Commission (SEC) shows that the economy has not filed its General Information Sheet and Financial Statement since 1997 (DOF, 2006).

The case against Customs Collector involves numerous violations against the Code of Conduct for Public Officials and Employees, the Anti-Graft and Corrupt Practices Act, the Law on Forfeiture and Unlawfully Acquired Property, and the Revised Penal Code. The Customs Collector failed to submit her SALs from 1990 when she began working at the BOC with records showing that she only started submitting her SAL in 2000. Her SAL in 2002 puts her total assets at P92 million and her net worth at P54.4 million. Said Customs Collector also failed to declare other properties when it was discovered that she had three more lots in Pangasinan. According to the complaint against her, she misrepresented the source of two of her properties, which she claimed were inherited but which, investigations revealed, were actually purchased from separate individuals (DOF, 2006).

While there have been established administrative safeguards and system of control among government agencies to ensure that the activities of the agency are being carried out efficiently; there is still a need to watch over these safeguards according to Dizon (1990). People make mistakes, exercise poor judgment or act dishonestly, operations and conditions may change, these safeguards may have inherent weaknesses, and even the controls are subject to breakdowns and other adverse factors. People are told to do things the right way, at the right time and at the right place, but in the majority of cases they do not follow what they are told. Management cannot therefore rely exclusively on these safeguards to achieve maximum efficiency.

In view of the foregoing, therefore, there is a need to watch over these safeguards to achieve results, to see that they are being maintained effectively, to see also that those breakdowns and deficiencies are reported and corrected, and to ascertain that they are always kept adaptable to changing conditions. The strengthening of these safeguards by continuous independent check is highly desirable. Thus, internal auditing provide for this.

Internal auditing is a management function which was unheard of before 1940. Since that time, there has been rapid expansion and advancement in its application. In fact, organizations found this

function or technique effective that today it has gained a strong foothold. It has also been adopted only a few years back in government agencies. In the Federal agencies of the United States, internal auditing constitutes one of their essential management functions. In the Philippine Government, internal auditing was introduced through the initiative of then General Auditing Office which is now the Commission on Audit (Dizon, 1990).

While some of the government agencies realized the importance of internal auditing and recognized their need for it, others re still adamant in giving it full support. This reluctant attitude probably stems from lack of understanding of the true nature, objective and function of internal auditing (Dizon, 1990).

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of risk management, control and governance” (International Standards for the Professional Practice of Internal Auditing [ISPPA], p. 4).

Locally, internal auditing is viewed as an element of internal control. As provided for in the Government Accounting and Auditing Manual (GAAM) Volume III, COA Circular No. 368-91, internal audit is created to review and monitor the effectiveness of the implementation of the control system.

Today, internal auditing is not only limited to the review of accounting and financial activities and to the detection and prevention of frauds and irregularities, but also includes in its functions the review and appraisal of operating activities as well. Internal auditors are nor expected to make use of all possibilities of their positions for the protection of the interests of the organization they represent. In fact, present day internal auditing according to Dizon (1990), is known as the “eyes and ears” of management, the “control of controls,” the “guardian of corporate morality” and “the monitor of internal control.”

Aware of the importance of internal auditing and how it could help government agencies ensure efficiency and effectiveness in its operation, this researcher would like to conduct a study n the state of internal audit practice in the Philippine bureaucracy.

Management’s need for objective, quality information extends beyond financial information. The combination of internal auditor’s competence



and independence and the highly integrative nature of operations have prompted an evolution toward a more comprehensive internal auditing function, including the examination of administration, operations, accounting and financial management (Ratliff, Wallace et. Al, 1991).

Considering the tremendous savings effected by these internal audit services and the correction of anomalies discovered previously among government agencies, there is no valid reason why they should not be established in all departments, bureaus and offices of the national government, especially so, if the relentless battle against graft and corruption now being waged by the Administration is to be ultimately won. The Internal Audit Service plays the role of an ever-alert watchdog within the agency. There is no substitute for its services. It is most effective in constantly safeguarding the interests of the agency especially in the latter's financial interests (Explanatory Note, R.A. 3456 as amended by R.A. 4177).

It is in the above context that the researcher is so interested to conduct a study on the state of internal auditing in the Philippine bureaucracy. It is the researcher's belief that there is a need to intensify and accelerate the current state of internal audit practice in the government especially if the goal is to achieve an efficient and economical public service and minimising, if not eliminating graft and corruption in the government.

The Problem

The primary purpose of this study is to determine the current state of internal audit practice in selected Philippine government agencies.

More specifically, this study aimed to:

1. Know the demographic profile of the respondents in terms of the following selected variables: (1.1) Highest level of completed education; (1.2) Major area of study in the highest degree program; (1.3) Length of service in internal auditing work; (1.4) Designations (1.5) Professional License/certification (1.6) Membership in IIIA; and (1.7) Membership in AGIA
2. Find out the institutional profile of Internal Auditing Units in selected Philippine government agencies in terms of the following variables: (2.1) Size of Internal Audit Unit (2.2) Specific location of Internal

Audit Unit in the organization; (2.3) Year when the internal Auditing Unit was established; (2.4) Organization's total number of employees.

3. Assess the level of performance of the respondents in terms of the following internal Auditor Roles: (3.1) IIA's Attribute Standards; (3.2) Risk-based planning; (3.3) Planning Engagement; (3.4) Conducting engagement; (3.5) Conducting specific engagements; (3.6) Monitoring engagement outcomes; (3.7) Using engagement tools; (3.8) Understanding the internal audit activity's role in organizational governance; and (3.9) Other internal audit roles and responsibilities
4. Determine the respondents perceived the importance of the following knowledge elements in the performance of their responsibilities as internal auditor: (4.1) Essentials of Auditing; (4.2) Internal Control; (4.3) Management Science (4.4) Information systems audit; (4.5) Financial Management (4.6) Management Concepts; and (4.7) Legal
5. Test whether there is a significant relationship between the level of performance and the perceived importance of the knowledge elements.
6. Test whether there is a significant relationship between; (1) compliance with IIA attribute standards and the seven knowledge elements ; (2) risk based-planning and the seven knowledge elements; (3) planning engagements and the seven knowledge elements; (4) conducting engagement and the seven knowledge elements; (5) conducting specific engagements and the seven knowledge elements; (6) monitoring engagement and the seven knowledge elements; (7)using engagement tools and the seven knowledge elements; (8) understanding the internal audit activity's role in organizational governance and the seven knowledge elements; and (9) other internal audit roles and responsibilities and seven knowledge elements.
7. Find out the problem/difficulties encountered by the respondents in the



performance of their work as Internal Auditors?

8. Gather recommendation to properly solve the problem identified?
9. Find out if the establishment of IAUs is an effective tool in determining graft and corruption?

(IUA) from National government Agencies (NGAs), Government Owned and Controlled Corporations (GOCC), Legislative Bodies, Constitutional Commissions and Judicial service. Applying the Sloven’s Formula in getting the sample size the researcher generated a total of forty (40) respondents.

Research Methodology

In this study, the researcher made use of the descriptive survey method of research. The test of relationship or correlational study was utilized to estimate the extent to which different variables (levels of performance and knowledge elements) are related to one another in the population of interest. Thus, the respondents of this research were basically the heads of internal auditing units of various government agencies. From the listing taken from the Association of Government internal Auditors (AGIA) there were forty-four (44) Internal Auditing units

Findings:

1. The demographic profile of the respondents consist of 37.5% Baccalaureate Degree holders, 37.5% accounting graduate and/or internal auditing related courses, with 1-5 years length of service in internal auditing work, 30% were designated or have a position of department manager, 40% were not license holder, 67.5% were not associated with the Institute of Internal Auditing (IIA) while 65% were members of the association of the Government Internal Auditors or the AGIA.

Educational Attainment	Frequency	Percentage
1. Ph.D./Units earned in Doctoral	5	12.5
2. M.A. Degree Holder/Units earned in Masteral	13	32.5
3. Llb./Units in Law	5	12.5
4. Baccalaureate Degree	15	37.5
5. No Response	2	5.0
Major Area of Specialization/Study	Frequency	Percentage
1. Public Administration	7	17.5
2. Law	5	12.5
3. Accounting/Internal Auditing	15	37.5
4. Management/Business Administration/Economics	7	17.5
5. Others (e.g. Engineering, Community Dev.’t, etc.)	4	10.0
6. No response	2	5.00
Length of Service in Internal Auditing Work	Frequency	Percentage
1. 16-20 years	8	20.0
2. 11-15 years	6	15.0
3. 6- 10 years	7	17.5
4. 1-5 years	14	35.0
5. Less than 1 year	2	5.0
6. No response	3	7.5
Designation	Frequency	Percentage
1. Assistant Secretary Level	2	5.00
2. Vice President (SVP/FVP/AVP)	8	20.0
3. Director	8	20.0
4. Department Manager	12	30.0
5. Division Chief	2	5.00
6. Internal Auditor/s	5	12.5
7. Administrative Officer	3	7.5
License/s Held	Frequency	Percentage
1. CPA	15	37.5
2. CIA	4	10.0
3. IBP Member	5	12.5



4. Non	16	40.0
IIA Membership		
	Frequency	Percentage
1. Member	10	25.0
2. Non-Member	27	67.5
3. No Response	3	7.5
AGIA Membership		
	Frequency	Percentage
1. Member	26	65.0
2. Non-Member	10	25.0
3. No Response	4	10.0

2. Most of Internal Audit Units in the government were medium in size with around 6-50 internal audit employees, 40% belonged to other position category e.g. under audit committee, under the Board of Directors and under Management Division, 30% were established after the

issuance of Administrative Order No. 70 in 2003. In terms of size, those with 1,000-2,499 employees obtained the highest frequency of 12 out of 40 respondents or 30% along with 2,500 to 4,999 range also with 12 respondents or 30% of the entire number respondents.

Size of Internal Audit Units (IAUs)	Frequency	Percentage
1. Small (1-5 employees)	10	25.0
2. Medium (6-50 employees)	22	55.0
3. Large (over 50 employees)	8	20.0
Location of Internal Audit Units in the Organization	Frequency	Percentage
1. Immediately after the Secretary/CEOP/President of the agency (as The second highest office)	13	32.50
2. Under the second ranking official (as the third Highest office)	3	7.50
3. Others: Under the audit committee	12	30.00
Under board of directors	10	25.00
Management division	1	2.50
Under the commission	1	2.50
Year Established of Internal Audit Units	Frequency	Percentage
1. Before the issuance of RA 3456 & R.A. 4177 in 1962	0	
2. Immediately after the issuance of R.A. 3456 & R.A. 4177 (anytime between 1963-1988)	8	20.00
3. Upon the issuance of Administrative Order No. 119 in 1989	3	7.50
4. After the issuance of Administrative Order No. 278 in 1992	7	17.50
5. After the issuance of Administrative Order No. 70 in 2003	12	30.00
6. After the issuance of DBM Budget Circular 2004-4	0	
7. After the issuance of Executive Order No. 366	0	
8. After the issuance of M.O. 89 s.2005	0	



9. Others (e.g. created by special/general laws)	10	25.00
Total Number of Employees of Internal Audit Units in the Organization	Frequency	Percentage
1. Under 100	0	0.00
2. 100-999	7	17.50
3. 1,00-2,499	12	30.00
4. 2,500-4,99	12	30.00
5. 5,000-9,999	4	10.00
6. 10,000-24,999	2	5.00
7. 25,000-49,999	3	7.50
8. Over 50,000	0	0.00

3. Generally, the respondents regularly perform the 9 internal auditor roles with an overall weighted mean of 3.50 which is verbally described as often performed. Thus, out of the nine (9) areas of internal auditor roles, “*compliance with the IIA attribute standards*” obtained the highest

mean of 4.39 which is verbally interpreted as usually performed. “*Using engagement tools*” obtained the lowest weighted mean of 2.66 which is verbally described as sometimes performed.

Overall Level of Performance of Internal Auditor Roles	Mean	Verbal Interpretation	Rank
1. Comply with IIA’s Attribute Standards	4.39	Usually Performed	1
2. Risk-based Planning	3.51	Often Performed	5
3. Planning engagements	3.62	Often Performed	4
4. Conducting engagement	4.33	Usually Performed	2
5. Conducting specific engagements	2.58	Sometimes Performed	8
6. Monitoring engagement outcomes	4.26	Usually Performed	3
7. Using engagement tools	2.66	Sometimes Performed	9
8. Understanding the internal audit activity's role in organizational governance	3.48	Often Performed	6
9. Other internal audit roles and responsibilities	2.69	Sometimes Performed	7

4. As a whole the perceived level of importance in the knowledge elements was rated with average importance which garnered a general weighted mean of 3.09. The respondents generally rated “*administration/management*” to be the most important knowledge element needed to effectively perform the job of an internal auditor which obtained an overall weighted mean of 4.01 which implies that it is very significant for internal auditor to acquire substantial

information/knowledge about administration/management which was rated above average importance. “*Information systems audit*” was consistently getting a low score which obtained the lowest weighted mean of 1.83 and verbally described as below average importance.



Items in Knowledge Elements	Mean	Verbal Interpretation	Rank
1. Essentials of auditing	2.25	Average Importance	6
2. Internal Control	2.81	Average Importance	5
3. Management Science	3.32	Average Importance	3
4. Information Systems Audit	1.83	Below Average Importance	7
5. Financial Management	3.31	Average Importance	4
6. Administration/Management	4.01	Above Average Importance	1
7. Legal	3.96	Above Average Importance	2

5. There is a positive correlation between the overall level of performance and the knowledge in essential of auditing. A moderate positive correlation exists between the overall level of performance and internal control knowledge element. The correlation between the overall level of performance and management science knowledge element showed a positive moderate correlation. Between the overall level of performance and information systems audit, findings showed a significant positive moderate correlation between the two variables. The overall level of performance and financial management showed a non-significant positive low correlation. Further, the correlation between the overall level of performance and administration/management has a significant negligible of performance and legal knowledge element.

6. Correlation between the 9 Levels of Performance and the 7 Knowledge of Elements

6.1. Findings revealed that the positive negligible correlation exist between performance in compliance with IIA attribute standards and essentials of auditing in knowledge element. A positive low correlation exists between compliance with IIA standards and the knowledge in internal control. Between compliance with IIA standards and management science, there exist a significant correlation. There is a low

correlation between compliance with IIA standards and information systems audit. Lastly, findings revealed that significant correlation exists when compliance with IIA standards are correlated with respect to financial management, administration management and legal.

6.2. There is a positive moderate correlation between established risk-based plans and the essentials of auditing. A positive substantial correlation exists between establishing risk-based plans and internal control. Further, establishing risk-based plans is moderately correlated with management service. There exists a positive moderate correlation between establishing risk-based plans and information systems audit. Thus, there is a low positive correlation between establishing risk-based plans and financial management. There exists a significant correlation when establishing risk-based plans are correlated with respect to administration management and legal. All values are interpreted as having negligible correlation.

6.3. Findings revealed that there is a substantial positive correlation between planning engagement and essentials of auditing knowledge element. A high positive correlation exists between planning engagement and internal control knowledge element. The correlation between planning



- engagement and management science knowledge elements showed a positive substantial. Between planning engagement and information systems audit, findings showed a significant positive substantial. Between planning engagement and financial management, it showed a positive low correlation. Further, the correlation between planning engagement and administration/management showed a significant negligible correlation. Between planning engagement and legal knowledge element it showed a negligible correlation.
- 6.4. Results of analysis showed that there is a positive low correlation between conducting engagement and essentials of auditing. Also, the findings indicate that there is a positive low correlation between conducting engagement and internal control. Thus, conducting engagement and management science are moderately correlated. A low correlation exists between conducting engagement and information systems audit. Further, findings revealed that when conducting engagement are correlated with financial management and administration/management respectively, there exists a negligible positive correlation. Finally, between conducting engagement and legal knowledge element, there is also a positive negligible correlation.
- 6.5. There exists a positive low correlation between conducting specific engagement and the essentials of auditing. Thus, there exist a positive moderate correlation between conduct specific engagement and internal control. Between conduct specific engagement and management science, there also exists as significant positive moderate correlation. There is a positive moderate correlation between conduct specific management and information systems audit. Between conducting specific engagement and financial management, findings illustrates that there is a positive low correlation between the two variables. The same finding was revealed between conducting specific engagement and administration/management knowledge element where there is also a positive low correlation. Finally, between conducting specific engagement and legal knowledge element, there exists as positive negligible correlation.
- 6.6. Results of analysis showed a negative and negligible correlation between monitoring engagement outcome and the essentials of auditing in knowledge elements. Thus, findings indicate a positive and moderate correlation between monitoring engagement outcome and the knowledge element – internal control. Between monitoring engagement outcome and management science, the two variables have low positive correlation while there is a low correlation between monitor engagement outcome and information systems audit. Further, findings revealed that a positive low correlation between monitoring engagement outcome and financial management exists. Non-significant correlations were revealed when monitoring engagement outcome were correlated with respect to administration/management and legal knowledge element.
- 6.7. There exists a positive moderate correlation between use of engagement tools and the essentials of auditing. Also, there exist a positive substantial correlation between using engagement tools and internal control. Between using the engagement tools and management science, there exists a positive moderate correlation. Further, results showed a positive and substantial correlation between using engagement tools and financial management, findings illustrates that there is a positive low correlation between the two variables. The same interpretation is revealed between using engagement tools and administrations/management knowledge element where there is positive and negligible correlation between the two variables. Between using engagement tools and legal knowledge element, there exists a negative and negligible correlation.



- 6.8. Findings revealed that a positive and negligible correlation exists between understanding the internal audit activity's role in organizational governance and the essential of auditing in knowledge elements. Results of analysis also showed that there is a low correlation between understanding the internal audit activity's role in organizational governance and the knowledge element- internal control. Further, between understanding the internal audit activity's role in organizational governance and management science, there exists substantial correlation. In addition, the test of relationship made between understanding the internal audit activity's role in organizational governance and information systems audit showed a low positive correlation. Also, findings indicate a negligible correlation between understanding the internal audit activity's role in organizational governance and financial management. Thus, a significant correlation is discovered when understanding the internal audit activity's role in organizational governance is correlated with respect to administration management and legal.
- 6.9. There exists a negative negligible correlation between perform other internal auditor roles and responsibilities and essential of auditing. Between perform other internal auditor roles and responsibilities and internal control, there exists a negative negligible correlation. Thus, between perform other internal auditor roles and responsibilities and management science, there exists a positive low correlation. Between perform other internal auditor roles and responsibilities and information systems audit, there is a positive low correlation. Thus, between perform other internal auditor roles and responsibilities and financial management, there is a positive negligible correlation. Further, between perform other internal auditor roles and responsibilities and administration/management, the test of relationship revealed a positive negligible correlation between the two variables. Finally, there is a significant positive low correlation between perform other internal auditor roles and responsibilities and legal knowledge element.
7. 75% of the respondents indicate that there are problems relating to organizational/management. Thus, in terms of the problems encountered on laws/issuance/standards relating to internal auditing, 87.5% of the respondents agreed that there are problems relating to such while 62.5% of the respondents agreed that there are problems relating to performance of the real nature of internal auditing work. Further, 90% of the respondents agreed that there are problems relating to the scope of work. In addition, 75% of the respondents agreed there are problems on CIA Certification and other IIA related issues. With regards to IA training, 77.5% agreed that there are problems relating to such. Finally, 55% of the respondents stated that there are other problems and difficulties that need to be addressed.
8. Among the top most important recommendations suggested by the respondents to properly solve the problems and difficulties encountered were: (1) to uniformly institutionalize internal audit units; (2) increase the number of the personnel and manpower complement; (3) upgrade the salary grade of internal auditors; (4) increase orientation of internal auditors towards CIA certification; (5) establish a separate selection board to assess the performance of internal auditors in GOCC's/GFI's (6) there is a need for quality assurance review among internal audit units; among others.
9. 87.5% the respondents agreed that the establishment of internal audit units can help deter graft and corruption. Thus, when ask if the performance of the functions indicated in the ISPPIA will help in deterring graft and corruption, 75% of the respondents or 30 out of 40 agreed that it will help in deterring graft.



Conclusions

1. The current state of internal auditors in the Philippine Bureaucracy is characterized by the following: (a) Internal Audit Units Head were generally BS Degree holders, (b) Accounting graduates and/or Internal Auditing Related Courses, (c) with 1-5 years experience in internal auditing work, (d) designated as Department Manages, Vice-President and Directors, (e) has a CPA license, (f) Members of the IIIA or the International Institute of Internal Auditors, and (g) Members of the Association of Government Internal Auditor (AGIA).
2. The current state of internal auditing units in the Philippine Bureaucracy is characterized by: (a) mostly medium-sized around 6-50 internal auditors, (b) specifically located under Audit Committee, Board of Directors, included in the Management Division and finally under the Secretary or the CEO of the Agency being the second highest office within the organization. Thus, Internal Audit Units were (c) established/instituted among government agencies only after the issuance of Administrative Order No. 70 in the year 2003, (d) with small organizational size of 1,000-2,499 government employees.
3. The current state of internal audit practice in the Philippine Bureaucracy is characterized by oftenly performing the essential internal auditor roles. Specifically, the practice include the following: (a) usual compliance with the IIIA attribute standards, (b) often perform risk-based planning, (c) often plan engagement, (d) usually follow appropriate procedure in conducting internal audit engagement outcomes, (e) sometimes conduct specific engagements; (f) usually monitor internal audit engagements outcomes; (g) sometimes utilized internal audit engagement tools frequently; (h) often understands the internal audit activity's role in organizational governance; and (i) sometimes perform other internal auditor roles and responsibilities.
4. Government Internal Auditors generally perceived the knowledge elements to be typically important. They generally regard the knowledge relating to administration/management and legal to be very important while management science, financial management, internal control and essentials of auditing to be equally important.
5. There is a significant correlation between the following variables: (a) overall level of performance and the knowledge in essentials of auditing; (b) overall level of performance and administration/management knowledge element; (c) overall level of performance and legal knowledge element; and (d) overall level of information systems audit knowledge element. There is no significant correlation between the following variables: (e) overall level of performance and internal control knowledge element; (f) overall level of performance and management science; and (g) the overall level of performance and financial management;
6. (6.1) There is a significant correlation (a) between compliance with IIIA attribute standards and essentials of auditing knowledge element; (b) between compliance with IIIA attribute standards and internal control; (c) between management science and compliance with IIIA Attribute Standards; (d) financial management and compliance with IIIA attribute standards; (7) between administration/management and compliance with IIIA attribute standards, and finally, (g) between legal and compliance with IIIA attribute standards are significant.

(6.2) There is a significant correlation (a) between establishing risk-based plans and essentials of auditing; (b) between information systems audit and establishing risk-based plans; (c) between risk-based plans and administration/management and finally (d) between establishing risk-based plans and legal knowledge elements. There is no significant correlation (e) between establishing risk-based plans and internal control; (f) between establishing risk-based plans and management science; (g) between establishing risk-based plans and financial management.

(6.3) There is a significant correlation (a) between planning engagement and essentials of auditing; (b) between planning engagement and internal control; (c) between planning engagement and information systems audit; and



finally (d) between planning engagement and administration/management. There is no significant correlation (e) between planning engagement and management science; (f) between planning management and financial management; and (g) between planning engagement and legal knowledge element.

(6.4) There is a significant correlation (a) between conducting engagement and essentials of auditing; (b) between conducting engagement and internal control; (c) between conducting engagement and management science; (d) between conducting engagement and information systems audit; (e) between conducting engagement and financial management; and finally (f) between conducting engagement and administration/management. There is no significant correlation (g) between conducting engagement and legal knowledge element.

(6.5) There is a significant correlation (a) between conducting specific engagement and internal control; (b) between conducting specific engagement and management science; (c) between conducting specific engagement and financial management; (d) between conducting specific engagement and administration/management knowledge element; and finally (e) between conducting specific engagement and legal knowledge element. There is no significant correlation (f) between conducting specific engagement and the knowledge elements; (g) between conducting specific engagement and information systems audit;

(6.6) There is a significant correlation (a) between monitoring engagement outcome and internal control; (b) between monitoring engagement outcome and management science; (c) between monitoring engagement outcome and information systems audit; and finally (d) between monitoring engagement outcome and financial management. There is no significant correlation (e) between monitoring engagement outcome and essentials of auditing; (f) between monitoring engagement and administrations/management is accepted; and finally between monitoring engagement outcome and legal knowledge element.

(6.7) There is a significant correlation (a) between using engagement tools and management science; (b) between using

engagement tools and information systems audit; (c) between using engagement tools and financial management; (d) between using engagement tools and administration/management; and finally (e) between using engagement tools and legal knowledge element. There is no significant correlation (f) between using engagement tools and auditing knowledge element; and (g) between using engagement tools and internal control.

(6.8) There is a significant correlation (a) between understanding internal audit activity's role in organizational governance and essentials of auditing; (b) between understanding internal audit activity's role in organizational governance and information systems audit (c) between understanding internal audit activity's role in organizational governance and internal control; and finally (d) between understanding internal audit activity's role in organizational governance and administration/management and that of legal knowledge element. There is no significant correlation (e) between management science and understanding internal audit activity's role in organizational governance; and (f) between understanding internal audit activity's role in organizational governance and financial management.

(6.9) There is a significant correlation (a) between perform other internal auditor roles and responsibilities and management science; (b) between perform other internal auditor roles and responsibilities and financial management; (c) between perform other internal auditor roles and responsibilities and administration/management; and finally (d) between perform other internal auditor roles and responsibilities and legal knowledge.

There is no significant correlation (e) between perform other internal auditor roles and responsibilities and essentials of auditing; (f) between perform other internal auditor roles and responsibilities and internal control; and finally (g) between perform other internal auditor roles and responsibilities and information systems audit knowledge element.

7. Most of the Government internal auditors generally recognized that there exist a problem relating to organizational/management,



laws/issuances relating to internal auditing, performance of the real nature or internal auditing work, scope of work, CIA certification and other IIA Related concerns, availability of IA related trainings, and other relevant IA Related Activities. They generally believe that problems of these concerns be resolved immediately.

8. Majority of the respondent suggested ways to properly solve the problems identified and most notable of which is to uniformly institutionalize internal audit units according to the way it should be developed, to hire more competent internal auditors, and to provide more trainings and professional developments.
9. Most of the government internal auditors agreed that the establishment of internal audit units will effectively defer graft and corruption in the government. Thus, they also believe that the performance of the functions specified in the ISPPOA will generally defer graft and corruption.

Recommendations

Using the forgoing findings and conclusion as bases, the researcher recommends the following:

1. Government Internal Auditors should aim at pursuing graduate and post-graduate studies to help upgrade their managerial competence by applying the latest thrust and strategies they will acquire from the graduate school work since findings revealed that most of them only obtained Baccalaureate Degree. Non-internal auditing related courses graduate should aim at acquiring knowledge in internal auditing work by enrolling into higher academic institutions which offers BS in Internal Auditing, or attend to COA, IIA, AGIA and other training providers of internal auditing. The respondents are encouraged to take CIA examination to make them more qualified in the position of internal auditor. Since there are still non-IIA and non-AGIA members, government internal auditors are encouraged to join these organizations as this will help them beef-up their competencies.

2. The specific location of internal auditing units varies from one entity to another. Such can be resolved by appropriately and uniformly applying the requirements of the laws/issuances on how to organize/institute internal audit units. The GOCC's and GFI's should strictly follow the requirements setforth by the Securities and Exchange Commission (SEC) in establishing Internal Audit Units (IAUs) which is stated under Section 2.2.2.3 and Section 2.3.5 of the Code of Corporate Governance (*See Appendix for the specific provision*) and the NGAs should strictly follow the requirements setforth by the CSC and DBM in their circulars i.e. CSC MC 12 s.2006, CSC-DBM Joint Resolution No. 1 s.2006 pursuant to EO 366 s.2004, and DBM Budget Circular 2004-4 s.2004 (*See appendix for these circulars*).

3. There is a need to hone the competencies of government internal auditors with regard to using engagement tools which include among others, sampling and statistical analyses. Such can be done by allowing government internal auditors to enroll in statistics class and attending seminars and trainings relative thereto. State Universities and Colleges (SUCs) can be tapped to provide this kind of services; anyways the CSC accredits SUCs to help in providing professional development programs among government employees.

Since there are still significant others who do not perform internal auditing work according to the ISPPIA or to international standards, it is recommended that its application be made government-wide. Direct adoption of ISPPIA offers benefits through; It is also recommended that the Government Accounting and Auditing Manual (GAAM) Volume III or the Government Auditing Standards and Procedures and Internal Control System or COA Circular 91-368 s. 1991 be revised to conform to international standards and that its application be made mandatory among government agencies.

4. Government internal auditor needs to acquire knowledge in information systems audit as revealed by the findings. This can be addressed by allowing government internal auditors to enroll in COA or in the National Computer Center (NCC) on IT/IS Audit being the lone



provider of such training. The same principle can be applied in recommendation No. 1 relative to training.

5. Since the level of performance and the knowledge elements are related it is recommended that Government Internal Auditors should hone their levels of performance and knowledge. This can be done through acquisition of training and other professional and value development programs stated above to become thoroughly conversant with the modern-day practices and trends in internal auditing.
6. Since internal auditing can be an effective tool in deterring graft and corruption it is recommended that the Presidential Anti-Graft Commission (PAGC) should partner on government agencies in properly installing and monitoring an adequate internal control system by helping them institute IAUs as this would lead to the realization of their mandate. Assistance can be in a form of capability building and training, assistance in the rationalization efforts where IAUs is formally being introduced in the organization.

Further, since IAUs is still in its infancy in the Philippine government, assistance from ADB can likewise be sought through Technical Assistance. It must be recalled that the ADB's anti-corruption policy centers three objectives: (1) Supporting competitive markets, and efficient, effective, accountable and transparent public administration, as part of the Bank's broader work in governance and capacity building; (2) Supporting ADB's dialogue with its developing member countries on a range of governance issues, including corruption; and (3) Ensuring that ADB's projects and staff adhere to highest ethical standards. In order to combat corruption in the Philippines public service, it is recommended that procedures should be in place for the detection and investigation of corruption. This may be achieved by strengthening internal control procedures or broadening the scope of the internal audit. The same assistance was already extended to Indonesia by the ADB in its attempt to strengthen internal control specially that IAUs proved to be an effective anti-corruption tool which falls among the scope of their anti-corruption program.

Finally, the numerous problems raised by the respondents necessitates that the old Internal Auditing Act of 1963 be amended/ revised to address the varying difficulties experienced by the government internal auditors. Specific standards and procedures should cater on the various organizational set-up as GOCCs/GFIs, NGAs, Bureaus, Attached Agencies, Instrumentalities, SUCs and LGUs.

7. It is recommended that the specific recommendation provided by the government internal auditors be considered for future policy formulation regarding internal auditing. Also, there is a need to institute an external body which will take charge of monitoring the works of internal audit units – the one which will audit the works of internal auditors. However, specific attention be given in crafting the functions of such body to avoid duplication of functions and waste of government resources.
8. To further satisfy the problems stated above, it is recommended that: top management should give full support to internal audit unit; there should be capable members of the internal audit unit; there should be broad scope of internal auditing activities; and finally, full cooperation of personnel.

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