



Republika ng Pilipinas  
Republic of the Philippines  
Kagawaran ng Tanggulang Pambansa  
Department of National Defense

JUN 09 2004

**DEPARTMENT ORDER**

No. 99

**SUBJECT: CREATION OF DND-WIDE INTERNAL AUDIT SERVICE (IAS) AND THE APPROVAL OF ITS CHARTER**

**SECTION 1. MANDATE**

Pursuant to Administrative Order No. 70, Series of 2003, Executive Order No. 240, Series of 2003 and Department of National Defense (DND) Department Order (DO) No. 170, Series of 2003, the Internal Audit Service is hereby created under the Office of the Undersecretary for Internal Control and shall assist the Management of DND in the effective discharge of its responsibilities without intruding into the authority and mandate of the Commission on Audit (COA) granted under the Constitution. It shall function in accordance with the policies established by the provisions of Republic Act No. 3456, as amended by Republic Act No. 4177, and shall perform staff functions with primary responsibilities encompassing the examination and evaluation of the adequacy and effectiveness of the internal control and the quality of performance in the Department proper, bureaus, offices and agencies including the Armed Forces of the Philippines.

**SEC. 2 CHARTER OF DND INTERNAL AUDIT SERVICE**

The Internal Audit Service (IAS) shall be governed by a Charter (Attachment 1) which defines the parameters, standards and operational procedures that must be adopted in the discharge of its functions.

**SEC. 3 ORGANIZATION**

- 3.1 There shall be Department-wide Internal Audit Service (DND-IAS) organized under the Office of the Undersecretary for Internal Control (OUSIC).



- 3.2 The DND-IAS shall be headed by the Assistant Secretary for Internal Audit.
- 3.3 The DND-IAS shall have two directorates, namely: Directorate for Armed Forces of the Philippines (AFP) and Directorate for the DND proper, bureaus, offices and agencies. Each directorate shall be headed by a Service Director.
- 3.4 The structure of the DND-wide IAS (Attachment 2) shall be organized in accordance with the provisions of DBM Circular No.2004-4 s.2004 and as approved by the DBM.

#### **SEC. 4 REPEALING CLAUSE**

All issuances and orders inconsistent with this Department Order are hereby repealed or amended accordingly.

#### **SEC. 5 EFFECTIVITY**

This Department Order shall be effective this date. Subsequent instructions will be issued to operationalize this Order.

##### Phase I: June 2004

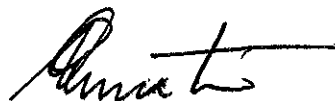
- a) Transfer of personnel within Metro Manila except GA
- b) Detail/DS of Military personnel to DND-IAS
- c) Budget formulation for CY 2005
- d) Operations Planning for 2<sup>nd</sup> Semester, CY 2004

##### Phase II: July-December 2004

- a) IAS Operations for 2<sup>nd</sup> Semester, CY 2004
- b) Recruitment of IAS personnel for vacant positions as approved by DBM and with Existing Budget
- c) Training of IAS personnel

##### Phase III: January 2005

- a) Full implementation using Approved Structure and Budget
- b) Operations based on Approved Audit Plan for 2005



**EDUARDO R ERMITA**  
**Secretary**



Office of the Secretary, DND

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**CHARTER  
OF  
DND-WIDE INTERNAL AUDIT SERVICE (DND-IAS)**

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## **1. MISSION AND SCOPE OF WORK**

The mission of the Department of National Defense (DND) Internal Audit Service (IAS) is to provide independent, objective assurance and consulting services designed to add value and improve the department's operations. It helps the Department accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the DND-IAS is to conduct a comprehensive audit of various Department activities. It shall have the following functions:

- 1.1. Appraisal of procedures and related matters, including expressing an opinion as to the efficiency or adequacy of existing procedures; and appraising personnel efficiency.
- 1.2. Verification and analysis of financial and operations data to ascertain if attendant management information system generate reports that are complete, accurate and valid.
- 1.3. Activities verifying the extent of compliance. This may involve determining that accounting procedures or other policies are being followed; operating procedures are being properly implemented; governmental regulations are being complied with; performance targets are being achieved; and other contractual obligations are being met.
- 1.4. 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.
- 1.5. Miscellaneous services, including special investigations and assistance to outside contact such as the COA, CSC and Office of the Ombudsman.



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## **2. INDEPENDENCE**

To provide for the independence of the Internal Audit Service as reflected in Sec 3 of R.A. 4177, it shall be established at the department level. The rationale of which is to detach it from all functions of routine operating character as well as free itself from the functional and organizational structure of its respective auditees who are the bureaus, subordinate offices, agencies and other units under the control and supervision of the Department. Such shall include but not limited to the Government Arsenal, Office of Civil Defense, Philippine Veteran's Affairs Office, Armed Forces of the Philippines, National Defense College of the Philippines, among others. The aforementioned shall be considered as operating units for purposes of internal auditing.

To further promote the independence of IAS, its personnel shall report functionally and administratively to the Undersecretary for Internal Control (USIC) who shall be assisted by the Assistant Secretary for Internal Audit (ASIA). It will include as part of its report to the DND management, a regular report on internal audit personnel.

## **3. RESPONSIBILITY**

The Head of the DND-Wide IAS shall have the following functions and responsibilities:

- 3.1 Develop a flexible annual audit plan (using an appropriate risk-based methodology, including any risks or control concerns by management), and review periodic updates.

The said plan will be submitted to the Undersecretary for Internal Control (USIC) for review and endorsement to the SND for approval prior to its implementation.

- 3.2 Implements the approved annual audit plan, including as appropriate any special tasks or projects as requested by the SND through the USIC.
- 3.3 Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.
- 3.4 Implements a quality assessment review program for the DND Internal Audit Service.



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- 3.5 Evaluates and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation and/or expansion.
- 3.6 Submits periodic reports to the Undersecretary for Internal Control (USIC) summarizing results of audit activities.
- 3.7 Keeps the USIC informed of emerging trends and successful practices in internal auditing.
- 3.8 Provide a list of significant measurement goals and results to the USIC.
- 3.9 Conducts fact-finding investigations based on the documented reports/complaints as approved by the USIC and notify the SND through USIC of the findings thereof.
- 3.10 Consider the scope of work of the COA auditors, as appropriate, for the purpose of providing optimal audit coverage to the Department at a reasonable overall cost.

#### **4. AUTHORITY**

- 4.1 The Internal Audit Service as maybe authorized by the SND shall have the following powers and authority:
  - 4.1.1 Have unrestricted access to all functions, records, property, and personnel in *motu proprio* or as directed by SND in special cases.
  - 4.1.2 Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
  - 4.1.3 Obtain the necessary assistance of personnel in units of the Department Proper, bureaus, offices and agencies including the Armed Forces of the Philippines (AFP) where they perform audits, as well as other specialized services from within or outside the Department.



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- 4.2 Excluded from the foregoing powers and authority are the following:
- 4.2.1 Perform any operational duties for the Department Proper, bureaus, offices and agencies including the Armed Forces of the Philippines (AFP).
  - 4.2.2 Initiate or approve accounting transactions external to the internal audit services.
  - 4.2.3 Direct activities of any organization employee not employed by the internal audit service, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## **5. ACCOUNTABILITY**

The Head of the DND-Wide IAS, in discharge of his/her duties, shall be accountable to the Secretary of National Defense through the Undersecretary of Internal Control (USIC) to:

- 5.1 Provide annually an assessment on the adequacy and effectiveness of internal control and the quality of performance in the Department proper, bureaus and agencies including the Armed Forces of the Philippines (AFP) organization's processes for the accomplishment of its mission and scope of work.
- 5.2 Report significant issues related to the processes for controlling the activities of the organization which includes the Department Proper, bureaus, and offices and (attached) agencies including the AFP, regarding potential improvements to those processes and provides information concerning such issues through resolution.
- 5.3 Periodically provide information on the status and results of the annual audit plan, internal audit quality assessment review program and the sufficiency of the Internal Audit Service resources.
- 5.4 Coordinate with concerned agencies in relation to the conduct of audit.



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## 6. STANDARDS OF AUDIT PRACTICE

The Internal Audit Service shall conduct the audit in conformity with International Standards for the Professional Practice of Internal Auditing.



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**HON EDUARDO R ERMITA**  
**Secretary of Department of National Defense**

Date 14 Jun '04