

Foreword

The United Nations Development Programme (UNDP) supported the Commission on Audit and the National Economic Development Authority (NEDA) in undertaking a project called, “Enhancing the Public Accountability Programme of the Philippine Commission on Audit through Participatory Audit with Civil Society Organizations-PHI/99/008/A01/72”. This project piloted the involvement of civil society organizations (CSO) in value for money audits conducted by the Commission on Audit as an audit reform measure intended to address the increasing demand for transparency and accountability through increased citizen’s participation in monitoring government services. For this purpose two CSOs, the Concerned citizens of Abra for Good Government (CCAG) and the National Urban Poor Assembly (NUPA) were accredited and trained by the COA for 6 value for money audits done in the provinces of Abra and Mountain Province in the Cordellera Administrative Region, Camarines Norte in Region V and Samar in Region VII.

Participatory Audit has enhanced accountability, transparency and credibility of government audits since the public is made more fully aware of the results of COA audits through the CSOs, which are in direct contact with citizenry.

Ultimately, Participatory Audit will promote more prudence in use of public resources for projects that would benefit local communities.

This Manual was prepared using the experiences in the six pilot audits that were conducted. The findings, experiences and all other relevant issues relating to the PA project were taken up in at least two major workshops. Serving as the crucible for all information and experiences learned, the collective wisdom and discussions from the ranks of COA, UNDP, CCAGG, PO s and CSOs enabled critical issues to surface and to be resolved down to the comfortable level where the PA program could be pursued further in an expanded scale. Valuable comments, feedbacks and inputs were provided by COA officers including, but not limited to the Assistant Commissioner, Regional Directors, Directors and various levels of technical and professional staff based at the Head Office, regional and provincial centers. The potential users of the Manual evaluated and suggested ways and means to improve the Manual and its contents.

Project validation activities were conducted to obtain first hand and direct feedback from the involved community-beneficiaries and the project implementers. These activities had firmed-up, and contributed to more accurate understanding of the PA process in the view of the audited entity, the project implementer and the recipient community. Fresh and newer perspectives surfaced, and the validity of the PA concept was confirmed.

PA-Audit, in the context of the Philippine COA-UNDP cooperation project, is still evolving. The PA Audit Team's experiences and lessons from the forthcoming assignments may contribute to the future form of the PA concept. PA participants are therefore encouraged to look at the PA process from a positive vantage while keeping alert to note potential refinements in the concepts and practices.

Users of this Manual are required to study all the relevant COA Circulars, (some are annexed hereto) specially COA Circular 99-021 "Segregation of Value-for-Money (VFM) Audit Reports from the Annual Audit Report (AAR) and Providing Guidelines for the Preparation, Submission, and Transmittal of VFM Audit Reports" (Annex 1), which is the main document that outlines the VFM auditing process that is adopted in the PA program. The gist of other Circulars, sample reports, and relevant auditing guides were also incorporated in the Annex Section. As quick reference, the full report on Participatory Audit conducted for the "Concreting of Daet-San Vicente Road, Daet Camarines Norte", is included as Annex 11.

Acronyms

AAR - Annual Audit Report

CCAGG - Concerned Citizens of Abra for Good Government

COA – Commission on Audit

COA RO – Commission on Audit's Regional Office, with COA Regional Director or representative as the regional official

COA Commissioner, COA Assistant Commissioner, COA Directors – Commission on Audit officials of respective rankings and designations

COA Circulars – Commission on Audit's serialized directives on significant issues relative to audit functions and guidance to COA activities

COA's CMSU – Commission on Audit's Change Management Support Unit

CSO – Civil Society Organization as a more encompassing term for NGO – Non-Government Organization

EnPAP - Enhancing the Public Accountability Programme

GOP – Government of the Philippines

MOA – Memorandum of Agreement

NEDA – National Economic and Development Authority

NUPA – National Urban Poor Assembly

PA- Participatory Audit

PA- AT – Participatory Audit Team

PPAs – Projects, Programs and Activities

VFM – Value for Money

UNDP- United Nations Development Programme

Definition of Terms:

Accountability - the obligation to answer for responsibility conferred; the requirement to answer for what you have accomplished (or not) that is of significance or of value.

Agency/ies – entity or institution subject of the audit activity

Economy – getting the right amount of resources, of the right quality, delivered at the right time and place, at the lowest cost.

Efficiency – the minimum resources inputs to achieve a given quantity and quality of product

Effectiveness – the extent to which the outcomes of an activity match the objective or the intended effects of that activity

Participatory Audit – is conducting an audit with the involvement of Civil Society as members of the Audit Team

Value for Money - a systematic evaluation of an agency's objective, and how this was achieved through the programs, projects and activities (PPAs)



FOREWORD

Partnering with civil society organizations and other professional organizations to strengthen public accountability was included as a novel strategy in the Reform Programme of the Philippine Commission on Audit (COA), the supreme audit institution of the country. This was approved for implementation over a period of five years by the Commission Proper in early 2000 as one of the final outputs of the UNDP-funded project for COA: the COA-EnPAP (Enhancing the Public Accountability Programme of the Philippines COA).

On May 2000 the COA Management Committee under the Office of the Chairman authorized us, the EnPAP technical staff; to assess the potentials of a civil society organization (the CCAGG or the Concerned Citizens of Abra for Good Government) as a probable partner for a pilot audit. So armed with a borrowed minicam and backpacks, we went to Abra to meet Ms. Pura Sumangil, the CCAGG Chairperson, and her group. We spent a very hectic one day visiting some five projects located in various bumpy and out-of the way places being monitored by the CCAGG. We also assessed the integrity and commitment of the group by interviewing the CCAGG members and some government officials connected with agencies which were the object of the group's investigative activities. We came back to the Central Office impressed with the work of the group and convinced that, yes, our citizens should be empowered to be COA's partners for a better and vigilant government. One factor really clinched it in their favor: they emphasized that they have never and do not intend to be paid for their "watch-dogging" activities.

The Management Committee favorably recommended the first pilot partnership with the group, which was accredited as a COA Partner by the COA Chairman on August 2000, and the rest is history so to speak.

This Manual or Guide which was prepared by our Documentations Consultant, Mr. Vic Roaring, documents the activities involved in conducting participatory audit teams, composed not only of CCAGG and COA members but later on also members from other civil society organizations (National Urban Poor in Bicol and Samar and the Social Action Development Center of Benguet); identifies the areas where partnership is possible, and painstakingly dwells on the audit concepts, terminologies and requirements which an auditor and of course the "adopted auditors" should be familiar with.

For the Commission on Audit, this Manual will prove that auditing can be rendered more meaningful with the direct participation of the citizens in the conduct of the audits. The audit reports prepared as a result of the partnerships show this fact

For civil society organizations, professional organizations and our citizens in general, this Manual will prove that you can have a direct hand in making our government better not only through being perennial staunch critics but as partners in government audits and evaluations.

For the United Nations Development Programme (UNDP), this Manual will facilitate the planned replication of the strategy in other countries in Asia and the Pacific.



We say ***Thank you very much*** to the United Nations Development Programme for having been with us every step of the way. We also wish to thank our Philippine National Economic Development Authority which participated in the design of a training module for participatory audit teams and in the actual training of teams on results oriented monitoring and evaluation and in the selection of the final agencies for audit.

Of course, we owe the success of this experiment on promoting accountability and governance to the civil society organizations and COA regional officials and auditors who undertook the audits and very efficiently, economically and effectively at that.

COA-UNDP Participatory Audit Project Staff

Message from the Chairman of the Philippine Commission on Audit

Our Philippine Medium-Term Development Plan for the years 2001 to 2004 considers good governance as being " a collective responsibility of the government, civil society and private sector in improving the lives of all Filipinos, particularly the poor. Governance is not the exclusive domain of the public sector, as it requires the distinct contribution of the business sector in creating wealth and employment and of civil society in promoting moral values and accountability." (page 256, Policy Framework)

It is for this reason that the citizenry has been continually mobilized by government in its drive for a higher sense of accountability and peace and order. Government, for instance, has encouraged and supported the setting up of citizen crime prevention units (CCPU) and anti-graft and corruption units of civil society organizations.

We at the Commission on Audit (COA) collaborated with the United Nations to promote a new mechanism which will enhance governance through government audits. Our two year experiment involved the participation of trained members of accredited civil society organizations, primarily of the Concerned Citizens of Abra for Good Government (CCAGG); as team members in COA value for money audits. The experiment resulted in very focused and efficient audits which were participated in not only by the COA and the CSOs but even by the NEDA which helped us in training the audit teams in results oriented monitoring and evaluation techniques and in identifying agencies ripe for audit and even by the audited agencies themselves which were given the opportunity in identifying probable audit areas.

If at all this experiment has proven that the citizenry can be harnessed to assist in performing activities which have in the past been considered as exclusively government's to encourage and promote a higher level of accountability to our government transactions.

This Guidebook will enable the users to, among others, identify areas and mechanics for collaboration. We of course realize that audits, even our own, have been consistently evolving in focus as well as in approach and technique. As such, the parameters for collaboration as contained in this book should not be considered as the "be all and end all" for all participatory audits. These should be changed or modified with alternative benchmarks identified and newer areas developed when deemed necessary.

Guillermo N. Carague

Chairman
Commission on Audit

Message from:
Terence D. Jones
Resident Representative
United Nations Development Programme

The problems of persistent poverty and increasing inequality have made most developing countries and the international community focus greater attention on the issue of governance. The growing social awareness by people also poses a new challenge for governments to be participatory in decision-making, and transparent and accountable in the conduct of public affairs.

UNDP supports the building of partnerships to promote participation, accountability and effectiveness among government, civil society and private sector. We recognize that only by empowering people can sustainable human development be achieved. The recognition that good governance is a condition for sustainable human development marks a primary shift in development thinking. The shift is to a large extent, influencing strategies for pursuing accountability reforms and improving institutional capacity.

One of the prioritized reform measures identified in the Philippine Commission on Audit's (COA) Framework and Strategy for Reform is a partnership with civil society organizations. Collective effort are drawn to pursue this potential innovation in governance with the objective of involving citizens in government audit activities to enhance transparency and accountability. Recognizing that people are not only beneficiaries but also agents of development, the project on Enhancing the Public Accountability Programme of the Philippine COA: Participatory Audit with Civil Society Organizations has successfully proven that citizens can contribute to making audits more responsive, efficient and transparent

We at UNDP commend the efforts of COA in bringing a decidedly technical accountability tool, such as auditing closer to the people. By agreeing to take in private citizens as part of their value-for-money audit teams, COA has paved the way for a constructive partnership with civil society. We likewise commend the participation of the Concerned Citizens of Abra for Good Government as well as the National Urban Poor and the Social Action Development Council of Benguet for their committed participation. The audit findings and recommendations were certainly broadened by their academic backgrounds, work exposures and familiarity with the projects audited.

It is our hope that the innovations and best practices from participatory audit set out in the manual ad encourage mainstreaming civil society participation in Philippine government audits and their replication by other countries.

The
COA-UNDP
PARTICIPATORY-AUDIT
MANUAL

Prepared by Vicente O. Roaring

April 2002

COA-UNDP Participatory Audit Manual

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2. Substance of COA Memorandum No. 96-054 dated December 2, 1996 Re:
Audit Highlights
3. Substance of COA Memorandum No. 96-054 dated December 2, 1996 Re:
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4. Substance of COA Memorandum No. 99-021, dated April 7, 1999: Re:
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5. Substance of COA Memorandum No. 99-021, dated April 7, 1999: Re:
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8. Sample Ranking Sheet: *Participatory Audit Project – Potential audit Projects Summary Matrix- DPWH, Abra Engineering District*
9. Sample : *Program Accountability Model- DPWH, Abra Engineering District*
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11. Participatory Audit Report: *Concreting of Daet-San Vicente Road, Daet Camarines Norte*

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Value for Money - a systematic evaluation of an agency's objective, and how this was achieved through the programs, projects and activities (PPAs)

Chapter 1: Introduction To Participatory Audit

1.1 What is Participatory Audit

Participatory Audit means conducting an audit with the involvement of Civil Society as members of the Audit Team. In this case, CSOs are selected, trained, and then deputized to become members of an Audit Team (AT). The AT is formed on a “per audit activity” basis, meaning that it is dissolved after the specific audit activity is completed. The overall terms and conditions covering the audit activity engagement wherein the CSO will participate is spelled out under a Memorandum of Agreement (MOA) signed by COA and the CSO to cover a specific audit activity. (See sample in Annex 11). Under the pilot PA program by COA-UNDP, the Value for Money (VFM) audit, (Section 2.0 below), is selected as the appropriate approach.

1.2 General Principles Covering PA Audit

The PA program as conceived is bound by general principles decided based on evaluation of issues expected out of the existing auditing guidelines (COA) and the projected participation of CSOs. These are as follows:

- (a) COA and the selected CSO agree to cooperate to the fullest extent possible in implementing the Audit Project to ensure successful outcome;
- (b) Both will respect each other’s internal structure, rules, procedures, but shall also ensure strict compliance with government audit standards and practices;

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- (c) Both shall agree to streamline coordinating and operational process whenever legally feasible to ensure the smooth and timely implementation of the project;
- (d) The cooperation Project shall be implemented in the context of COA's reform program, as way of promoting partnership and collaboration with civil society and enhancing public accountability in government;

1.3 Management and Implementation Arrangements

- (a) The overall policy guidance in the PA project is through the COA's Change Management Support Unit (CMSU). The unit will see to it that the project will be implemented in accordance with COA's reform program and ensure that the results are achieved through effective process management and use of UNDP funds.
- (b) The Project Management Unit of COA (PMU-COA) shall be headed by an Assistant Commissioner as Project Director and will be responsible for the following:
 - Technical and administrative coordination of project activities
 - Oversight and implementation of the project at the field level
 - Mobilization of needed project support from COA units within the central office and field units
 - Ensure effective delivery of UNDP inputs (or any other external source as the case maybe), to include management of funds and provision of appropriate counterpart support
 - Financial management and monitoring
 - Preparation (in coordination with COA field units, NEDA, other agencies) review, and approval of the overall work plans and

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budgets, including release required funds to PMU at the regional level

- Preparation of the Annual Project Report
- Maintenance of financial transaction records and non-expendable equipment (if any) purchased under the project
- Drafting of Terms and Conditions and contracting of resource persons, procurement of inputs and conduct of various workshops on training and similar activities
- Assisting in project review and evaluation activities to be performed by UNDP, NEDA, or their designated organizations.
- Attending to other technical and policy-related matters

(c) The COA Regional Office, covering the “audit project site” will be the implementing arm of the PMU-COA at the regional and field level. The COA Regional Director shall be the Project Manager and will also be responsible for the conduct of the Participatory Audits. As such the Project Manager is responsible for ensuring that project implementation is in accordance with the approved audit work plan. The Project Manager will be assisted by the Audit Team Supervisor who will be responsible for preparing the audit work program and the implementation of the audit activities for projects selected. The Project Manager will be assisted by the Audit Team Supervisor who shall be responsible for preparing the audit work program, and ensuring implementation of audit activities as planned.

The specific responsibilities of the Project Manager as PMU Head at the regional level are:

- To ensure the proper implementation of project activities at the field level, in terms of timing, scope, coordination and monitoring of activities. The Project Manager must see to it that the

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objectives, outputs and monitoring indicators or benchmarks are considered in the conduct of the field activities;

- To provide appropriate feedback to the PMU-Central Office on the insights, learnings, and recommendations during project implementation, which will serve as vital inputs to COA's reform program;
- To ensure submission of required audit and financial plan by the PMU-Central Office for review and approval of the CMSU Head, UNDP and the NEDA;
- To mobilize the needed project support from other stakeholders within the region or the province as the case maybe;
- To ensure timely liquidation of cash advances granted for the audit projects;
- To ensure the cooperation of all the identified agencies to be audited.

1.4 The Role of the CSO Participant

The CSO will participate in the audit activities jointly with the COA. The specific activities for the CSO shall be in accordance with the audit work plan developed under the supervision of the Project Manager. The CSO, through its deputized staff, shall ensure timely and effective delivery of the audit outputs assigned to them. It shall also assist to provide the necessary networking and linkages with other stakeholders in the area where the project being audited is located.

1.5 Scope of Audit Arrangements

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The PA audit tie-up arrangement between COA and an accredited CSO shall cover specific audits to be undertaken for the period specified upon signing of a Memorandum of Agreement (MOA). The MOA provides the details of cooperation between the CSO and COA. In the following sections, sample and actual details of audit activities based on the pilot experience between COA and the CCAGG are shown as a guide.

1.6 Key Features in the COA-CCAGG MOA (Pilot Case)

As part of the program, future PA Audit activities shall be patterned after the COA-CCAGG experience and MOA in the pilot project. The following are the salient features of preparatory phase that must be noted:

- (a) COA and CSO Joint Responsibilities for the Training Component –
The COA Regional directors concerned, jointly with the Chairperson of the CSO shall identify the training needs of the audit teams who will be fielded during the year. These training needs shall pertain to audit-related training that will enhance the team's competence in conducting the types of audit to be undertaken, which could include: VFM audit process, project inspections, monitoring and evaluations, fraud audit, and other topics considered necessary.
- (b) COA, through the Regional Director, and the CSO shall formulate a training plan based on assessment of the PA Team's training needs. The technical, and funding requirements for the training, including the venue, duration, training courses, and similar aspects shall also be included in the plan which will be forwarded to the PMU-Central Office for review and approval.

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- (c) The COA and CSO shall be jointly responsible in conducting the training activities per the approved training plan.

1.7 COA Responsibilities for the Audit Component

In coordination with the CSO, the COA Regional Director acting as Project Manager, shall prepare an audit work plan for the corresponding period covered by the MOA. The audit work plan will identify the following:

- (a) the type and nature of audits to be pursued
- (b) the number of audits to be undertaken during the period
- (c) the name of agencies to be audited
- (d) the number of person-months required per project (including the breakdown for COA and the CSO audit team members)
- (e) the estimated total cost (broken down per nature of cost) for each audit engagement proposed

The Project Team Supervisor (must be a COA officer) shall prepare the detailed audit work program and detailed costing for each audit engagement, to be approved by the Project Manager. This must contain the following:

- (a) the number of staff (both COA and the CSO) involved
- (b) their levels of involvement, whether as team supervisor, team leader, team members
- (c) the number of person-months each staff will be involved in said project
- (d) the total estimated cost to be incurred per staff, broken down into type of expenses such as per diem, transportation, office supplies and other costs
- (e) the audit work program, indicating audit area, audit objectives, audit criteria, and audit procedures that must also include the names of the specific assigned staff per procedure identified
(It must be noted here that this Manual discusses some techniques on "how to" on the abovementioned tasks. The other members of the PA Team are welcome to participate and contribute into the crafting of the topics listed above)
- (f) the timetable and deadlines for each major activity which are: (1) audit planning, (2) audit execution, (3) audit review, (4) exit conference with management and (5) submission of audit reports.

1.8 Responsibilities of the CSO for the Audit Component

The CSO shall be responsible in the PA activities in accordance with the audit work plan and the detailed audit work programs. The CSO's specific responsibilities include:

- (a) providing counterpart staff who shall be trained in methodologies and techniques to be used in conducting audit in partnership with the COA auditors;
- (b) providing inputs and suggestions on how to improve the training program for future trainings to be conducted for the benefit of other CSOs who shall be participating in the PA audit program;
- (c) undertaking the audit activities as described in the work plan and audit work program and provide feedback to COA and other cooperating agencies on ways to improve the program design for future improvements;
- (d) when appropriate, act as resource persons to other participating CSOs to share experiences and learnings in implementing the project;
- (e) participating in project assessment activities;
- (f) complying with the standard audit practices required by COA audits and with audit procedures required in the audit work programs.

1.9 Disclosure of Reports and Information

Subject to reasonable conditions prescribed by law, both parties shall adopt and implement a policy of full public disclosure of reports, which have been officially released for public reference and information. However, with regards to unreleased audit reports obtained in the course of audits, both COA and CSO shall ensure that these shall not be prematurely disclosed to parties who are not involved in the audit engagement. The CSO binds itself with COA to comply with the standard audit procedures and process particularly with respect to reporting and disclosure of information gathered in audit.

2.0 What is VFM Audit

VFM Audit is selected as the audit approach under the Participatory Audit program envisioned under the COA-UNDP cooperation project. VFM is an audit or evaluation of the agency's objectives that is usually translated into, or implemented as programs, projects, and activities (PPAs) under the budget system. It is also an audit of program results. VFM audit therefore, may be defined as a systematic evaluation of an agency's objective, and how this was achieved through the PPAs, to find out:

- (a) the level of performance of the agency programs, projects and activities or that of the overall agency's objective taken as a whole;
- (b) whether such PPAs have complied with applicable rules regulations, and other financial requirements and documentations; and
- (c) measure necessary to improve operations.

VFM Audit refers to an assessment on how a government project was implemented based on the criteria of effectiveness, efficiency and economy. The Audit process documents information, observations, and gives recommendations that will promote responsive, honest, truthful, and productive project activity implementation. Under the VFM process, accountability and best practices are encouraged.

2.1 Scope of VFM Audit

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The scope of VFM audit may include the objective of the agency as a whole, or only one or two programs, projects, activities at a time, depending on preliminary evaluation results, and availability of audit resources.

Another scope of VFM audit may cut across evaluation on the economy, efficiency and effectiveness of the PPAs. In terms of economy and efficiency, it may cut across evaluation to find out whether the PPAs were accomplished with least cost. In terms of effectiveness, to find out whether public funds expended for the PPAs, or the PPAs as accomplished resulted to the desired value or benefit derived by the people-beneficiaries in particular, and the community, in general.

A VFM audit conducted on programs, projects, and activities that were already fully accomplished and paid for, would result to a more meaningful and responsive audit recommendations, as compared to the audit conducted on PPAs that are not yet completed and paid.

The scope of VFM Audit includes examining the economy, efficiency, cost effectiveness and environmental effects of the agencies PPAs.

The specific activities may include:

- (a) measuring effectiveness,
- (b) accountability relationships,
- (c) protection of public assets, and
- (d) compliance with laws, regulations and guidelines.

It is also important to note that there are times when relevant issues are included in audit activities. For example, the Commission On Audit-United Nations Development Programme (COA-UNDP) Project, includes the

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examination of relevant issues like impact on gender development, and people empowerment that may be built-in as riders in the VFM audit.

An effective PA-VFM Audit Project output is one activity that was done based on acceptable auditing practices that thoroughly considered the performance of the audited agency projects or activities.

2.2 Why Adopt Participatory Approach to VFM Audit?

In past years, regular audits were conducted mainly to attest to the fairness of the agency's presentation of financial statements, and to find out whether transactions and operations complied with applicable rules, regulations and other guidelines. These were generally done without the participation or involvement of the public. Audit reports were made available only to client-agencies, and if at all, to a selected few individuals, giving no opportunity for the majority of the people to know what is happening in their communities and to help improve local governance.

For the current government's policy of good governance through transparency, people empowerment and enhancement of public accountability, PA audit comes just in time, as it is the right and most applicable type of audit to do under the situation. PA through VFM audit emphasizes the need to find out from the people-beneficiaries the results and effects, or values or benefits actually derived by them out of the public funds spent for PPAs, or from PPAs accomplished, and for them to recommend measures necessary to improve operation of PPAs. Clearly, such people-beneficiaries' participation can help contribute to the attainment of good governance.

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Through the constant efforts and search for improved governance, the GOP has pursued many viable alternatives to achieve transparency in various aspects of its operations, more specially in implementing projects affecting communities and people. Transparency and empowerment are key issues expected to enhance good governance. The PA Audit approach is a strategy leading to this goal. One may consider the following goals of PA:

- ⇒ To strengthen direct citizen participation in audit affairs
- ⇒ To increase effective political governance and accountability
- ⇒ To increase openness and transparency
- ⇒ To promote government credibility
- ⇒ To bring government closer to the people

The practice of PA is expected to catalyze more vigilance, especially from community organizations and local citizens. This is expected to promote increased prudence among government officials in use of public resources, and eventually result in better design, and wise implementation of projects based on needs of local communities.

Through the adoption of new approaches, the Commission on Audit will have fresher perspective in conducting audits, shifting to VFM and the Audit Team Approach. The Audit Team Approach ensures a wider representation in the Auditing Team that also includes stakeholders who are also concerned with the efficient implementation of the projects. This process will highlight positive recommendations focusing on effective, efficient and economical approaches in implementing projects.

The National Economic Development Authority (NEDA), and oversight agencies will have increased utilization of COA Reports as planning and decision making tools. A VFM Audit Report, by nature has value as a

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planning and management tool because of its positive focus and the determined effort of the auditing team to arrive at an audit report.

The Philippine pilot-project was envisioned for replication all over the Philippines, and possibly in other countries. A successful project will enable the UNDP to introduce a similar concept in other countries to promote its development mission.

3.0 Participatory Audit Mandates and Authorities

COA Circular 99-021 "*Segregation of Value-for-Money (VFM) Audit Reports from the Annual Audit Report (AAR) and Providing Guidelines for the Preparation, Submission, and Transmittal of VFM Audit Reports*" (Annex Section1) is the main document that outlines the PA-VFM auditing process and general instructions to auditors on work and reporting requirements.

Unit Auditor(s) or Audit Teams are designated to conduct VFM audits at frequencies and area priorities as agreed upon on a planning conference held for the purpose. Criteria under consideration may include financial significance, sensitivity of potential subject, potential results/risks, and suitability for audit. In case where audit is subjected to government-wide or sectoral audit, the frequency and the setting of priority shall be determined by the Steering Committee designated for Government-wide or Sectoral Audits provided for in COA Memorandum No. 99-008.

The provisions in the Circulars are explained in this Manual for the benefit of the PA auditors.

4.0 Identifying and Selecting the CSO Partner

The COA and UNDP jointly conducted the identification, selection and field validation of prospective CSO partner. A search process through advertisements with nationwide circulated newspapers and existing linkages was conducted. Based on the pilot experience, further improvements may be achieved in selecting the CSO partner. The suggested steps include the following:

- a. More rigid screening of CSOs, which can be accredited as COA partners. CSOs are screened based on its: mission and vision, its advocacy, track record, capacity, and overall reputation in the community.
- b. The Regional COA offices may submit names of CSOs in the region that can be accredited after a screening process. Feedbacks from the COA regional offices indicate that using general advertisements in media are not effective insofar as identifying prospective CSO partners is concerned.
- c. The broad criteria for deputizing Civil Society Organizations or CSOs are the following:
 1. CSO should be actively involved activities that promote accountability, responsibility and transparency in government;
 2. CSO should have members with qualifications that meet the required skills mix of the COA audit teams;
 3. CSO should be willing to work as COA partner without pay for services rendered, except payment for travel expenses and appropriate per diems for actual days spent in the audit activity;

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4. CSO should be willing to sign a MOA with COA containing among others its willingness to work in accordance with the COA prescribed professional code of conduct;
5. Preferably, CSO should operate within the region where the audits are to be conducted.

5.0 Role and Participation of the CSO

The CSO could be given a bigger role in selecting which projects to audit and what audit areas should be dwelt on. This is based on the assumption that, being from the place itself, the CSOs are more knowledgeable of the local situation. However, it must be noted that COA will still have the final say on the overall audit activity.

Based on the consultation workshop conducted, the following were identified as possible areas for participation of the CSOs:

- (a) pre-audit activities in aid for post-audit such as inspection of roads under construction;
- (b) bidding process for infrastructure projects

On the overall, the specific roles of the CSO shall be indicated in the MOA to be signed between COA and the respective CSO that will be selected to participate in the PA program. Among the specific aspects where the CSO may participate are: (a) selection of agency or project to be audited (b) deciding the Audit Team composition (c) establishing the audit objectives and criteria and (d) deciding as to extent of audit to be conducted. The CSO partner may participate in VFM audits, or other audits leading to a more thorough investigation by the COA. In addition to these, the CSO shall

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participate in the: (a) execution of actual audit (b) report preparation and (c) monitoring and compliance with recommendations made.

Chapter 2. Planning The PA Audit

The Participatory Audit activity is started through a planning process initiated by COA together with the CSO partner organization. The PA audit team is formed after the completion of a training process where the potential PA team members are trained on the key aspects of PA audit. The basic training course program that was conducted under the pilot projects is included in this Manual for reference. Some criteria are discussed in the succeeding sections to help audit officials in selecting which projects are to be pursued.

Within each project identified, several steps are required as part of the project's planning process, which are:

A. Identification and Justification of PA Audit Projects

1. Identify the projects to be audited. Determine the scope of the audit, and how relevant it is vis-à-vis the environment where it belongs.
2. Identify the project's link to COA priorities or special government programs.

B. Preparing the PA Audit Design

3. Estimate the scope and cost to conduct the audit.
4. Determine timing and duration of audit.
5. Define the project and the PA audit objectives.
6. Determine its relationships to other audits.
7. Determine, significance, relevance and auditability of project components and activities.

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8. Match the skills of PA Team and complement composition and outputs.
9. Identify respondents or responsible persons to contact.
10. Determine significant issues to be assessed.
11. Match appropriate auditing methodologies.

2.1 Identifying Projects To Be Audited

To set a rationale for undertaking the audit activity, the prospective project is assessed against a set selection criteria that should help audit officials in planning and recommending the conduct of said PA activities. These criteria are discussed below:

2.1.1. The Project's Significance

Projects to be audited shall be screened based on significance. In this case, decision is made how to deploy limited auditing resources where it is most needed and where the most impact may be derived.

2.1.2 Financial Magnitude And Materiality

Assuming all other factors as equal, projects with higher amount of funding investment deserve more audit attention. The manner by which the project is carried out in terms of implementation plan, timetable, agencies involved, and other special features are also considered as compelling reasons to merit auditing.

2.1.3 Impact

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Programs and projects that were designed, or were expected to have significant social, economic, environmental impact deserve audit attention. If the designed impact concerns several fields, auditing is necessary to find out the extent of the impact. The audit on impact may focus on how to incorporate positive and meaningful experiences that may be used as lessons for similar projects in other applications and circumstances.

2.1.4 Utility

In line with documenting and capturing constructive and more meaningful change in government, project-implementing agencies that could potentially contribute new approaches and improvements in the government system in particular, may be given more preference.

2.1.5 Public Interest

Projects and activities that have drawn clear interest by the public at large, the legislature or other sectors, deserve priority among a list of projects to be audited. Public interest is one indicator for need to audit.

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2.1.6 COA'S Guide In Selecting Projects to be Audited

As a useful summary, COA laid out the following rule-of-thumb as guide:

Criteria	Weighted-Significance (%)
Financial Magnitude	25
Impact	20
Public Interest	10
Utility	10
Risk-likelihood of lack of due regard for VFM, inadequacy in systems, control or practice designed to ensure value for money	35

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Identifying Projects to be Audited

The Province of Camarines Norte is a third class province with one congressional district. Its vision is for a much improved quality of life of its people making them more effective in the whole development process of the province. The province goals and objectives are focused on reduction in the level of poverty incidence, sustaining economic growth, maintaining ecological balance and development of its natural resources, providing appropriate infrastructure facilities and utilities, rationalization of distribution of provincial population, and improvement of social well-being of the province's population and their access to basic social services.

The Daet-San Vicente Road is among the major development projects under the transportation sub-sector. This project is part of the Daet-San Vicente-San Jose-Fabica Road with a total length of 13.60 kilometers whose feasibility study was commissioned by the Department of Interior and Local Government in 1993. The project road is in the municipalities of Daet and San Vicente and links Barangay Fabica to Lag-on towards the national road with an estimated total influence area of about 77.48 square-kilometers. There are 12 barangays within the area of influence of the project road. The study recommended that the project road be improved with Portland Cement Concrete Pavement (PCCP).

Selection of this project was based on the study made by the DILG and on the awareness and knowledge of social and economic development unfolding in the area like the putting up of bus terminal, public market, commercial buildings, resort, hotels, apartels and human settlements. The project was also meant to reduce the section's maintenance cost which has considerably increased as a result of increased traffic volume.

Initially the province earmarked the amount of 6,723,702 pesos under a Supplemental Budget for CY 2000. the funding source was the 2nd tranche of the Local Government Support Equalization Fund of the General Fund. The Sangunian Panlalawigan approved Appropriation Ordinance No. 14-2000 "An Ordinance Approving Supplemental Budget No. 02 for CY 2000 of the Provincial Government" on July 12, 2000.

The Program of Work indicated the total estimated cost of P6,700,000.00 to consist of (a) Direct Cost: P5,280,842.80, (b) Indirect Cost: P1,288,069.40 and (c) Estimated Government Expenses: P131,087.80. The Project was advertised in the Bicol Post, [a regionally circulated newspaper] on June 30 and July 7, 2000 inviting contractors classified as Medium A to apply for pre-qualification and to submit bid proposals. On July 24, 2000, three contractors submitted their bids, and the Pre-qualification and Awards Committee awarded the contract to Virgo Construction at its bid price of P6,670,232.33 for the Concreting of 850 meters by 6.10 meters Provincial Road. The Provincial Governor issued the Notice to Proceed instructing the Contractor to undertake the project for 147 days and to commence on August 3, 2000. The Contractor was able to finish the project on October 2, 2000 or 86 days ahead of the expected date of completion on December 27, 2000.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

2.2 Preparing the Audit Design: Step-by-Step Guide

There are six basic steps or stages that the PA-Audit Team must observe in defining the methodology and approaches within the audit design process.

These are:

Step 1. Clarifying audit project objectives, scope and project criteria

Step 2. Formulating researchable questions/criteria

Step 3. Determining what data will answer the question

Step 4. Identifying appropriate sources and types of data

Step 5. Planning the collection of data

Step 6. Planning the analysis of data

The Participatory Audit Team designs the audit tests and procedures to obtain necessary and sufficient information in the most cost-effective manner.

The actual audit steps may include a wide variety of techniques such as interviews, surveys, analysis, sampling, confirmation, inspection, analytical review and flowcharting.

A PA - VFM Audit Design shall serve as:

- A guide for conducting the work to be done
- A framework for assigning work and budgets
- A basis for supervising work
- A means of transforming knowledge to team staff and junior members
- A basis for documenting the work done and the exercise of due care

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Step 1: Clarifying Audit Project Objectives, Scope and Project Criteria

a. Clarifying Audit Project Objectives

Audit objectives are normally expressed in terms of phrases or questions that direct the auditor, or audit team to prepare and write down audit strategies that will address audit opportunities or issues. The audit objectives are normally identified through preliminary audit survey reports or other sources.

“In the formulation of these audit objectives, the agency objectives must be fully understood to be adapted and converted into the audit objectives and strategies drawn to address audit opportunities or issues”.

From these audit objectives are drawn the audit program containing appropriate audit strategies and audit procedures, among others.

Audit strategies are grand plans to perform the audit work, while audit procedures are the translations of the audit strategies into step-by-step actions or instructions to do the audit work.

The audit procedures must be doable, simple, direct and clear, and must be designed to permit:

1. No room for misunderstanding, or misdirection;
2. Doing the audit work without or with least supervision;
3. Self guided audit work to come up with easy design of working papers and easy gathering of audit-evidences;

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4. Easy preparation of audit results and reports and submission thereof.

Also, the audit procedures must be drawn to consider action steps to adapt the measurement system set and used by the agency's PPAs, if any, and convert the same into a responsive and effective audit measurements systems for use in the evaluation of the level of performance of the PPAs.

The audit objectives must be expressed in terms of what questions the audit is expected to answer about performance of an activity. For example, the audit objective may be expressed in terms of results in achieving economy or efficiency. It is a must that the audit objectives should be consistent with the achievements of results of the entity's sector or functional area being audited. The objectives of the audit must be compatible with the COA's mission. In the Philippine scenario, the subject of audit are likely to be infrastructure projects, which therefore needs alignment of the audit objectives with the specific infrastructure project audited and along with the overall mission of the institution being audited.

The audit objective must be carefully considered and clearly stated. Audit objective should have scope that can be concluded within conduct of the audit. They must be defined in a way that allows the PA-Audit Team to conclude against each of the objectives at the end of the audit period. The audit objective should therefore be defined as precisely as possible in order to avoid an unnecessarily expensive audit work.

While considering alternative methods of data collection, it is necessary to clarify what are the most important audit objectives you wanted to address. Be clarified whether you want to identify significant deficiencies, or are also looking for positive findings.

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It will be good to ask yourself these questions:

- ⇒ Do you want to provide an assessment whether the particular project has met certain criteria or specifications?
- ⇒ Would you like to discover better or improved ways of doing a similar project?
- ⇒ Would you like to be able to make recommendations that will result into savings for the government?

b. Setting the Audit Scope

“Audits must have a clear scope that sharply focus the extent, timing and nature of the audit. Audits must select issues on the basis of their relevance to the Entity’s mandate, significance and auditability “

The audit must have a clear scope that focuses the: (a) extent, (b) timing and (c) nature of the audit to be conducted. The issues must be selected on the basis of their relevance to the Audited Entity’s mandate, significance and auditability. It is very seldom, neither it is practical nor cost-effective to audit just everything. “Scoping” involves narrowing the audit to a relatively few significant matters that pertain to the audit objective, and which can be completed with the resources available.

For example, in the case of auditing a “tree-planting for watershed project”, it is not practical to audit the future impact of the growing trees in the water table level of the watershed area concerned. Obviously, this “scope” could be well beyond the budget and the timetable of the audit.

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Underlying Principles In Establishing The Scope Of The Audit

1. *Relevance to the mandate* – COA's mandate provides considerable freedom for the agency to select the audit activities for the entire government system. The relevance criteria covers a wide range of activities and it is easy to establish in most of the project activities that may be encountered. In the PA-activity however, the scope of the audit should be aligned with the mandate of the agency whose PPAs are being audited.

2. *Matters of significance* – The question of significance leads to focusing on issues and matters that will add value and make an important difference in the society in general.

The PA Audit Team must consider the following test questions:

- Does the subject have an important impact on results?
 - Is it an area of high risk?
 - Does it involve material amounts?
 - Does the audit have the potential to result in improved performance, accountability or value for money? Will it make a difference?
 - Is the issue with visibility or of current concern?
-
3. *Auditability* – Auditability refers to the audit team's ability to undertake the audit according to professional standards. The audit team may encounter different situations that may cause the team to decide not to audit a particular area even though it is significant.

Bear in mind that making such decision is appropriate only when the team has ascertained the following circumstances:

- The nature of the activity is inappropriate

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- It does not have or can not acquire the required expertise
- The subject is undergoing significant and fundamental change
- Suitable criteria are not available to assess performance

Finally, the PA Audit Scope statement should describe: (a) the parts or functions of the organization or program that are the subject of the audit and (b) to which programs or functions the audit conclusions apply, and (c) the time period covered by the audit.

c. Determining Applicable Audit Criteria

“Audits must have suitable criteria that serves to focus the audit activities and provide a basis for developing observations.”

Audit criteria are the standards or norms used as means for measuring or judging the performance of the PPAs subject to audit. These must be reasonable and attainable standards of performance against which compliance, adequacy of systems and practices, and the economy, efficiency and cost effectiveness of operations can be evaluated.

Applicable criteria are those that are appropriate to the particular characteristics of the audited organization. These criteria must focus on the results expected to be achieved by the activity being audited. You must remember that an assessment whether or not criteria are met will become part of audit observations.

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Criteria should be developed for each of the lines of audit inquiry. These must be: (a) relevant, (b) reliable, (c) neutral, (d) understandable and (e) complete. Remember that the collective sum of the observations will become your basis to form a conclusion against each audit objective.

Applicable criteria are categorized into the following:

- *General criteria* - broad statements of acceptable and reasonable performance. For example, a general criteria in conducting audit for a "farm to market" road project could be: " One kilometer of farm to market road is completed after 6 months construction period".
- *Specific Criteria* - closely related to the particular operations in specific areas. An example criteria could be: "In the province of Abra, each kilometer of farm to market road is adjudged effective after sustaining at least 2 rainy seasons. The specific criteria for farm to market roads in other provinces, say, Camarines Sur, may be different because of the general terrain that affects the durability of the road.

Specific Criteria may be extracted from:

- project feasibility studies
- basic planning documents
- financial reports
- expenditure reports
- budget documents
- criteria published by other audit agencies
- similar audited agency
- standards set by international bodies/norms/conventions,
- government policies and directions
- laws/rules/regulations
- pronouncements by professional bodies

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- past performance
- performance standards set by management
- interviews with professionals
- common sense.

Audit Objective and Scope

A Value for Money Audit was conducted in the Province of Camarines Norte specifically on the Project: Concreting of Daet-San Vicente Road (Lag-on Section). The purposes of the audit were to determine if need for the project was properly established to ensure that intended end-users actually benefited and to determine if the work carried out met the requirements of the amount and cost of construction and timeliness of completion.

The PA Audit Team looked into the needs identification process, impact of the project on the end-users (urban poor, commercial establishments, women, motorists, and others), evaluated the contract cost, plans and specifications and timeliness completion.

The Team employed various techniques in the course of the audit such as survey with project's end-users; interview of concerned officials; inspection; testing; leveling; analysis; and other in order to come up with the conclusion on whether the project was prosecuted economically and efficiently and whether the intended end-users actually benefited from it.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

2.2.2 Step 2: Formulating Researchable Questions And Criteria

Determine and write down the questions that need to be answered to achieve the audit objectives. Questions should be clear and specific and include terms that can be defined and measured. Taken collectively, they should fully address the audit objectives. (If at this point you find out that the objectives

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cannot be translated into action, it is necessary to return to Step 1, and refine them.)

Audit questions are grouped into three types:

- Descriptive questions
- Normative questions
- Cause and effect questions

Descriptive questions - usually ask, *what is (what was)* the current situation or condition?

Examples of descriptive questions are:

- How does the audited entity manage dispute resolution process?
- How does the entity relate to the communities it serves?
- Were alternative program options considered?

Normative questions – deal with what is the difference between an observed condition and a standard. It asks the question *what should be*, and then compares the two conditions. These are the types of questions that you have to answer in the standards-based audits.

Cause and effect questions – go beyond descriptive and normative questions to examine the impact, extent, or magnitude of changes such as:

- Why does the agency not follow all the rules in implementing the project?
- To what extent does this failure affect the project being audited?

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Planning/Preparation of Work

The Team analyzed the Program of Work and the plans specifications in order to determine whether the items of work were based on actual field conditions and the unit cost were reasonable. The Team and the Provincial Engineer agreed to use the provisions of DPWH Department Order No. 30, series 1991 dated January 30, 1991 in the analysis of the contract cost. The cost analysis was only limited to the computation of indirect cost and taxes since it would be very difficult to establish the prevailing prices of materials at the time of project implementation a year ago. The Team adopted the Contractor's unit prices as indicated in the bid proposal in the analysis of the contract cost.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

2.2.3 Step 3: Determining What Data Will Answer The Questions

The term "data" as used here, refers to all potential sources of information, and evidence, which could be documentary or some other verifiable forms that establish a fact. You must remember that data will only become information after it had been analyzed, evaluated, and sorted in such a way that it becomes useful as evidence for the audit.

Some of the data needed to answer audit questions will be quite obvious, depending on how the questions are formulated. As the PA team member, you will find out that that there is much more information available, than there is time to collect it, and that no single source could answer the questions completely. In this case you need to use wise judgment and a lot of common sense.

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2.2.4 Step 4: Identifying Appropriate Sources And Types Of Data

Data can be obtained from primary or secondary sources by direct observation or by research of the auditor. For PA projects, more data gathering will be conducted through direct observations and open-ended interviews. The fact that members of the audit team are based from place where the projects being audited, will to a greater extent, aid in identifying the data sources.

Aside from persons involved in the project being audited, some of the usual sources of data and evidence are:

- Systems, Records, Controls And Information Systems
- Internal Guidelines And Operating Manuals
- Management Committees And Board Minutes Of Meetings
- Recent Audits, Reviews, Evaluation And Inquiries

Related discussion about this topic is also included under evidence-gathering section in the next Chapter, and also under Annex 2 to 5.

2.2.5 Step 5: Planning The Collection Of Data

Data collection is the most important part of audit. If the Audit Team collects too little or the wrong data, it will waste effort and spend too much time in rework. If it collects too much, the excess may have to be discarded or not analyzed at all for lack of time. Excess data means bigger budget for collection and processing. It is a must that within the Audit Plan, the PA Audit Team should have identified the data collection schemes. It means

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positioning where to start, and when to stop. A well-crafted audit scope will help the Audit Team in narrowing the choices at the planning stage.

2.2.6 Step 6. Planning The Analysis Of Data

A common technique used in assessing a situation or project activity is through the collection and analysis of secondary data. Secondary data may be obtained from projects and activity reports, project plans and feasibility studies, working papers, annual reports, and similar documents. The simple techniques of data analysis are summarized in the following table and are discussed in fuller details for further reference in Annexes 2 to 5. Audit team members are also encouraged to further study some of the techniques or tools described below. Although you might find some of these tools to be very technical at the moment, a deeper understanding of these techniques may be handy once you face actual field audit tasks.

Type of Technique	Uses
Program logic models (logical frames or logframes)	<ul style="list-style-type: none">▪ to identify key program results and program systems and operations that produce them
Making comparisons using ratios	<ul style="list-style-type: none">▪ to compare actual with expected results▪ to observe a change over time; to note a degree to which a criterion is met; to place a finding in context

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<p>Interpreting data distribution</p>	<ul style="list-style-type: none"> ▪ to identify the level, spread or shape of the data when this is more important than a single "average" number ▪ to decide whether a variable performance meets an audit criterion or not ▪ to interpret probability distributions to assess risk ▪ to assess whether sample data is representative of the population
<p>Regression Analysis</p>	<ul style="list-style-type: none"> ▪ to test relationship that is supposed to be true;
<p>Benefit cost Analysis</p>	<ul style="list-style-type: none"> ▪ to obtain assurance that what is done by the audit entity meets professional standards ▪ to compare costs and benefits when both are known or can be reasonably estimated ▪ to compare costs of alternatives when benefits can be assumed constant.
<p>Simulation and Modeling</p>	<ul style="list-style-type: none"> ▪ to assess the adequacy of models the audit entity uses to make important decisions ▪ to answer "what if" questions about the impact of audit issues, observations and recommendations
<p>Content Analysis of Quantitative data</p>	<ul style="list-style-type: none"> ▪ to help identify the program objective: ▪ to do this the auditor may gather information on the program's legislative history; ▪ to describe program activities: content analysis can be used to provide an objective description of the programs activities by analyzing departmental documentation; ▪ to determine positive or negative program

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	<p>results: content analysis can be used to synthesize evaluation reports, audit reports, policy papers, academic or independent assessments of program performance, etc.</p> <ul style="list-style-type: none">▪ summarizing the conclusions reached by the various studies can provide a powerful assessment of the impact and effects of a given program.
Work and Communication Flow Analysis	<ul style="list-style-type: none">▪ to gain an understanding of how an organization or system works, particularly when the subject of the audit involves many departments, units, or complicated steps.

2.3 Preparing the PA Team Members for the Task Ahead

2.3.1 Composition of PA Audit Team and Qualifications of Members

“The Audit Team must have collective knowledge of their subject matter, and the auditing proficiency necessary to fulfill the requirements of the audit.”

The PA Team Leader should identify at an early stage in the planning process if specialized or technical skills, which are not available in the audit team, are required to complete the audit. The early identification will allow lead-time to acquire suitable person from external organizations, to serve under contract if necessary.

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The quality of a PA-Audit result is directly related to the people assigned to the audit. An audit procedure that requires the exercise of judgment beyond the ability of the person expected to make the judgment will likely end in failure. This means that the audit team must possess the knowledge, disciplines, skills and training to carry out the audit effectively.

The PA Audit Team should meet the following:

- ⇒ Knowledge of audit concepts and techniques and the ability to apply the knowledge
- ⇒ Experience and technical skills to effectively deal with the subject matter of the audit
- ⇒ Knowledge of the audited entity
- ⇒ A general knowledge of the government environment

2.3.2 Composition and Roles of The PA Team

a. The Project Manager

Usually the Project Manager is COA's Regional Director of the area where the project is being implemented. The duties and responsibilities of the Project Manager are:

- ⇒ To exercise overall and general supervision over the audit team.
- ⇒ To preside over and attend meetings in connection with the audit, when necessary under the circumstances
- ⇒ To review the audit report prepared by the team
- ⇒ To prepare and sign (under delegated authority) the transmittal letter for the Head of the Agency for NGAs, the Chief Executive Officer for LGUs, and the Board of Director for Government Owned and controlled Corporations (GOCCs).

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b. The Audit Team Supervisor

The Audit Team Supervisor works under the Program Manager. His duties are:

- ⇒ Serve as the link between the COA Regional Director and the Audit Team, apprising the former of the progress of the audit
- ⇒ Exercise direct supervision over the audit
- ⇒ Review and approve the audit plan, the detailed audit program and the audit report prepared by the team
- ⇒ Ensure that the general examination and evaluation and reporting standards as well as procedures prescribed by COA are followed in the audit
- ⇒ Submit the report and pertinent working papers to the Directors concerned for final review together with the covering Memorandum for the COA Chairman

c. The Team Leader

There is need to ensure that the PA Team is adequately supervised to ensure that the audit objectives are met. The overall Audit plan and design identifies and designates the PA Team Leader, the person charged with supervising the overall audit activities. The PA Team Leader could be made directly in charge in this case, under the guidance of the appropriate COA officer.

Supervision should be focused on the following areas:

- ⇒ Ensuring that all members fully understand the audit objective(s);
- ⇒ Delegating audit projects to team members with a clear outline of what is expected from the project;
- ⇒ Providing appropriate advice and on-the-job training based on experience of the team members;

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- ⇒ Ensuring that audit procedures are adequate and properly carried out;
- ⇒ Ensuring that audit standards and that audit reporting process are followed;
- ⇒ Ensuring that audit evidence is appropriate, sufficient, documented, and that it supports audit observations and conclusions;
- ⇒ Ensuring that only necessary audit work is carried out and that budgets, timetables and schedules are met.

The **PA Team Leader** is directly in charge with the successful conduct and completion of the Audit.

Specifically the PA Team Leader shall:

- ⇒ Be responsible for the conduct of the audit, the timely completion thereof, and the submission of the pertinent report thereon
- ⇒ Prepare the:
 - Initial Planning Memorandum/Audit Plan;
 - Audit Program;
 - Audit Report;
- ⇒ Prepare the Memorandum for COA Chairman through the Director Concerned – for review and approval by/signature of the Team Supervisor
- ⇒ Assign specific audit tasks to the team members, supervise and direct their work
- ⇒ Review the working papers prepared by the team members and ensure that these are prepared in conformity with the examination, evaluation and reporting standards prescribed by COA

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d. The PA Team Member/s

Team members are composite staff from COA, project officials, and members from civil society.

As part of the PA Audit Team, the member shall:

- ⇒ Be responsible for the particular assignment given to him, strictly following the standards and procedures prescribed by COA as well as the instructions of the team leader
- ⇒ Ensure that working papers are complete, systematically organized, indexed and cross-indexed, whenever necessary
- ⇒ Prepare a write-up of his findings, conclusions and recommendations and submit them to his team leader, together with all necessary documents or evidences that he has gathered or prepared

2.4.3 Preparing the PA Audit Team Members

Every member of the PA-Audit Team must appreciate the sensitivity of the task and the responsibility laid on them to help in making judgment and recommendations over an activity that is of very significant impact. Each member will be tasked to provide fair evaluation on the conduct of activities, some of which may not be very clear to the member at the start. Keeping this in mind, it is important that from the very beginning each member must be conscious that the auditing task requires all the team members to work diligently, conscientiously and with extreme thoroughness and discipline.

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a. Due Caution and Care

A very high level of professional standard is required and expected from the team members. Members are reminded not to be overly rigid since this could make them to lose the ability to see or appreciate specific aspects that are material to the audit they will be conducting. The preceding statements should be taken in the context of keeping an alert mind, for the slightest information that could be audit-relevant.

b. Objectivity and Independence

Members are designated as member of the PA-Audit Team on the premise that they have an objective state of mind and are independent. The danger that members may have personal biases to the disadvantage of the audit activity is not totally disregarded. However, a well-planned audit activity that follows the auditing principles and pointers, will reduce the danger significantly, and make each members participation to be effective in the team's audit output.

Being objective means that as auditors, members do not direct the audit toward areas of personal interest or prejudge findings. The PA Team's findings and report must only be supported by evidence obtained and assembled in harmony with the basic auditing principles applied. PA Team Members are advised about these in making the decisions about *audit scope, criteria, audit evidence, conclusions and recommendations*.

c. Knowing The Target Entity By Heart

There is no substitute for knowing the target entity by heart. The PA Audit activity, is made significant by the emphasis placed on giving

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recommendations that will improve the project implementation performance of the entity. The PA activity is more effective if the mission, vision and internal organizational culture of the target organization are clear to all PA Audit Team members. A good understanding of the target organization, particularly the management touch practiced therein will help in designing the full auditing process to be conducted. The details on following aspects must be obtained and be absorbed by the PA auditing team in the beginning of the planning stage.

Team member's knowledge of the following information should be reinforced:

- The Entity's Reason Mission and Vision
- Public Image and Perceptions – how is the organization generally perceived by the public? This public perception could also be the same among the audit team members, and if this is the case, there may be a need to level off expectations, unload biases, and re-focus perceptions among the PA team members. How pre-conceived notions about an agency must be dealt with is an issue to be settled even before starting the audit. On the positive side, the public image and perceptions may also provide as stepping stone, and possibly the general framework for the conduct of the whole audit process.
- Management Policies and Organizational Set Up – The Auditing process, in general, is dependent on the availability of information. Although the basic information or documents necessary to conduct audit are available as a matter of administrative regulations,

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there are government institutions whose systems, procedures and information systems are well established and relatively open to outside parties compared to other government agencies.

Although COA would have resident auditors assigned in each of the prospective agencies, still the access to information of public interest vary per institution. This is an important consideration for the PA-Auditing Team. To illustrate, auditing a project implemented by the armed forces will have to be approached in a different manner than one implemented by the public education system in terms of access to data in view of the nature of collection, retrieval and confidentiality of information in both organizations.

d. Understanding the Subject of the Audit

The PA-Audit Team must acquire a sound knowledge of the audit subject entity before starting detailed planning of audit. It is important for the audit team to understand the "whole picture", and get a mental view of the specific activity to be audited in relation to this "whole picture".

The audit team must have a full understanding and updated knowledge of the following:

- ⇒ Significant legislative authorities
- ⇒ Organizational arrangements
- ⇒ The environment where the entity operates
- ⇒ Key personnel
- ⇒ Spending levels and revenues

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- ⇒ The entity's clients
- ⇒ The objectives, mission and expected result
- ⇒ Major operations, particularly the ones similar to what is planned to be audited
- ⇒ The accountability arrangements within the entity
- ⇒ The major control systems
- ⇒ Major risks faced by the entity
- ⇒ Prior deficiencies, or known weaknesses

A good grasp of the foregoing information on the entity to be audited will provide the basis for describing the entity and in making initial decisions, especially in defining areas to focus the audit team's examination and inquiry. Furthermore, it will also help in determining who will be the responsible persons to be covered in the audit examination.

Chapter 3: Conducting the Audit

A Recap on The Audit Approach

Every aspect of an audit requires professional judgment and individual initiative. After an entity (or a portion of an entity), sector or functional area has been chosen, decisions need to be made about:

1. What and how much to audit
2. What audit approaches, methodology and technology to employ to assess performance
3. What staff skills, disciplines and experience to assign to the audit

The approach taken to arrive at a conclusion against each audit objective is repetitive, as information is gathered and assessed. Decisions are made whether to proceed to the next stage or whether additional inputs and consultations are necessary. The approach allows Audit Teams to identify at an early stage if an audit will not be cost-effective or if the approach needs to be revised. Audits may be modified or cancelled before significant costs are incurred.

As stated in the previous Chapter, prior to starting field work, a planning process of setting priorities, developing strategic and long-range plans, submitting audit proposals, rationalizing resources and assessing anticipated audit worth should have taken place. This process must result in the approval to begin an audit, a defined audit scope, a preliminary audit objective and sufficient resources to begin the PA activity.

3.1 Conducting the Examination Activities

The PA-Audit Team conducts evaluation, gather relevant and sufficient information, and audit evidence to enable the team to:

- ⇒ Develop observations about whether or not performance is consistent with the criteria
- ⇒ Conclude against each audit objective
- ⇒ Identify opportunities to improve performance
- ⇒ Support audit recommendations and conclusions

3.1.1 Gathering Audit Evidence

There are several reasons for concentrating particularly on evidence requirements in the examination phase. First, credibility depends on the quality of evidence gathered in the audit examination. Second, gathering too much or too little evidence could be expensive or risky. Another reason is the timing when audit evidence is obtained. It should be within a schedule that will allow deeper and fuller probing by the audit team.

Gathering Evidence

There are various way of gathering audit evidence, these include the following:

- ⇒ Interviews with management
- ⇒ Review of policies, directives and documents
- ⇒ Review of Performance Reports, Plans and Priorities
- ⇒ Review of Audited Entity's electronic data or reports, and websites

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- ⇒ Review of management and accountability report
- ⇒ Review of result commitments
- ⇒ Observation of facilities
- ⇒ Walk through of major systems and procedures
- ⇒ Analysis of the relationship between resource utilization and results
- ⇒ Assessment of risks
- ⇒ Consultation with outside advisors and organizations to identify best practices and opportunities for improvement
- ⇒ Previous audits and reports and audits conducted by others
- ⇒ Survey of the use of technology
- ⇒ Review of spending trends

3.1.2 Steps In Evidence-Gathering Process

The evidence-gathering process may involve the following:

- ⇒ Designing the audit procedures or test (the audit program)
- ⇒ Carrying out audit procedures or tests to gather evidence
- ⇒ Analyzing evidence and evaluating performance against the criteria
- ⇒ Making decisions whether additional evidence is required

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Gathering Evidence

Audit Observation: There were significant deviations of the constructed project from the plans and specifications resulting in deficiencies amounting to about P2 million.

The contract for the construction of the Dinabongan-Cabicahan Farm to Market Road Network consisted of a lone item of work, appropriately described as follows:

<i>Description</i>	<i>Quantity</i>	<i>Unit Price</i>	<i>Amount</i>
<i>Excavation</i>	<i>40,320 cu.m</i>	<i>P73.86</i>	<i>P2,978,035.20</i>

The project was inspected by the PA Audit Team on November 13, 2001 with Engr. Elpedio Fortaleza, the Project Engineer, representing the management. As an integral part of the ocular validation of the reported accomplishment, the Team computed for the volume of excavation per actual field measurement, as summarized below and presented in detail under Annex A (of the Team's Report).

<i>I – First Summit Crossing</i>	<i>6,640.69 cu.m</i>
<i>II – Second Summit Crossing</i>	<i>4,181.05 cu.m</i>
<i>Total</i>	<i>10,821.74 cu.m</i>

A comparison of the actual volume of excavation per actual field measurement with the programmed volume of excavation per contract disclosed an overwhelming discrepancy of 29,498.25 cu.m with a total cost of approximately P2 million. Aside from the blatant deviation, it was noted that the project was not a construction but a rehabilitation of an existing road as revealed in the photographs taken before, during and after the construction. It was also discovered that the project site was piloted in 1994.

The project was reported as completed within 18 calendar days instead of the 100 calendar days as stipulated in the contract, with very appreciable positive slippage of 82%. The accelerated accomplishment was justified by Project Engineer Fortaleza in his justification dated December 18, 2000, which stated the following:

- On December 01, 2000 instead of 2 units bulldozer which is per contract, 3 units were mobilized to the site;*
- As a consequence to the mobility of the abovementioned 3 bulldozers, 6 operators (instead of 2) alternately operated said equipment. -Hence, 3 bulldozers are in operation everyday within 16 hours;*
- Every bulldozer can excavate an average volume of 400 cu.m. for every 8 hours;*
- Every bulldozer is in operation for 16 hours a day. Thus, the total contract volume of 40,320 cu.m is 100% completed in 18 days.*

The above justification was controverted by the barangay residents in the survey and social validation. Contrary to Eng. Fortaleza's allegations, the barangay residents averred that only one bulldozer was used during the entire project duration. Further, the 16 hours bulldozer operation was improbable considering that the site is not yet energized. The residents further accounted that the lone bulldozer was in operation for only ten hours, at most. During rainy days, the work lasted for only five (5) hours.

Source: Value for Money Audit Report of the Participatory Audit Team on the Construction of the Dinabongan-Cabicahan Farm to Market Road Network Project, City of Calbayog, Samar, December 21, 2001

3.2 Analyzing Cause and Effect

Some qualitative techniques may be used for identifying problems and investigating their causes and effects, while some quantitative techniques may be useful for determining the extent of the problems. So called, qualitative or “soft techniques”, like interviews and focus groups are often quite effective in the planning phase of an audit for finding a wide range of potential audit issues. Once these are identified, quantitative or “hard” techniques, like surveys or sampling could be used to determine their extent. And if they are found to be common, perhaps more in-depth interviews, focus groups, or case studies could be used to investigate possible causes and solutions.

A guide could be prepared to look like the following:

- ⇒ Objectives
- ⇒ Questions/Criteria
- ⇒ Sources of Data
- ⇒ Collection Techniques
- ⇒ Analysis Techniques

3.3 Understanding Audit Evidence

“Audits must have necessary and sufficient evidence to support observations”

Necessary Evidence refers to the factors that exist for an observation to be true. For example, to observe that a reforestation program is both unnecessary because the pinpointed target area is actually forested and it is in fact an existing forest.

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Sufficient Evidence refers to the quantity of evidence needed to support an observation. It is important that the evidences be: (a) relevant to the subject and the period of time encompassed by the audit, and (b) that they be reliable, sound, consistent, objective and amenable to independent confirmation.

In determining if all necessary and sufficient evidences were to be gathered to provide a high level of assurance, the Audit Team must be very sure that the risk of error that could lead to faulty conclusions or inappropriate recommendations is negligible. To cover for this risk, the PA Audit Team should corroborate the observation or conclusion by using evidence from different sources and of a different nature.

When gathering information at this stage, the PA Audit Team anticipates forward to the reporting stage and the need to communicate the audit findings in a convincing manner. Opportunities to use case studies or visual aids, such as photographs, as audit evidence often provide a credible way to illustrate an issue in the audit report.

Forms of evidences could take a variety of forms. They maybe:

- ⇒ Obtained by direct inspection or observation. Wherever possible, it would be better to obtain photographs or videotapes to support such observations;
- ⇒ Notes of interviews. These should be substantiated by other evidence, wherever possible;
- ⇒ Copies of actual documentation;
- ⇒ Confirmation from third parties, including measurements or standards of performance used as basis for developing criteria;
- ⇒ Statistics, comparisons, analysis, rationale etc., developed by the Audit Team

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Use of Other Audit Reports - The PA-Audit Team could rely on the work of other auditors or program evaluators, if in its opinion, the audit work were carried out in accordance with the acceptable standards. A good coordination with the internal auditors of the audited entity will promote economy of audit effort by eliminating duplication and at the same time help in data gathering and verification. Whenever reference to findings from other audit or evaluation assessment is included, the PA team must assess the supporting evidence to ensure validity of findings. The source of the information must be clearly indicated in the Audit Report.

3.4 Developing Audit Observation

“Audits must involve objective evaluation of the evidence against the criteria to develop observations.”

The PA-Audit Team proceeds to gather information directed toward making an assessment of actual performance of an activity or process against the various criteria selected. If an actual performance does not meet the criteria used, further investigation should be done to gain assurance that any resulting observation is significant, fair and has potential to result in important improvements to performance, value for money or accountability.

When gathering additional evidence the Audit Team should consider:

- ⇒ Determining whether the deficiency is isolated or represents generic or system problem;

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- ⇒ Assessing the impact or potential of the deficiency on results. The effect of the problem should be quantified, whenever possible, in order to illustrate an impact in the Audit Report;
- ⇒ Identifying the cause of the deficiency in order to be assured that recommendations put forward will be appropriate;
- ⇒ Determining whether the problem can be fixed by the organization. Find out if it is the result of actions or events beyond its control;
- ⇒ Gathering further evidence such as cases, statistics, graphics, or photographs, etc.), where appropriate, to illustrate the nature and importance of the issue;
- ⇒ Determining who is affected by the issue, such as other units within the organization, central agencies or other departments;
- ⇒ Discussing the matter with management. If they are aware of the issue and have corrective action under way, the issue may have less significance for reporting purposes. Certainly it will change how the matter is reported.

The comparison of the evidence against criteria, and further investigative work into the nature and significance of the issue, will result in the identification of observations. The analysis and the resulting observations are to be influenced only by the evidence obtained and assembled. These observations are the basis for forming overall conclusions against the audit objectives.

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Developing Audit Observation

[Finding No.3] The contract cost could have been reduced by P334,138.44 had the provisions of DPWH Department Order No. 30, series of 1991 been adhered to in the computation of Value Added Tax and Indirect Cost.

The Construction Industry used DPWH Department Order No. 30, series of 1991 dated January 30, 1991 as the standard for the Preparation of Agency Estimates. This Department Order provides:

“For work items involving only the use of contractor’s labor force and/equipment the whole Estimated Direct Cost (EDC) is subject to 10%. For work items involving use of materials, only the labor and equipment cost components of the EDC are subjected to 10% VAT. The materials component is not subjected anymore to VAT because taxes were already paid by the supplier. The tax added by the supplier to the cost of these materials is part of the total cost paid by the contractor. This is an INPUT tax which is deductible from his output tax.”

Further, it also provides that Estimated Direct Cost Above P1million to P5million should have a total maximum indirect cost of Twenty-eight (28%) percent.

A review of the Value Added Tax (VAT) computations in the Program of Work showed that an average of 15.25% of Direct Cost was applied. This resulted to an excess amount of P550,631.30 or 434.07% from the computed VAT items in the Program of Work of P677,485.30. The excess VAT in the agency estimate was due to the inclusion of materials in the computation which should not be the case because they were already subject to input tax.

For the Indirect Cost, 28.90% OF estimated Direct Cost was applied although the maximum percentage should only be 28% for projects within the range of P1million to P5million. Thus, the excess Indirect Cost amounted to P40,272.38

The total excess indirect cost and VAT from the Approved Agency Estimate of P6,568,912.20, was P344,138.44 or 5.53% increase from the recomputed Approved Agency Estimate of P6,224,773.76 after considering the 2% Provincial Tax, 10% VAT for Indirect Cost and Mining Fee.

The Approved Agency Estimate could have been reduced to P5,651,466.85 had the number of days of skilled worker and laborer for item 311 PCCP and number of bags of cement and volume of gravel been reduced, and the salary of civil engineer had been excluded in the Direct Cost. Supervision is already included in the Indirect Cost as provided by DPWH Department Order No. 30.

The reduction in the Approved Agency Estimate due to non-compliance with existing guidelines provided in DPWH Department Order reduced the Allowable Government Estimate from P6,672,733.91 to P6,213,682.86 computed as follows:

Recomputed Approved agency Estimate	P6,651,466.85
Average Bids	6,775,898.86
TOTAL	P12,427,365.71
Divide by:	2
Recomputed Allowable Government Estimate	P6,213,682.86

PD 1594 Implementing Rules and Regulations as of August 1995 that was adopted for the purpose of allowing the contract provide:

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“IB 10.4.1 – By Bid Contract 1. No award of contract shall be made to another bidder whose bid price is higher than the Allowable Government Estimate (AGE) or the Approved agency Estimate (AAE), whichever is higher xxx”.

If the above provision was adhered to, the Province could not award the contract since the bid price was higher than either the AEE or the AGE. Since the project was completed and paid for, the probable reduction in the contract cost would amount to P456,449.47 or 6.84% from the contract amount of P6,670,132.33 to the level of the recomputed AGE of P6,213,682.86.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

3.5 Developing Audit Recommendations

“Audits findings must include recommendations to guide necessary corrective actions when deficiencies are reported.”

Audits include recommendations for corrective action where significant improvement in operations and performance may be expected based on the audit report findings. A recommendation may address a single deficiency or a number of related observations or deficiencies.

There may be circumstances where making a recommendation is not the best way to achieve the intended result. In those circumstances, exceptions to the audit standard should be justified on a case-to-case basis and approved by the COA. The PA-Audit activity can still make a major contribution in such circumstances by bringing a highly professional analysis of the situation to the attention of the entity being audited. Where corrective action is underway, it is good practice to point out that such actions are underway account in what form they are taken.

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Writing a good recommendation is not easy. Ideal recommendations meet several criteria. Good practice in developing recommendations is to ensure that they are:

- ⇒ Fully supported by and flow from the associated observations and conclusions;
- ⇒ Responding to the underlying causes of the deficiency;
- ⇒ Clear, distinct, straightforward and contain enough detail to make sense in their own;
- ⇒ Broadly-stated (i.e., stating what needs to be done while leaving the specifics of how to departmental officials;
- ⇒ Action-oriented (i. e. presented in the active voice and addressed to the organization with the responsibility and authority to act on them);
- ⇒ Positive in tone and content;
- ⇒ Practical (i.e., able to be implemented in a reasonable time frame, taking into account legal and other constraints);
- ⇒ Cost-effective (i.e., the cost of implementing them would not outweigh the benefits, if possible, with some estimates of the resulting savings or benefits provided and quantified, and such will not increase bureaucratic burden);
- ⇒ Results-oriented (given some indications of what the intended outcome is, ideally in measurable terms);
- ⇒ Able to be followed-up (i.e., able to determine whether it has been acted upon);
- ⇒ Consistent and coherent with the other recommendations.

When developing recommendations, the PA-Audit Team should seek management's views as early as possible and normally before finalizing the draft, on what actions are necessary. If strong evidence of fraud are detected,

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the team will have to consider other approaches. (Please refer to Help Section 7 on Auditing Fraud).

Developing Audit Recommendation (Sample Recommendation)

A Quality Control Program should be established and carried out in order to ensure that the quality of work meet the standards. Among the procedures to be included in the QCP are:

- Manner of Inspection of materials*
- Nature and number of testing to be done*
- Maintenance of Project file*
- Preparation of Construction Logbook*

Close supervision and monitoring of the Project should be done in order to assess whether the quantity and quality of materials incorporated conform with the standards and whether the plans and specifications are followed. Any defects/deficiencies noted during the implementation should immediately be brought to the attention of the Contractor for correction or rectification.

Management may consider adopting the DPWH Guidelines in ensuring the quality of projects. In the event that the project does not meet the quality standards, the equivalent amount of deficiency should be deducted from the payment to the contractor.

Note: Read through Annex 11, to appreciate the circumstances which lead to the making of this recommendation.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

3.6 Developing The Audit Conclusions

“Audits must have necessary and sufficient observations to support conclusions made against each audit objective.”

The process of dividing the audit into component parts does not necessarily mean into making a fragmented conclusion addressing the overall audit objectives. In the audit planning process, activities have identified aspects of inquiry for the audit. Audit evidence had been gathered and performance in the critical areas has been assessed against criteria. These should enable the audit team to establish judgment and sound observations against the criteria that were identified.

The audit observations should be able to: (a) confirm satisfactory performance or disclose the level, nature, and significance of deviations from criteria, (b) identify who is responsible, and (c) explain the cause and effect of the problem.

The PA-Audit Team should assess the significance of the observation in relation to the audit objectives. At the extreme ends of the performance spectrum (fully satisfactory performance or highly unsatisfactory performance), concluding against overall objective may not pose a problem. In the majority of cases, however, the Audit Team will have to use judgment. The audit conclusions and the major considerations and rationale for the conclusions must be reviewed upon full consultation with the highest-ranking COA officer assigned, usually the Team Supervisor.

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Summary of Report (Conclusion)

The Project was needed and in fact benefited its ultimate end-users. Economic activity was hastened which in turn created job opportunities. Positive impact such as traffic convenience, reduced travel time and maintenance cost and faster transport of products has been experienced. Access to basic services such as health, education, housing and others had improved that social welfare. There is no doubt that the socio-economic impact of the Project had been realized.

On the downside, the Project was costly in that the planning and implementing phases did not meet the requirements and quality assurance standards. The existing field conditions wherein well-compacted aggregates had been in place were not considered in the preparation of the Program of Work. As a result, the quantity for the items exceeded the actual requirements. The computation for taxes and indirect cost did not conform with guidelines resulting in higher contract cost.

During project implementation, construction activities were not properly documented and supervised. The minimum procedures such as preparation of a Quality Control Program, Construction Logbook and Testing Requirements were not undertaken. Thus, more than 50% of the core samples taken failed the strength test. Moreover, physical defects were noted just one year after completion.

The plans and specifications were not strictly followed resulting in a lower grade elevation than originally planned. This was caused by unplaced aggregates worth approximately P1 million. This amount could have extended the project by at least 171.97 meters. The end-users could have derived greater benefits had the Project been carefully planned and implemented taking the quality of the end product.

Source: PA Value for Money Audit Report on the Project: Concreting of Daet-San Vicente Road, Daet Camarines Norte, dated December 21, 2001

Exit Conference

An exit audit conference must be held at the end of the audit. This will involve the formalization of the audit findings and recommendation by the head of the auditing unit only. The objectives of the exit conference are to:

- Ensure fair and balance reporting. Management is given a chance to present its side on the issues raised in the report.
- Ensure correctness of the audit findings once these are finalized. Management can clarify issues which the auditor may not have fully understand, with justification and additional documentation whenever deemed necessary.
- Facilitate acceptance and implementation of audit recommendations. Recommendations are discussed as exhaustively as possible so that the effectiveness and adaptability to the particular work situation are ensured.
- Avoid adverse reactions and criticisms on audit findings as these are discussed openly with agency representatives, demonstrating the auditors good intention in helping management.

The Team Leader shall formally invite the agency head and other officials concerned, of the scheduled conference, at least two weeks in advance. An advance invitation is intended to ensure the availability of the agency official. The invitation, which shall be signed by the head of the auditing Team Leader shall indicate:

- When the audit highlights will be available, and
- The agency officials, aside from the agency head, who are most affected in the audit findings and who should be present during the conference.

More details relating the Exit Conference are included in Annex 3.

3.8 Feedbacks from the Community

The Pilot PA experience highlighted the relevance of obtaining feedback from the community-beneficiary of the projects being audited. The process, which

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involves direct consultation with the concerned communities is a novel way of obtaining valuable comments that could be included in the audit recommendations. Such recommendations are useful in enhancing the effectiveness of the project being audited and also future similar projects to be undertaken by the agency concerned.

Similar consultation will also allow for social validation of the projects. In case of the Abra-Pilot projects, the feedback gathering by consultation were arranged through the assistance of the CSO-partner who is well familiar with the communities in the project area.

Chapter 4: Writing the Draft Report

4.1 General Guideline for PA Audit: COA Memorandum No. 99-021

Auditors and Team members are advised to study the guidelines as provided under COA Memorandum No. 99-021, issued in February 1999. While this Manual expands the treatment of the various topics in detail, the minimum requirements for the Audit are provided in the foregoing Memorandum and later amendments, if any.

In general, each PA audit must result in a Report that clearly communicates to the reader the following:

- ⇒ The objective, nature, time period covered by the audit, and scope of the audit, including any limitations.
- ⇒ The professional standards used.
- ⇒ A description of the program or activity that was audited, including management's responsibilities; the criteria used and any disagreement with management on their suitability.
- ⇒ The observations made.
- ⇒ The recommendations made to guide corrective action.
- ⇒ Management's comments including planned action in response to the audit and any difference of opinion.
- ⇒ The conclusion reached against each audit objective.

Having completed the field audit work, developed the audit observations, and concluded against each audit objective, the PA team should now be in a position to draft a report that must meet the audit report requirements. Before starting to write the report, the PA-Audit Team must remember that the purpose of the report is to achieve positive change.

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In the interest of clear communications, every team member must keep to mind the following attributes of a good Audit Report:

- ⇒ Clear and precise to ensure that the reader will understand what the report is trying to achieve;
- ⇒ Convincing with the importance highlighted to the reader;
- ⇒ Fair and presented in an unbiased tone, noting where management has taken actions to correct the deficiencies and pointing out exemplary performance;
- ⇒ Only dealing with matters of significance

4.2 The Contents Of Audit Findings

At the beginning is best to have a clear mental picture of the final product that the Audit Team wanted to achieve.

These elements must be clear to all members of the PA- Audit Team:

- ⇒ Criteria – set of reasonable standards of performance
- ⇒ Condition – situation currently obtaining in the entity
- ⇒ Cause – reason(s) for deviation or discrepancy
- ⇒ Effect – result of the deviation or discrepancy Effect – result of the deviation or discrepancy Effect – result of the deviation or discrepancy

4.3 Reporting Criteria

The PA-Audit Team must bear in mind that the Audit Report is an official document that will be open for public scrutiny. In view of this, it is a must to stick to the following reporting criteria:

- ⇒ Factual matter must be accurately, completely and fairly presented.
- ⇒ Findings must be presented objectively in a language as clean and simple as the subject matter permits.
- ⇒ Findings must be adequately supported by evidence in the working papers.
- ⇒ Reports must be concise yet complete enough to be readily understood by users.
- ⇒ Information on underlying causes of problems must be included so as to assist in implementing or devising corrective actions.

4.4 The Character of the PA Audit Report

The PA activity is being conducted to achieve the objectives that will improve governance, transparency, community participation and efficient use of resources. Generally, a positive point of view in reporting is expected as more appropriate in achieving these objectives.

The PA-Audit Team member should take note of the following characteristics of an Audit Report:

- ⇒ Put primary emphasis on improvement; critical comments shall be presented in balanced perspective, recognizing unusual difficulties or circumstances faced by officials concerned.

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- ⇒ Identify and explain issues and questions needing further study and consideration by the auditor, the agency, and others.
- ⇒ Include recognition of noteworthy accomplishments particularly when management improvements in one area or activity may be applied elsewhere.
- ⇒ Include recognition of views of responsible officials of the agency audited on the auditor's findings, conclusions and recommendations.
- ⇒ Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with officials of the audited agency. When possible, without undue delay, their view should be obtained in writing and objectively considered and presented in the final report.
- ⇒ State whether any significant pertinent information has been omitted because it is confidential.
- ⇒ The nature of such information should be described and the law or other basis under which it is withheld should be stated.

Chapter 5: PA Audit Requirements

The PA Audit Guidelines are still evolving. It is quite possible that the Philippines' Commission on Audit will formulate or modify PA guidelines in the future. It must be noted that the following parameters represent the requirements that must be met in every audit activity.

5.1 General Requirements

General guidelines consist of obligatory audit principles adhered to in all auditing activities consisting of:

- ⇒ Code of Professional Conduct
- ⇒ COA Policies and existing Audit Standards

5.2 PA Audit Requirements

The essential requirements of our approach to PA auditing are the following:

- ⇒ The PA audit team must exercise due care.
- ⇒ The PA audit team must be made up of individuals who have objective state of mind and are independent.
- ⇒ The PA audit team must have collective knowledge of their subject matter and auditing proficiency necessary to fulfill the requirements of the audit.
- ⇒ The PA audit team must ensure proper supervision of all its members.
- ⇒ The PA audit team must seek entity management's views about critical elements of the audit.
- ⇒ The PA audit team must obtain sufficient and appropriate consultation and advice throughout the audit.

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- ⇒ The PA audit team must maintain appropriate documentation and files.
- ⇒ The PA audit team must deliver clear, persuasive and effective communications to COA and other stakeholders.

5.3 Audit Examination Guides

- ⇒ Audits must have clear objectives that can be concluded after completion of the auditing activity.
- ⇒ Audits must have a clear scope that focuses the extent, timing and nature of the audit.
- ⇒ Audits must select issues on the basis of their relevance to the Office's mandate, significance and auditability.
- ⇒ Audits must have suitable criteria that focus the audit and provide a basis for developing observations.
- ⇒ Audits must have necessary and sufficient evidence to support observations.
- ⇒ Audits must involve objective evaluation of the evidence against the criteria to develop observations.
- ⇒ Audits must include recommendations to guide necessary corrective actions when deficiencies are reported.
- ⇒ Audits must have necessary and sufficient observations to support conclusions made against each audit objective.
- ⇒ Audits must result in a report that meets the COA's Reporting Standards

5.4 Audit Reporting Standards

Each audit must result in a report that clearly communicates to the reader:

- ⇒ The objectives, nature, time period covered by the audit, and scope of the audit, including any limitations;
- ⇒ The professional standards used;
- ⇒ A description of the program or activity that was audited, including management responsibilities;
- ⇒ The criteria used and any disagreement with management on their suitability;
- ⇒ The observations made;
- ⇒ The recommendations made to guide corrective action;
- ⇒ Management's comments (if provided) including planned action in response to the audit and any differences in opinion; and
- ⇒ The conclusion reached against each audit objective.

Chapter 6. Auditing of Efficiency, Economy and Effectiveness

“It is anticipated that efficiency, economy and effectiveness audit will be a common PA activity, hence Audit Team members should have good knowledge with this Chapter.”

6.1 What is Efficiency?

Efficiency indicates how well an organization uses its resources to produce goods and services. Thus, it focuses on resources (inputs), goods and services (outputs), and the rate (productivity) at which inputs are used to produce or deliver outputs. To understand fully the meaning of “efficiency”, it is necessary to understand the following terms: (a) inputs, (b) outputs (including quantity and quality), (c) productivity and (d) level of service.

(a) Inputs are resources (e.g., human, financial, equipment, material, facilities, information, energy and land) used to produce outputs.

(b) Outputs are goods and services produced to meet client needs. Outputs are defined in terms of quantity and quality and are delivered within parameters relating to level of service.

- *Quantity* refers to the amount, volume, or number of outputs produced. For example, number of kilometers of road built, number of irrigation systems established, number of hectares reforested.

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- *Quality* refers to various attributes and characteristics of outputs such as reliability, accuracy, timelines, service courtesy, safety, and comfort.

© *Productivity* is the ratio of the amount of acceptable goods and services produced (outputs) to the amount of resources (inputs) used to produce them. Productivity is expressed in the form of a ratio such as cost or time per unit of output.

(d) Level of service refers to the “richness” of service in terms of such characteristics as accessibility, options, frequency, and response time. Level-of-service standards are sometimes defined by statute, regulations, or policies. Such as standards may influence quality as well as the cost of service.

Staff and work processes, among other factors, determine the rate at which resources are consumed in producing goods or services. Thus, staff and work processes affect the productivity of an operation.

Efficiency is a relative concept. It is measured by comparing achieved productivity with a desired norm, target, or standard. Output quantity and quality achieved and the level of service provided are also compared to targets or standards to determine to what extent that may have caused changes in efficiency. Efficiency is improved when more outputs of a given quality are produced with the same or fewer resource inputs, or when the same amount of output is produced with fewer resources.

6.2 Efficiency VS. Economy and Effectiveness

Efficiency is only one dimension of the performance of a government program or operation. The Audit Team should be equally aware of other dimensions of performance, including economy and effectiveness.

Due regard to economy requires that resources of appropriate quantity and quality be obtained at least cost. Because efficiency derives from the relationship between resource inputs and outputs, the concepts of efficiency and economy are inextricably linked. Economic acquisition of resources contributes to efficiency by minimizing the cost of inputs used.

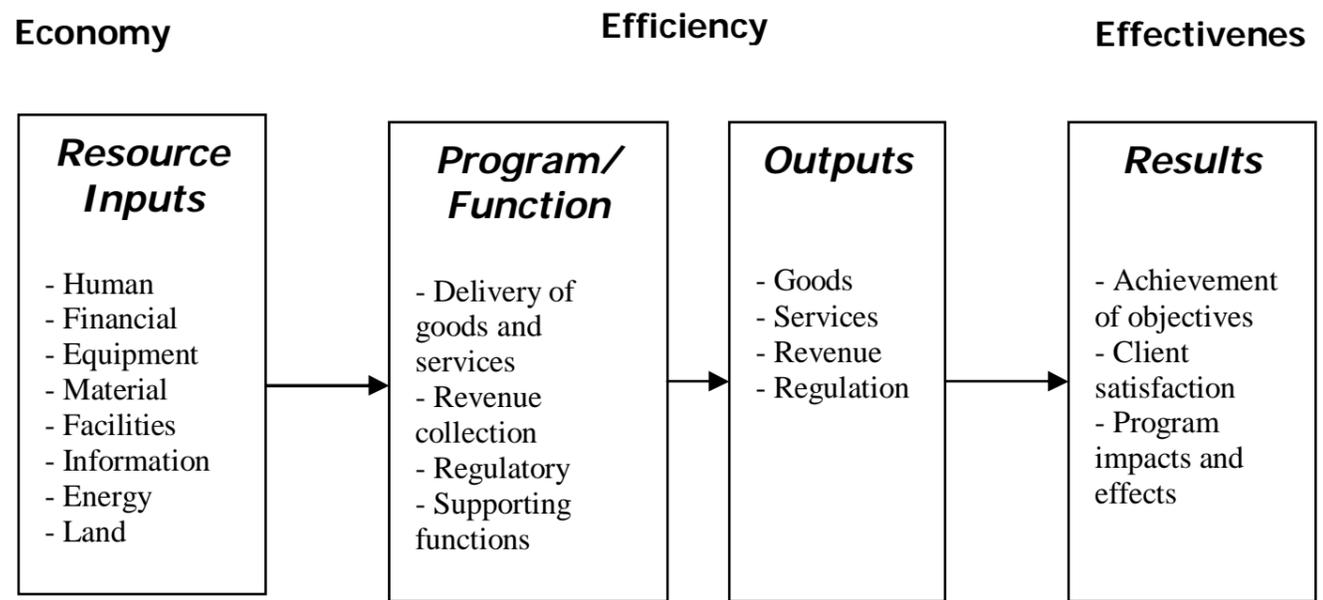
Effectiveness questions overlap with and extend beyond efficiency into program effects and impacts (outcomes). Efficiency is closely linked to effectiveness because it is an important factor in determining the least-cost method of achieving desired outcomes.

Economy, efficiency and effectiveness are closely interrelated. This relationship is further described in the following figure.

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Figure: 1. Relationship of Economy, Efficiency and Effectiveness

Performance



6.3 Auditing Operations With Non-Uniform Outputs

Government operations cover a wide variety of work ranging from repetitive clerical task to complex intellectual analyses, and from manual tasks to automated operations using expensive equipment and technology. Efficiency of some operations with unlike outputs can be difficult to measure. Examples of such operations include planning, policy development, research, advisory support functions, administrative overhead, and project management.

Measurable operations have many features in common with difficult-to-measure operations. For example, both type of operations have to be planned, budgeted, operated, monitored, and controlled. Usually, all operations have clients who receive a service product. The main difference is in the difficulty of measuring and assessing based on output/input ratios.

The manager's obligation to be prudent in the use of resources is pertinent to all operations, including those where efficiency is difficult to measure. All audit-worthy operations, regardless of the difficulty of measuring efficiency, should be examined to determine whether management has demonstrated due regard to efficiency.

Where the efficiency of an operation is difficult to measure, Audit Team members are expected to verify whether the controls, operational processes, and work methods are appropriate for minimizing resource inputs in the delivery of required goods and services or maximizing output with given resources.

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The following are a few examples of activities that auditors can consider as evidence of management's due regard to efficiency:

- Carrying out periodic reviews to eliminate redundant operations and intermediate or internal outputs that do not contribute to the organization's final outputs (e.g., administrative and overhead functions, useless reports).
- Using project management information covering milestones reached versus those planned, actual dates versus target dates, and resources used versus budgeted.
- Comparing the total and component costs of operations (including overhead) with costs in other similar organizations.
- Reducing layers of control, speeding up decision making, and creating more shared services.
- Rationalizing products and services to better serve the needs of internal and external clients, and discontinuing outputs that are no longer needed.
- Reducing operational costs by contracting out work, when justified.
- Improving the quality and level of service to satisfy user demand without increasing costs.
- Developing better systems and work methods, including appropriate use of technology.
- Improving staff productivity through such things as better equipment, training and development, improved working conditions, incentives, and recognition of good performance.
- Identifying new opportunities to apply best practices based on appropriate comparisons with other departments, other jurisdictions, or the private sector.

6.4 Measuring Efficiency

Efficiency-related information is necessary for management to determine whether the level of efficiency achieved meets an acceptable standard. It is also necessary for comparing efficiency levels before and after corrective action.

Efficiency usually can be measured and monitored best using a series of indicators focusing, for example, on various aspects of quantity, quality, and level of service. The purpose of using a series of indicators is to understand how related operational aspect can influence the efficiency of an operation. The related aspects can then be controlled to improve efficiency.

Measuring inputs. **Inputs** (e.g., labor, material, or capital) can be measured in either physical or monetary terms. Labor inputs, for example, can be measured in units of time or dollars. Material and capital resources are generally measured in dollars.

Measuring outputs. Outputs of some operations are uniform. These outputs can be readily counted and the amount of resources consumed can also be measured to calculate the efficiency of producing them. If outputs are not uniform, it is not appropriate to count them as standard units of production requiring equal amounts of resources for calculating efficiency.

Standards for efficiency. Standards provide a reference point or yardstick to measure and assess efficiency. Different kinds of standards can be used as benchmarks so long as they represent a reasonable level of expected efficiency.

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- Engineered standards. These are developed with well-established work measurement techniques. Therefore, engineered standards provide a reliable basis for measuring and assessing efficiency levels.
- Historical standards. Productivity ratios, representing efficiency achieved in the past, can be used as a base to assess current efficiency levels.
- Organizational comparisons (benchmarking). Comparing against standards based on the achievements of other organizations that are doing similar work and are considered leaders in the field, or comparing with the generally accepted industry or business standards are other ways of assessing an organization's efficiency.
- Capacity utilization. The efficiency of staff, equipment, and facilities, etc., is strongly influenced by the extent to which such resources are used productively in relation to the time available for use. Utilization is expressed as the percentage of the available capacity that is actually used.

6.5 Objectives And Scope Of Efficiency Component Of PA Audits

Efficiency is just one aspect that is evaluated in the audit of a program, activity, or operation. In some cases, however, efficiency can be the main focus of the audit because of its importance to achieving an operation's objectives. All significant variables that influence the relationship between the resources an organization uses and the goods or services it produces should be considered in determining the scope of audits examining efficiency issues.

The objectives of auditing efficiency can include assessing one or more of the following:

- The level of efficiency achieved by an organization or operation in relation to reasonable standards;
- The adequacy and reliability of systems or procedures used to measure and report efficiency;
- An organization's efforts to explore and exploit opportunities to improve efficiency; and
- Whether the management processes and information systems, operational systems, and practices of an organization help to achieve efficiency.

The Audit Team members should consider the overall scope of the PA audit as well as its reporting themes and strategy in determining the audit objectives of its efficiency component.

6.6 Benefits Of Auditing Efficiency

Auditing efficiency will enable the COA to report whether departments and agencies manage and implement projects with due regard to efficiency. It can also directly or indirectly help departments and agencies to identify opportunities to provide more or better services at the same or lower cost.

More specifically, such audits can:

- Help managers and staff to be more sensitive to their obligation of due regard to efficiency;
- Underline the importance of measuring efficiency and of using that information for managing operations and providing accountability;
- Identify means for improving efficiency, even in operations where efficiency is difficult to measure;
- Demonstrate the scope for lowering the cost of delivering programs without reducing the quantity or quality of outputs or the level of service;
- Increase the quantity or improve the quality of outputs and level of service without increasing spending; and
- Identify needed improvements in existing controls, operational systems, and work processes for better use of resources.

6.7 The Four Areas of Management Responsibility Addressed by Audit

The four main criteria used to assess whether resources are managed with due regard to efficiency are grouped into four broad areas of management responsibility; these are listed below.

- A. Efficiency Achievement Information
- B. Improving Efficiency
- C. Management Systems and Practices
- D. Work Environment

The criteria provide a general framework to guide the auditor in examining the processes and factors critical to achieving and maintaining efficiency. They are not intended to provide a prescriptive model to tell managers how to manage their operations under all circumstances.

The full range of criteria presented below may not apply to all organizations and programs. Judgment must be used to decide which audit approach (e.g., results or systems-based or a combination of both approaches), and which audit criteria best apply to particular audit, given its scope, objective and strategy, as well as the characteristics of the audit entity.

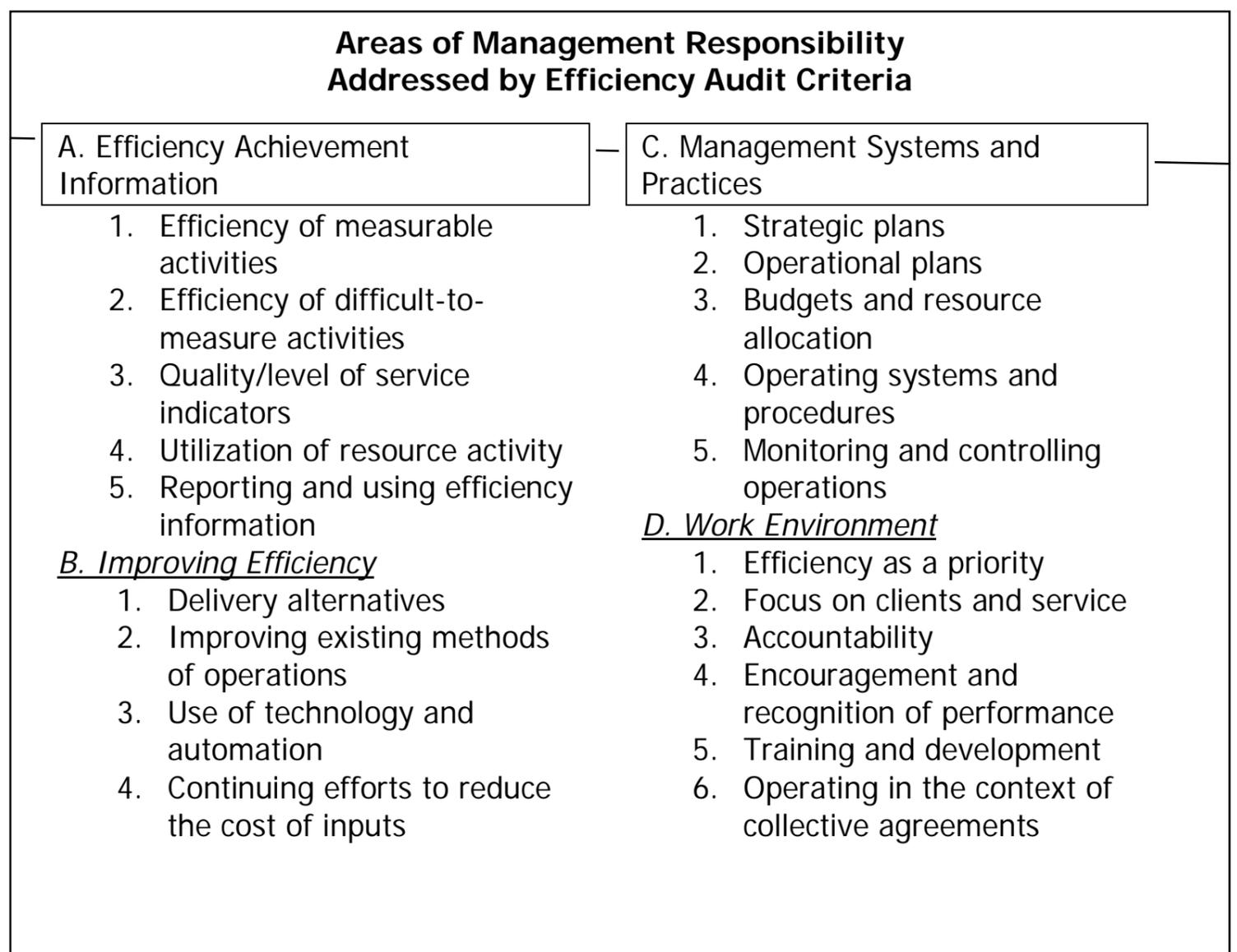
A results-based audit approach may be supported with a selective examination of a few critical systems to verify the reliability of available information on efficiency. Where the level of efficiency achieved by the audited operation is not satisfactory, more audit work may be required to find the causes for inefficiency. Such information would help to explain and support negative audit findings, and to make appropriate recommendations

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for corrective action. Where efficiency is satisfactory, relatively less audit work would be required.

In cases where results are difficult to measure or reliable information is not available, a systems-based audit approach may be appropriate. The purpose is to determine whether the existing systems and practices are consistent with achieving the efficiency. The particular approach chosen will influence the selection of sub-criteria for the audit.

This audit design, with the exception of a couple of sub-criteria related to the measurement and use of productivity ratios, applies to all types of operations, including those where outputs are difficult to measure.



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6.7.1 Management Responsibility Measure A: Efficiency Achievement Information

“Valid and reliable information on efficiency should be used to monitor, maintain, improve and report efficiency.”

Sub-criteria

1. **Efficiency of measurable activities.** Output/input ratios (unit costs, units per person-year, etc.), reflecting the amount of resources used to produce uniform and quantifiable outputs of goods and services, should be satisfactory in comparison with appropriate targets and standards.
2. **Efficiency of difficult-to-measure activities.** To achieve efficiency in operations without uniform or quantifiable outputs, project management information should be used, where appropriate, that covers milestones reached vs. those planned, actual dates vs. target dates, and resources used vs. budgeted. The ratio of overhead cost to total operating cost also should be monitored.
3. **Quality and level-of-service indicators.** The quality and level of service achieved should be satisfactory in comparison with appropriate standards and targets that balance costs and reasonable expectations of clients.

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4. **Utilization of resource capacity.** Optimum use should be made of available capacity of production facilities, equipment, and employees to produce targeted volumes of goods and services.
5. **Reporting and using efficiency information.** Relevant, timely, reliable, and complete efficiency achievement information should be reported for evaluation, strategic decision-making, and accountability. Appropriate corrective action should be taken promptly.

6.7.2 Management Responsibility Measure B: Improving Efficiency

Opportunities and innovative ideas for improving efficiency should be explored continuously and exploited as appropriate.

Sub-criteria

1. **Delivery alternatives.** The feasibility of using other delivery methods to improve efficiency should be examined, including contracting out.
2. **Improving existing methods of operations.** There should be continuous examination of the feasibility of streamlining current systems and procedures, eliminating duplication and waste, and simplifying work processes and practices. This should be done with due regard to cross-functional impacts on the efficiency of the whole organization and on total costs.

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3. **Use of technology and automation.** Opportunities for the use of information technology and the automation of manual operations should be continuously explored, and, where appropriate, exploited to reduce monotony and error level, to increase productivity, and to provide better services to clients.

4. **Continuing efforts to reduce the cost of inputs.**
 - a) Make/buy/lease or other options to reduce the cost of inputs, while maintaining their quality, should be reviewed.
 - b) Program overhead and administrative support functions should be minimized through conducting a needs analysis, sharing common services, re-engineering operational processes, and restructuring organizations-both to reduce layers of management and to speed up decision making.

6.7.3 Management Responsibility Measure C: Management Systems And Practices

Management controls, operational systems, and work processes and practices should demonstrate due regard to efficiency.

Sub-criteria

1. **Strategic plans.** Long-term strategic plans should demonstrate due regard to efficiency, among other priorities. Planning should include recognizing the risk and consequences of inefficient

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operations, determining the feasibility of switching to less costly methods, rationalizing the range of goods and services provided, and restructuring the organization where appropriate, to function more efficiently.

2. **Operational plans.** Annual operational plans should be based on sound principles of risk management, on efficient work methods and procedures, and on rational standards for output quantity, quality, and level of service.
3. **Budgets and resource allocation.** Annual operating budgets should be calculated using performance standards (e.g., output/input ratios) so that resource levels are appropriate for the planned volume of outputs. They should be based on the use of resources (human, financial, material, equipment, etc.) of appropriate quantity and quality, acquired at a price that will enable the organization to carry out its operational plan at minimum cost. Resources should be allocated rationally among organizational elements to optimize efficiency, among other considerations.
4. **Operating systems and procedures.** Operations should be designed and carried out using efficient systems, processes, procedures, and work methods, and with skilled staff who know what is expected of them.
5. **Monitoring and controlling operations.** Operations should be scheduled, supervised, and monitored. As necessary, timely corrective action should be taken, based on progress reports, to meet targets on time and within budget.

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6.7.4 Management Responsibility Measure D: Work Environment

A managerial and work environment that emphasizes efficiency and in which managers and staff are appropriately empowered and committed to achieving this should exist.

Sub-criteria

1. **Efficiency as a priority.** It should be emphasized that efficiency is a priority and that achieving it is a shared responsibility of managers and staff.
2. **Focus on clients and service.** The policy and practice at all levels should provide high-quality goods and responsive services to the public and other clients.
3. **Accountability.** Roles, responsibilities, authority, and accountability for efficiency matters should be defined clearly and communicated to those concerned.
4. **Encouragement and recognition of performance.** Incentives should be used, as appropriate, to encourage managers and staff to improve efficiency; their efforts and achievements should be recognized and rewarded properly.

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5. **Training and development.** Managers and staff should be provided with appropriate training and development opportunities for continuing to improve productivity and quality in serving clients.
6. **Operating in the context of collective agreements.** Efforts to attain efficiency should take into consideration the related provisions collective agreements.

6.8 Special Considerations in Auditing of Efficiency

Some special considerations that auditors should bear in mind during the planning, examination, and reporting phases for auditing efficiency issues are outlined below, without repeating the general guidelines.

5.8.1 At the Planning Phase

Understanding the entity. In the overview stage, it is important to have a good understanding of the entity before finding out what factors are essential to its efficiency. Gaining a broad understanding of the entity involves gathering and analyzing information on matters such as:

- ⇒ Its environment, including legislation, policies, staff-union agreements, rules and regulations, stakeholders, and clientele;
- ⇒ Type and nature of business;
- ⇒ Key outputs and the operational processes used to produce them;
- ⇒ Significant factors affecting efficiency, including service standards;
- ⇒ Key management processes, information, and operational control systems relevant to efficiency; and

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⇒ Key risk to efficiency.

Selecting lines of enquiry. The auditor should consider the following when assessing the audit worthiness and auditability of efficiency issues and selecting broad lines of enquiry:

- ⇒ The size of an operation in terms of staff and the cost of all resources used;
- ⇒ The importance of the operation to the public or to the departments and agencies it serves, or its sensitivity as perceived by parliamentarians;
- ⇒ Efficiency measurement systems and efficiency information generated; and
- ⇒ Major management processes, systems, practices, and operations that could influence efficiency.

6.8.2 Survey Stage

During the survey stage, more information may be collected that reveals matters of potential significance. Basically, the survey consists of visits to sites to interview appropriate managers and staff and to observe operations, reviews of files and reports, and broad comparisons of existing conditions with what we would expect to find in a well-managed organization.

Scoping decision. Efficiency is usually just one element that is audit in a program activity or operation. Occasionally, an audit may focus mainly on efficiency issues, for example, where they are critical to the success of an

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operation. Whether an audit should focus mainly on efficiency or on other dimensions of performance is an audit scoping decision. The Audit Team should consider other factors, such as the strategy, objectives and theme of the whole PA audit, audit worthiness, and auditability of potential issues, before deciding to include efficiency issues in the audit scope.

Selection of matters for in-depth examination may be based on their materiality, risk significance, sensitivity, or potential for improvement. Some efficiency issues may overlap with other components of an audit, requiring a coordinated auditing approach.

Different types of activities at varying levels of operation can be selected for an audit. High-level management processes that influence the overall efficiency of programs can be the subject of an audit as well as low-level administrative procedures. The selection of the type of activity and level of detail of examination will depend on the audit objectives.

Audit worthiness and accountability. The survey may reveal any one or a combination of the symptoms or conditions listed below, which may indicate risks, weakness, or opportunities for improvement. However, symptoms of inefficiency alone do not automatically point to matters of potential significance. Materiality and sensitivity, associated risks, causes, and consequences have to be considered in assessing audit worthiness. The complexity of the subject, the audit methodology and skills needed, and the availability of resources have to be taken into account before selecting matters for in-depth examination.

Symptoms of possible efficiency or inefficiency. A key part of the survey is to look for symptoms of possible efficiency or inefficiency. The following could help identify potential efficiency issues:

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- ⇒ Reasonableness of the information on efficiency achievement reported within and by the organization (volume of output, quality and service levels, utilization of staff, equipment or facilities, or unit cost of outputs)
- ⇒ Client complaints about many aspects of service
- ⇒ Trends in resource levels compared with workload over the past few years
- ⇒ Appropriateness of the organizational structure to avoid duplication of functions, unnecessary layers of management, and useless overhead functions
- ⇒ Work backlog, absenteeism, overtime, and contracted service
- ⇒ Opportunities to improve efficiency, such as the use of computers and other technology; and
- ⇒ Reasonableness of resource use (e.g., material, personnel)

6.8.3 Examination Phase

In the examination phase, the Audit Team uses an appropriate audit program to probe efficiency issues and gather the evidence necessary to compare the efficiency-related conditions found in the organization with the specific criteria selected for the audit.

The sequence of addressing efficiency audit criteria would depend on the audit approach chosen and other practical considerations best suited to each audit. Where appropriate, the organization should be assessed first against Management Responsibility Measure A – Efficiency Achievement Information.

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The examination of key information on efficiency achievement, where available, is an essential step in auditing due regard to efficiency. Information on efficiency should be sought and assessed for all programs, functions, and activities included in the audit scope. Indicators of efficiency available from the organization should be carefully reviewed to determine whether they are complete, valid, and contain reliable information that is reported on a timely basis for corrective action. Alternatively, the Audit Team may have to compile the information independently.

An audit of overhead and support functions with outputs that are difficult to measure should include an examination of efforts to reduce operational costs and improve efficiency.

In assessing efforts to reduce costs and improve efficiency, the auditor must first form an opinion on what kind of efficiency improvements are possible and reasonable to expect in each specific situation, considering the latest computer, telecommunication or other relevant technology, and management techniques, as well as any constraints. The Audit Team then should determine whether appropriate and adequate efforts have been made to improve efficiency and verify improvements achieved.

6.9 Reporting Phase

Quantified supporting information. Audit observations should, where applicable, use quantified information to demonstrate the importance of specific efficiency findings. For example, the magnitude of a problem could be explained in terms of frequency of occurrence, probability of risk, number of clients affected, and number of staff (full-time equivalents) or budget amount involved.

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Missed opportunities and potential benefits can be estimated in terms of pesos or full-time equivalents, percentage of operating costs, or percentage of increase in productivity. In some cases, service indicators-waiting time, customers served, or percentage of errors- are the most appropriate data to present.

Putting efficiency findings into perspective. The PA Audit Report dealing with efficiency findings should reflect a clear understanding of all related considerations, including the program managers' perspectives and the constraints they face. Efficiency usually is only one aspect of a VFM audit. Project leaders dealing with efficiency issues must discuss findings with other audit project leaders to ensure that they select an appropriate reporting strategy.

Some findings related to a certain audit criterion may influence the overall conclusion more than the findings related to other criteria. Consequently, decisions on the overall conclusion, the findings to be reported, and the reporting strategy should be made with due regard to the relative importance of the efficiency criteria used for the particular audit.

Report content. The report content will obviously depend on the scope and the nature of findings of each audit. Reports on efficiency normally should contain, as appropriate:

- ⇒ An assessment of the current level of efficiency;
- ⇒ A brief description of the causes of inefficiency;
- ⇒ An indication of what can be done (at a reasonable cost) to correct the controls, operational processes, or other factors that are contributing to inefficiency; and
- ⇒ As assessment of efforts to explore and exploit opportunities to reduce costs and improve efficiency, and the benefits achieved.

ANNEXES

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Annex 1

Full Text of COA Memorandum No. 99-021, dated April 7, 1999 : *Segregation of Value-for-Money (VFM) Audit Report from the Annual Audit Report (AAR) and Providing Guidelines for the Preparation, Submission, and Transmittal of VFM Audit Report*

COMMISSION ON AUDIT MEMORANDUM NO. 99-021

TO : All COA Assistant Commissioners, Directors, Heads of Auditing Units/Audit Teams/Audit Groups, and All Others Concerned

SUBJECT: Segregation of Value-for-Money (VFM) Audit Reports from the Annual Audit Report (AAR) and Providing Guidelines for the Preparation, Submission, and Transmittal of VFM Audit Reports

1. RATIONALE AND PURPOSE

This Memorandum is issued to set the general guidelines in the implementation of COA Resolution No. 98-004 dated February 26, 1998 on the segregation of VFM Audit Reports from the AARs of concerned Auditors. At the same time, this is to provide guidelines for the preparation, submission and transmittal of VFM Audit Reports in cases where a VFM Audit has been specifically conducted apart from the regular financial and compliance audit.

These guidelines will apply to VFM audits conducted by Unit Auditors and by-audit teams and to government wide or sectoral audits being conducted.

2. REPORT FORMAT/CONTENTS

Since circumstances may vary significantly from case to case, no VFM audits will be the same. Hence, most standard format is prescribed in the preparation of VFM Audit Reports. However, in general, VFM reports shall contain the following:

- 2.1 The Executive Summary which summarizes the contents of the report. Essentially, it shall include:
 - 2.1.1 An Introduction containing in a condensed form, the matters discussed in the Introduction portion of the Report Proper.

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- 2.1.2 Areas for Improvements wherein recommendations will be followed by a gist of findings. These shall be grouped according to the function system, program, area, or activity selected and presented in the order of significance starting from the most to the least significant.

It shall also state the issuance of the Audit Observation Memorandum(s) as well as the conduct of exit conference to bring the foregoing matters to the Auditee for comments.

- 2.1.3 A brief discussion of the Status of Implementation by the Auditee of previous Audit Recommendation, where applicable.
- 2.2. The Report Proper which refers to the presentation and discussion of the detailed portions of the report as follows:

2.2.1 Introduction

This portion shall consist of a brief description of:

- Explanation of what the report is and rationale for it;
- Statement of the mandate and the objectives of the organization;
- Description of the structure and interrelationship of activities;
- Profile of the implementers, intended clientele, and actual users;
- Description of the organization, the area/focus or the program, project, activity system, or function on which the report focuses including information as to what such area/focus, program etc., aims to achieve, how it will contribute to the attainment of institutional objective and the benefit that can be derived therefrom;
- Profile of physical, financial (sources of funds, expenses, and the balances) and human resources as applicable;
- The percentage of accomplishment on the selected area program, etc., and the reasons for material deviations, if any from the goals/targets.

The Unit Auditor(s) or Audit Teams shall conduct VFM audit at such frequency and on such priority areas, functions, etc. as may be agreed upon during the planning conference held for the purpose taking into the consideration the criteria on financial significance, sensitivity of the potential subject, potential results/risks, and the suitability for audit, in cases where the audit is not subject of a government-wide or sectoral audit. Otherwise, such area/activity/functions, etc. and the frequency thereof shall be as determined by the Steering Committee on the conduct of Government-Wide or Sectoral audits as provided for in COA Memorandum No. 99-008 dated February 3, 1999.

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In all cases, however, the reason(s)/justification(s) for the selection of the area/focus, program, etc. as well as the audit objective(s)/purpose(s) and a statement as to whether the audit is to include economy, efficiency, or effectiveness elements or a combination of two or all of such elements shall be included.

Additionally, a concise statement on the scope and the period of audit and the period covered by such audit including the audit procedures undertaken/processes involved and the limitations or restrictions and issues which need further study, if any, and the reason(s) therefore should be mentioned.

2.2.2 Finding and Recommendations

This part shall present the noteworthy accomplishments Management and other significant favorable observation(s) as validated in audit. In addition, it shall show significant adverse audit findings resulting from the evaluation of the Auditee's operations in terms of the following aspects, if included in the scope of audit:

a. Effectiveness

- Comparison of set objective/goal or intended effect/impact versus result/accomplishment or actual effect/impact
- Are the outputs getting the results we want?
- Are expected results reaching intended beneficiaries?
- Doing the "right things"/spending wisely"

b. Efficiency

- Examination of the relationship of the output/result/benefit to the input/cost of a program, project, or activity
- Are we getting the most output from inputs?
- Doing things "right"/spending "well"

c. Economy

- Evaluation of activities including fund utilization to determine if programmed resources were acquired at lowest acceptable cost having regard to appropriate quality, quantity and time, and maintenance of adequate supply
- Are we getting the right inputs at the best cost?
- Doing things at the least cost/most advantageous price

The state of affairs of the agency (what is) is to be compared with the audit criteria (what should be). Any deviation from the set criteria shall

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constitute an audit finding which shall be supported by sufficient and complete evidence.

Each finding shall be headed by an underlined caption or topic sentence which shall contain the gist of the cause and condition, and the effect/impact thereof. The topic sentence shall be expounded in the support paragraph(s) which include(s) a clear and concise discussion of the following:

a. Condition

- Situation prevailing at the time of audit, the actual practice/procedure by the Auditee, or the extent to which the goal is being achieved. It may be an actual occurrence or an existing state of affairs.
- “What is” or “what happened”

b. Criteria

- Required or established practice, procedure, or standard and the regulation or authority prescribing the practice/procedure or standard as well as the goal of the area/activity under audit.
- “What should be”

c. Effect

- Result of the deviation, which is usually quantified and/or expressed in pesos, from the required or established practice, procedure, or standard from the set goal.
- “How many” and/or “how much”
- “So what/does it matter or make a difference”

d. Cause

- The reason for the condition
- “Why something happened” and “who or what is responsible”

On the other hand, each recommendation or set of recommendations shall follow the finding to which it pertains. This portion shall no longer be headed a topic sentence but shall directly cite the recommendation and shall state the benefit or advantage of complying with the recommendation. It shall emphasize improvement potential particularly on how the organization can become more efficient and manage its resources more effectively, and shall also address the cause of the deviation or finding by recommending

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measures to prevent the recurrence of the deficiency or to remedy adverse situations. It must be practical, feasible, and in accordance with established standards or criteria.

The recommendation shall take into account the person/organizational unit responsible for the corrective action(s) required.

Where necessary, the management's comments, which shall preferably be in writing, and the Auditor's rejoinder thereon shall be presented after the finding and/or recommendation to which they pertain.

The rejoinder should include the Auditor's inference on the management's comments vis-à-vis the related facts as narrated in the findings. If no management comment was received, it should be indicated in the audit report as such.

2.2.3 Status of the Implementation by the Auditee of Previous Audit Recommendations

This section shall specify the status of the implementation by the Auditee of previous recommendations covering the same area, if any. In such a case, focus should be made on significant findings of prior audits the conditions of which don not exist in the current audit.

The extent of the implementation shall be quantified indicating the number of recommendations which have been totally or partially complied with, or not adopted at all, as well as the corresponding percentage thereof.

The audit recommendations which remain unimplemented shall be reiterated in this portion and the reason(s) for non-implementation shall be stated.

Where no audit was previously undertaken in the same audit area, this part will be excluded from the report.

2.2.4 Annexes

This portion shall contain the supplementary schedules, and other relevant documents which should substantiate or further explain the audit findings, such as:

- Organizational chart

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- List of the key assessment factors, criteria, and the indicators that were used as a basis for analyzing performance with respect to each attribute
 - Program Accountability Model
3. PREPARATION, SUBMISSION, REVIEW, AND TRANSMITTAL OF REPORT
- 3.1 For Residential Auditing Units
- 3.1.1 The Unit Auditor shall submit the VFM Audit Report manually signed, together with all the working papers within thirty (30) working days after the completion of the last audit activity as specified in the Audit Program/Plan.
- 3.1.2 The report shall be covered by a Memorandum addressed to the Chairman through the Director concerned. The Memorandum shall state, among others, the period covered by the audit, the authority therefore, the purpose/objective of the audit, the procedures undertaken, and the limitations/restrictions thereon, if any.
- 3.1.3 Within one(1) month from the receipt, the Director concerned shall review the report. The review shall include a determination of the evidences supporting each of the elements (condition, criteria, effect, cause) of the audit findings. If necessary, the Director shall return the report to the Unit Auditor for correction/revision. The Unit Auditor shall submit the corrected report in final form to the Director concerned within fifteen (15) working days from receipt of the reviewed report.
- 3.1.4 The final report shall be transmitted to the Head of the Agency for National Government Agencies, to the Chief Executive Officer for Local Government Units, or to the Board of Directors for Government-Owned or Controlled Corporations under signature of COA Chairman or his duly authorized representative. As maybe found necessary, other government officials, such as the Speaker of the House of Representatives, the Senate President, and the President of the Republic of the Philippines, shall also be furnished copies thereof.
- 3.1.5 The transmittal letter is a simple communication transmitting the report and acknowledging the assistance and support extended by the officials and staff of the Auditee. It shall also include a request to implement the recommendations contained in the report and to be informed of the actions taken thereon within thirty(30) working days from receipt thereof.

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- 3.2 For Audit Teams Conducting Government-Wide and/or Sectoral Audits
 - 3.2.1 The Audit Team concerned shall follow the guidelines provided for under COA Memorandum No. 99-008.
- 3.3 For Audit Teams Other Than Those Conducting Government-Wide or Sectoral Audits
 - 3.3.1 The Audit Team shall prepare and finish the VFM Audit Report including the covering Memorandum specified under Item 3.1.2 above within fifteen (15) working days after completion of the last audit activity as specified in the Audit Plan/Program.
 - 3.3.2 The report and the Memorandum shall be signed by the Team Supervisor, who shall submit same together with the pertinent working papers, within fifteen (15) working days from receipt thereof to the concerned Head Auditor (HA)/Regional Field Auditor (RFA), as defined under COA Resolution No. 96-305 approved on April 16, 1996.
 - 3.3.3 The HA/RFA in turn will immediately conduct his own review and evaluation thereon and, whenever necessary, discuss with the Operating Division Chief concerned the corrections/revisions that need to be made of/incorporated in the report. Within one(1) month from submission to him for review, the HA/RFA shall return the report to the Team Supervisor for the team's correction/revision.
 - 3.3.4 The Audit Team shall submit the corrected report within fifteen(15) working days from receipt thereof to the HA/RFA, who shall forthwith forward the report to the Director concerned for final review and the preparation of the Transmittal Letter mentioned in Items 3.1.4 and 3.1.5 above.

4. REPEALING CLAUSE

This Memorandum supersedes and/or modifies all circulars, memoranda and orders previously issued by this Commission on the preparation, submission, review, and transmittal of VFM Audit Reports which are inconsistent herewith particularly COA Memorandum NO. 95-101 dated September 21, 1995.

5. EFFECTIVITY

This Memorandum shall apply to VFM audits conducted in 1999 onwards.

CELSO D. CANGAN
Chairman

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Annex 2

Substance of: COA Memorandum No. 96-054 Dated December 2, 1996

AUDIT HIGHLIGHTS

The audit highlights is a summary of the audit findings and recommendations, and contains the following:

- Topic Sentence (audit finding as summarized in one or two sentences)
- Condition (What is)
- Cause (Why did the condition happen and what caused it)
- Criteria (What should be)
- Effect (what are the actual/potential results of the condition)
- Recommendations (What should be done to eliminate the cause/s and who should do it).

Deficiencies for which audit memoranda were previously issued in the course of the audit conducted, but for which management comments/justifications are not considered acceptable by the auditor and those of which no justification has been received, shall also be included in the discussion during the exit audit conference.

The Auditor/Team leader shall prepare the audit highlights serve as agenda for discussion during the conference.

The audit highlights should formally sent to management thru the agency head, at least two days before the scheduled conference so that management can react properly to the audit findings. The highlights should be marked "**FOR DISCUSSION PURPOSES ONLY SHOULD NOT BE CONSIDERED FINAL**"

Precautions should be undertaken to preclude any premature disclosures and information leaks before the audit report is officially released the commission. For this purpose the Auditor should limit the circularization of the highlights only to the agency head who shall decide who among the agency officials noted in the invitation should attend the exit conference and should be furnished with copies of the audit highlights.

In the case of fraudulent or very grave audit findings, written permission of the COA Director should be obtained before the finding can be discussed in

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the scheduled exit audit conference. Otherwise , such findings should not be included in the audit highlights to be provided in advance to the agency head. The COA Director concerned shall decide whether or not such findings should be treated separately.

The Auditor shall furnish the COA director with a copy of the audit highlights at least one week before the scheduled conference.

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Annex 3

Substance of: COA Memorandum No. 96-054 dated December 2, 1996 Re: Conduct of Exit Conferences

EXIT CONFERENCE

The exit audit conference, held at the end of the audit, involves the formalization of the audit findings and recommendation by the head of the auditing unit only. The leader of the audit team to the agency head/other agency officials before the audit report is finalized.

Objectives of the audit report conferences

- Ensure fair and balance reporting. Management is given a chance to present its side on the issues raised in the report.
- Ensure correctness of the audit findings once these are finalized. Management can clarify issues which the auditor may not have fully understand, with justification and additional documentation whenever deemed necessary.
- Facilitate acceptance and implementation of audit recommendations. Recommendations are discussed as exhaustively as possible so that the and adaptability to the particular work situation are ensured.
- Avoid adverse reactions and criticisms on audit findings as these are discussed openly with agency representatives, demonstrating the auditors good intention in helping management.

Preparing for the conference

The Auditor/Team Leader shall formally invite the agency head and other officials concerned, of the scheduled conference, at least two weeks in advance. An advance invitation is intended to ensure the availability of the agency official and to for any changes in schedule.

The invitation which shall be signed by the head of the auditing unit/Team Leader shall indicate:

- When the audit highlights will be available, and
- The agency officials, aside from the agency head, who are most affected in the audit findings and who should be present during the conference.

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Timing of exit conferences:

Exit conferences should be held at least two days before the scheduled pullout, in the case of audits undertaken by the audit teams or at least a the deadline for the submission of Annual Audit Report, in the case of

Venue for the exit audit conference:

Exit audit conference shall ordinarily be held in the business premises of the auditee agency. However, where it is not advisable to hold the conference in the business premises of the auditee or anywhere within the locality, owing to the sensitiveness of the issues involve or when the security and safety of the auditing unit or the audit team is in danger, the conference may be held in the COA Regional Office or Central Office whichever is deemed appropriate.

Attendance in the exit audit conference:

The agency head shall decide who among the agency officials shall represent their side in the exit audit conference.

The head of the auditing unit shall preside over the exit audit conference for audits performed by his unit.

The Team Supervisor shall preside over the exit audit conference for audits undertaken by audit teams under his supervision.

The COA director concerned or his assistant shall preside over the exit conference if so requested by the Auditor, and if:

- In the opinion of the Director, the rank of the agency head necessitates that the conference be presided over the higher ranking COA official.
- The gravity of the finding necessitate the present of the COA official or his authorized representative to show support by the Commission of the Auditor's findings and recommendations. It is understood that in this case, the audit findings and recommendation have been reviewed and challenge by the COA Director and that he concurs with the auditor's findings and recommendations.

Conduct of the exit conference:

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During the conference, the following points should be emphasized:

- That the findings are not considered final and that management is expected to challenge the finding with documentation furnished the auditor were necessary.
- That the management rejoinders should be furnished to the auditor within two weeks from the date of the exit audit conference, unless written request of the extension is submitted and relayed to the COA Director concerned thru the auditor who shall recommend the action to be taken on the request.
- That the failure to submit the rejoinders after two weeks from the date of the exit audit conference after the lapse of the period of extension granted, shall mean that the findings and recommendations can be finalized based on the reactions and given by management during the conference.
- That information leaks should be avoided by management and that COA has already taken precautionary measure to avoid the same.

The auditors should be prepared to get adverse reactions and criticisms from officials. No matter what happens, the auditors shall always maintain the conduct befitting public officials.

The Auditor/Team Leader shall assign a staff who shall take note of the proceeding prepare the minutes and the conference.

Failure of the management to attend exit audit conference:

In the unlikely event that no exit conference can be held due to the failure of the management to honor the invitation of the auditor, the auditor shall immediately

the head of the agency the following:

- The fact of failure of the management to honor the invitation of the auditor to
audit conference despite the advance notice given;
- That in view of time constraint/proximity of the deadline of the submission of the audit report, the management is requested to submit immediately its rejoinder audit findings and recommendations contained ion the audit highlights furnished the head of the agency; and
- That failure to submit the rejoinders after two weeks from receipt

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communication shall mean the findings and recommendations can already finalized.

The foregoing shall not apply in instances where there is a request from the agency for the postponement/resetting of the date of the exit audit conference. A copy request shall be forwarded by the auditor to the COA director concerned for the information.

REF: COA Memorandum No. 96-054 dated. Dec. 2, 1996

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Annex 4

Substance of COA Memorandum No. 99-021, dated April 7, 1999: Re: *Report Format/Contents*

REPORT FORMAT/CONTENT

Since circumstances may vary significantly from case to case, no VFM audits will likely be the same. Hence, no standard format is prescribed in the preparation of VFM Audit Reports. However, in general, VFM reports shall contain the following:

1. The Executive Summary which summarizes the contents of the report. Essentially it shall include:

An introduction containing, in a condensed form, the matters discussed in the Introduction portion of the report proper.

Areas for improvement wherein recommendations will be followed by a gist of the findings. These shall be grouped according to the function, system, program, area, or activity selected and presented in the order of significance starting from the most to the least significant.

It shall also state of Audit Observation Memorandum(s) to bring the foregoing matters to the Auditee for comments as well as the management letter which is practically the draft audit report for final comments.

A brief discussion of the Status of Implementation by the Auditee of the Previous Audit Recommendations, Where applicable.

2. The report proper which refers to the presentation and discussion of the detailed portions of the report as follows:

Introduction

This portion shall consist of a brief description of:

- Explanation of what the report is and the rationale for it;

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- Statement of the mandate and the objectives of the organization;
- Description of the structure and interrelationship of activities;
- Profile of the implementers, intended clientele, and actual users;
- Description of the organization, the area, focus of the program, project, activity, system, or function on which the report focuses including the information as to what such area/focus, program, etc., aims to achieve, how it will contribute to the attainment of institutional objective and the benefit that can be derived there from;
- Profile of physical, financial sources of fund, expenses, and balances and human resources, as applicable;
- The percentage of accomplishment on the selected area, program, etc., and the reasons for material deviations, if any from the goals/targets.

In all cases the reason(s)/justification(s) for the selection of the area/focus

Program, etc. as well as the audit objective(s)/purpose(s) and statement as to whether the audit is to include economy, efficiency, or effectiveness elements or a combination of two or all of such elements shall be included.

Additionally, a concise statement on the scope and period covered by such audit including the audit procedures undertaken/processes involved and the limitations or restrictions and issues which need further study, if any, and the reason(s) therefore should be mentioned.

Finding and Recommendation

This part shall present the noteworthy accomplishment of the management and other significant adverse audit findings results from an evaluation of the Auditee's operations in terms of the following projects, if included in the scope of audit:

- a. Effectiveness
 - Comparison of set objective/goal or intended versus result/accomplishment or actual effect/impact.
 - Are the outputs getting the result we want?
 - Doing the "right things" /spending "wisely"
- b. Efficiency
 - Examination of the relationship of the output/result to the input/cost of a program, project, or activity

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- Are we getting the moist output from our input?
- Doing this “right”/spending “well”

c. Economy

- Evaluation of activities including fund utilization programmed resources were acquired at the lowest having regard to appropriate quality, quantity and time, and of adequate supply.
- Are we getting the right input at the best cost?
- Doing this cheap/spending less

The state of affairs of the agency (what is) is to be compared with the audit criteria (what should be). Any deviation from the set criteria shall constitute an audit finding which shall be supported by sufficient and competent evidence.

Each finding shall be headed by an underlined caption or topic sentence which shall contain the gist of the cause and condition, and the effect/impact thereof. The topic sentence shall be expounded in the support paragraph(s) which include(s) a clear and concise discussion of the following:

a. Condition

- Situation prevailing at the time of audit, the actual practice/procedure by the auditee, or the extent to which the goal of being achieved. It may an actual occurrence or an existing state of affair.
- What is or what happened?

b. Criteria

- Required or established practice, procedure ,or standard and the regulation or authority prescribing the practice/procedure or standard as well as the goal of the area/activity under audit.
- What should be

c. Effect

- Result of the deviation, which is usually quantified or expressed in pesos, from the required or established practice, procedure, or standard or from set goal.
- How many and/or how much

d. Cause

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- The reason for the condition
- Why something happened and who or what is responsible

On the other hand, each recommendation or set of recommendations shall follow the finding to which it pertains. This portion shall no longer be headed by a topic sentence but shall directly cite the recommendation and state the benefit or advantage of complying with the recommendation. It shall emphasize improvement potential particularly on how the organization can more efficient and manage its resources more effectively, and shall also addressed the cause of the deviation or finding by recommending measures to prevent the recurrence of the deficiency or to remedy adverse situations. It must be practical, feasible, and in accordance with established standards or criteria.

The recommendation should take into account the person/organizational unit responsible for the corrective action(s) required.

Where necessary, the Management's comments, which shall preferably be in writing and the auditors rejoinder thereon shall be presented after the finding and /or recommendation to which they pertain.

The rejoinder should include the auditor's inference on the Management's comments vis-à-vis the related facts as narrated in findings. If no Management comment was received, it should be indicated in the audit report as such.

Status of implementation by the auditee of previous audit recommendations.

This section shall specify the status of implementation by the auditee of previous recommendations covering the same area, if any. In such a case, focus should be made on significant finding of prior to the audits the condition of which do not exist in current audit.

The extent of implementation shall be quantified by indicating the number of recommendations which have been totally or partially complied with, or not adopted at all, as well as the corresponding percentage thereof.

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The audit recommendation which remain unimplemented shall be reiterated in this portion and the reason(s) for non-implementation shall be stated.

Where no audit was previously undertaken in the same audit area, this part will be excluded from the report.

Annexes

This portion shall contain the supplementary schedules, and other relevant documents which would substantiate or further explain the audit findings, such as:

- Organization chart
- List of the key assessment factors, criteria, and indicators that were used as basis for analyzing performance with respect to each attribute
- Program accountability model

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Annex 5

Substance of COA Memorandum No. 99-021, dated April 7, 1999: Re: *Preparation, Submission, and Transmittal of Report*

PREPARATION, SUBMISSION, REVIEW, AND TRANSMITTAL OF REPORT

1. The audit shall prepare and finish the VFM audit report within fifteen (15) working days after the completion of the last audit activity as specified in the audit plan/program.
2. The report shall be covered by a Memorandum addressed to the Chairman through the Director concerned. The Memorandum shall state, among others, the period covered by the audit, the authority therefore, the purpose/objective of the audit, the procedures undertaken, and the limitations/restrictions thereon, if any.
3. The report of the Memorandum shall be signed by the Team Supervisor, who shall submit same together with the pertinent working papers, within fifteen (15) working days from receipt thereof to the director concerned for his final review.
4. The director shall prepare the transmittal letter covering the final report on the audit. It shall be addressed to the head of the Agency (For National Government Agencies), the Chief Executive Officer (for local government units), or the board of Directors (for the government owned and/or controlled corporations) under the signature of the COA Chairman or his duly authorized representative. As may be found necessary, other government officials, such as the speaker of the house of representatives, the Senate President, and the President of the Republic of the Philippines, shall also be furnished copies of the report.
5. The transmittal letter is a simple communication transmitting the report and acknowledging the assistance and support extended by the officials and staff of the auditee. It shall also include the request to implement the recommendations contained in the report and to be informed of the actions taken thereon within thirty (30) working days from the receipt thereof.

REF. COA Memorandum No. 99-021 dtd. April 7, 1999

Annex 6

Substance of INTOSAI Auditing (1992): Re: *The Form and Content of All Audit Reports Are Founded On the Following General Principles*

THE FORM AND CONTENT OF ALL AUDIT REPORTS ARE FOUNDED ON FOLLOWING GENERAL PRINCIPLES:

1. Title
 - The report should be presented by a suitable title or heading, helping the reader to distinguish it from the statements and information issued by others.
2. Signature and date
 - The report should be properly signed. The inclusion of the date informs the reader that the consideration has been given to the effect of events or transactions about which the auditor became aware up to the date.
3. Objectives and scope
 - The report should include reference to the objectives and scope of the audit. This information establishes the purposes and boundaries of the audit.
 - Performance audit report may include criticism (for example where, in the public interest or on grounds of public accountability, matters of serious waste, extravagance or inefficiency are drawn to attention) or make no significant criticism but give independent information, advice or assurance as to whether and what extent economy, efficiency and effectiveness are being or have been achieved.
 - Any limitation on the scope of the auditor's work and the reasons therefore, should be described on the audit report. The scope limitation occurs, for example, when the auditor is unable to audit

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key organizational units or systems or to perform necessary audit procedures due to factors beyond the auditor's control. The scope of the audit can also be limited by the inability to identify suitable criteria. The auditor should consider if it is appropriate to comment in the report on the implication of the lack of suitable criteria for the activity being audited.

4. Completeness

- Performance report may be free standing. They should be presented as prepared by the auditor. In exercising its independence, the Supreme Audit Institution (SAI) should be able to include whatever it sees fit, but it may acquire information from time to time which the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation, the auditor retains the responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.

5. Addressee

- The report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulation or practice. This may be unnecessary where formal procedures exist for its delivery.

6. Identification of subject matter

- The report should identify the area to which it relates. This includes information such as the name of the audited agency and the subject matter that has been audited.

7. Legal basis

- Audit reports should identify the legislation and other authority providing for the audit.

8. Compliance with standards

- Audit reports should indicate the auditing standards and practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

9. Timeliness

- The audit report should be available promptly to be of greatest use to readers and users, particularly those who

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have to take necessary action. Reports which arrive late are of little use to decision makers.

- Issuing reports in a timely fashion means producing a quality product within the time constraint of the audit plan.

In contrast to regulatory (financial) audit, which is subject to fairly specific requirements and expectations, performance is wide ranging in nature and is more open to judgment and interpretation; coverage is also more selective and may be carried out over the cycle of several years, rather than in one financial period; and it does not normally relate to a particular financial or statements. As a consequence, performance audit reports varied and contain more discussion and reasoned argument.

The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activity, the auditor should provide a report which describe the circumstances and arrives at a specific conclusion rather than a standardized statement. Where the audit is confined to a consideration of whether sufficient controls exist to secure economy, efficiency or effectiveness, the auditor may provide a more general opinion.

Auditors should recognize that their judgments are being applied to actions resulting from past management decisions. Care should be therefore exercise in making such judgments, and the report should indicate the nature and extent of the information reasonably available (or which ought to have been available) to the audited entity to the time the decisions were taken. By stating clearly the scope, objectives and finding of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses and critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially when the SAI presents its own views or recommendations.

Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally, these recommendations suggest that improvements are needed rather than how to achieve them, though

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circumstances sometimes arise with warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

In formulating the following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

In formulating the audit report, the auditor should have regard to the nature of the audited entity or activity. In performance audit, judgments will be more subjective as the report does not relate directly to financial or other statements. Consequently the auditor may find the materiality by nature or by context is a more important consideration than materiality by amount.

REF:INTOASAI Auditing Standards (1992)
Participants' Notes, Seminar-Workshop on VFM/PA

<p style="text-align: center;">Commission On Audit Cordillera Administrative Region Audit Program – Participatory Audit Department of Public Works & Highways – Abra Engineering District</p>						
Specific Objectives	Criteria	Audit Procedures	Work Done By	Date Started	Date Finished	Working Paper Ref.
<p>1. To determine if the projects completed are as envisioned/in accordance with plans and specifications.</p>	<p>Plans and specifications Structural designs</p>	<p>Acquire the plans and specifications of the projects from the agency Familiarize with the data on plans and specifications/standards with respect to dimensional features Gather actual data on the projects through field inspections and interviews Assess completed projects as against plans and specifications/designs Check whether controls by management are adequate by verifying whether necessary records are kept such as:</p> <ol style="list-style-type: none"> a. Project's daily/weekly activity status reports b. Daily/weekly material reports c. Engineer's logbook d. Material testing results e. Monthly status reports f. Memos & site instructions issued g. Project charts and Audit Procedures 				
<p>2. To determine if the project supervision system is adequate to ensure project completions at the programmed costs and time frames.</p>	<p>Generally accepted engineering supervision and management standards of control</p>					

Specific Objectives	Criteria		Work Done By	Date Started	Date Finished	Working Paper Ref.
		<p>other related data</p> <p>Examine project records if properly prepared and updated with actual interview with the project engineers to determine the specific responsibilities of each project staff/personnel</p> <p>Check whether the agency keep track of any differences between the estimated start/finish dates of each activity thru the project records submitted through actual interview with the project engineers</p> <p>Determine whether the agency maintain progress charts showing the actual percentage of completion for any activity of the entire project at any given day during the implementation of the projects by requesting for such records and interviewing concerned project engineers</p> <p>Determine whether unexpected delays or other abnormalities that altered the projects' completion dates are reported thru verification from project records and interview with concerned proj. personnel</p> <p>Determine whether major activities like concrete pouring, rebar, installation, etc. are</p>				

Specific Objectives	Criteria	Audit Procedures	Work Done By	Date Started	Date Finished	Working Paper Ref.
<p>3.a. To determine whether the income level of vehicle operators/drivers increased.</p> <p>b. To determine if the number of commuters increased.</p> <p>c. To determine if travel time is reduced.</p> <p>d. To determine if there is an increase in traffic volume</p> <p>e. To find out if the family structure is</p>	<p>Data on the average income of vehicle operators/drivers</p> <p>Data on the number of commuters using the routes</p> <p>Standard travel time for a number of kilometers</p> <p>Data on traffic volume</p> <p>Time spent with the family</p>	<p>Strictly supervised by the agency thru verification from project records, interview with concerned project personnel and actual site visit</p> <p>Verify whether deficiencies in workmanship and materials are readily rectified thru verification from the project records and interview with concerned project personnel</p> <p>Interview concerned project personnel regarding general actual project supervision being conducted and the preparation of the project reports</p> <p>Field observations</p> <p>Formulate in advance lead questions</p> <p>Schedule the dates of meetings/interviews</p> <p>Conduct meetings and actual interviews with the drivers/operators. Document the meetings/interviews through notes and tapes</p> <p>Transcribe taped interviews</p> <p>Plot the results of the interviews/meetings in a matrix and make the following:</p> <p>a. Compare net income before and after the</p>				

Specific Objectives	Criteria	Audit Procedures	Work Done By	Date Started	Date Finished	Working Paper Ref.
<p>altered particularly the role of women.</p> <p>f. To determine if the projects altered the way of life of beneficiaries.</p> <p>h. To determine if the delivery of basic medical services has improved/been enhanced.</p>	<p>Economic activity of women</p> <p>Routinary activities</p> <p>Access to medical services</p>	<p>completion of the road projects</p> <p>b. Compare maintenance costs of vehicles before & after the completion of the road projects</p> <p>c. Compare quantities of gasoline used before and after the completion of the road projects</p> <p>Prepare subject matters for discussions</p> <p>Identify respondents/particular group of beneficiaries with whom the team would meet and discuss with</p> <p>Send communications to the barangay leaders. Meet them for scheduling of the meetings</p> <p>Finalize the schedules of meetings</p> <p>Facilitate the discussion with the communities by:</p> <p>a. Presenting to the audience the objectives/purposes of the discussions</p> <p>b. Laying the scenarios/situations & motivate the group to comment or to critique</p> <p>c. Directing particular questions and encouraging the audience to speak out</p> <p>Audit Procedures</p>				

Specific Objectives	Criteria		Work Done By	Date Started	Date Finished	Working Paper Ref.
		<p>freely on the topics being discussed</p> <p>d. Directing the discussion to sustain & maintain the flow of participation</p> <p>e. Making clarificatory statements/questions for accuracy and clarity of views, ideas and concerns to fully validate data gathered</p> <p>Document the discussions through notes and tapes</p> <p>Transcribe the tapes</p> <p>Plot the results of the meetings/discussions in a matrix to summarize data gathered and make the following:</p> <p>a. Compare the number of commuters before & after the completion of the road projects</p> <p>b. Compare travel time before and after the completion of the road projects</p> <p>c. Compare the number of vehicles plying the Abra-Kalinga and Abra-Ilocos Norte routes before and after the completion of the road projects</p> <p>d. Compare the previous and present activities of</p>				

Specific Objectives	Criteria	Audit Procedures	Work Done By	Date Started	Date Finished	Working Paper Ref.
		the beneficiaries e. Compare the availability/access of medical help before and after the completion of the road projects Make actual observations Analyze the data gathered				

Annex 8 Sample Ranking Sheet: *Participatory Audit Project – Potential audit Projects Summary Matrix- DPWH, Abra Engineering District*

Department of Public Works and Highways
Abra Engineering District

**PARTICIPATORY AUDIT PROJECT
POTENTIAL AUDIT PROJECTS SUMMARY MATRIX**

Projects	Financial Magnitude	Significance	Public Interest	Utility	Risk	Total	Auditability	Rank
	(25)	(20)	(10)	(10)	(35)		(h/m/l)	
Concreting of Abra-Kalinga Road Cost of 23.74M Date started – April 13, 1999 Date Completed–September 10, 2000	22	20	10	10	35	97	h	2
Concreting of Abra-Ilocos Norte Road Cost of 38.81 M Date started – April 13, 1999 Date Completed–September 30, 2000	25	20	10	10	35	100	h	1
Concreting of Abra-Ilocos Sur Road Cost of 15M Date started – April 20, 2000 Ongoing	18	20	10	10	35	93	m	4
Construction of Soot Bridge Cost of 10M Date started – March 25, 2000 Date completed – August 15, 2000	15	20	10	10	35	90	h	3

Annex 9

Sample : Program Accountability Model- DPWH, Abra Engineering District

Department of Public Works & Highways Abra Engineering District

Program Accountability Model

GOALS Provide the necessary infrastructure requirements to support the socio-economic development objectives of the attaining global competitiveness and people empowerment.

OBJECTIVES To construct, maintain, repair and rehabilitate the requirements needed infrastructure of the Province.

PROGRAMS

- Roads and bridges
- Public Buildings
- Flood Control & Drainage Projects
- Spring Development and Deep Well Projects

OUTPUTS

- No. of kilometers of roads/bridges constructed, maintained, rehabilitated or repaired.
- No. of public buildings constructed, maintained, rehabilitated or repaired
- No. of rivers with flood controls/dredged
- No. of spring developed

EFFECTS/IMPACT

Immediate Increased mobility
Increased economic activity

Intermediate Reduced cost of production and marketing

Ultimate Socio-economic development of the province

**Commission On Audit
Participatory Audit
Department of Public Works and Highways
Abra Engineering District
Initial Planning Memorandum**

Agency Background

Executive Order No. 710 issued on July 27, 1981 authorizes the merging of the Ministry of Public Works and Ministry of Public Highways into one agency known as the Department of Public Works and Highways to effectively implement infrastructure projects.

The Department of Public Works and Highways, Abra Engineering District, is responsible for the implementation of the infrastructure projects that will spur and sustain the momentum of socio-economic development in the Province of Abra, consistent with the objectives of the medium and long term development of the government.

Areas for Audit

1. Concreting of Abra-Kalinga Road
2. Concreting of Abra-Ilocos Norte Road

Justification for Selection

Result of the Risk Assessment Matrix Analysis conducted during the Participatory Audit Workshop.

The Abra-Kalinga Road and Abra-Ilocos Norte Road Sections are two of the major road projects being implemented by the DPWH-Abra Engineering District.

Broad Audit Objective and Scope

The audit aims to determine whether the road openings, improvements and concreting along the Abra-Kalinga Road and Abra-Ilocos Norte Road were implemented and or are being implemented with due regard to economy, efficiency and effectiveness.

The audit covers all projects under straight contracts along the Abra-Kalinga road and Abra-Ilocos Norte Road which are implemented in the Calendar Years 1999 and 2000.

Audit Criteria

1. Contract implementation from the evaluation of project accomplishments, approval and issuance of contract variations, project monitoring and supervision and the computations of agency estimates were in accordance with applicable laws, rules and regulations.
2. There are socio economic impacts of the projects on the lives of the direct and indirect beneficiaries in terms of health, education, livelihood, delivery of government services, etc.
3. To a certain extent, there is an alteration on the role of women in the family structure.

Audit Resources

Audit Period – 42 working days

Manpower – 1 team composing of 3 employees from the Commission On Audit and
2 volunteers from the NGO

Significant Dates

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS
Abra Engineering District
Bangued, Abra

AGENCY ANALYSIS FRAMEWORK

I. ENVIRONMENT

A. INTERNAL

1. Goals

The agency's goal is in line with its mission to provide and manage quality infrastructure facilities and services responsive to the needs of the Filipino people in pursuit of national development objectives. This is complementary with the thrust of the national government toward a fast-track economic recovery and growth to attain the goals of the Philippines 2000 making the country one of the economic centers of Asia.

2. Objectives

The objectives of the DPWH-Abra Engineering District are as follows:

- i. To help in the economic development of the province through construction, rehabilitation and maintenance of quality roads and bridges;
- ii. To help in the improvement of education by providing more school buildings and comfortable classrooms;
- iii. To help in the preservation of natural resources and safeguard loss of lives and properties through construction of flood control projects and drainage systems;
- iv. To provide the people with safe and potable water through the construction of deep well and spring development ; and
- v. To help in the rehabilitation and repair of infrastructure projects damaged by natural calamities

3. Accountability Relationships

- i. Budget is subject to review by the Department of Budget and Management.
- ii. Budget hearings are held at both Houses of Congress.
- iii. Review of transactions and operations are done by the Resident Auditor and staff of the Commission on Audit-Cordillera Administrative Region.
- iv. The Department is headed by a Secretary, to whom the Regional Directors report on the implementation of the projects at the Regional level.

- v. The various regions are divided into districts headed by District Engineers, who report to the Regional Director on the implementation of projects at the District level.
- vi. The DPWH Abra-Engineering District has 6 sections headed by the respective section chiefs who report directly to the Assistant District Engineer and District Engineer.

4. Resources

- i. Primary source of funds is the budget allocation from the coffers of the national government.
- ii. Secondary source of funds is from the allocation of the congressional representative of the province and other political benefactors.
- iii. A large part of the District's work force are temporary/casual employees.

5. Management Processes

- i. The District has an Internal Control Unit which evaluates all claims prior to payment
- ii. The District has an inspectorate team who monitors and evaluates project accomplishments.
- iii. List of proposed projects is prepared by the planning division based on the feasibility studies prepared by the Regional Office. This list, with its corresponding proposed amounts is submitted to the District Engineer for approval and to the Congressman for concurrence. Revised proposals are then forwarded to the Regional Office for further revisions. Upon approval, budget is allotted for said projects.
- iv. For the project identification out of secondary fund sources, the specific projects and the corresponding project costs are already identified in the SAROs received by the District.

6. Programs

Programs of the Agency consist of the Following:

- i. Rehabilitation and maintenance of roads and bridges.
- ii. Construction, improvement, repair of school buildings
- iii. Construction, repair, maintenance of flood controls and drainage systems.
- iv. Spring development and construction of deep wells.
- v. Rehabilitation and repair of government infrastructure projects damaged by natural calamities.

B. EXTERNAL

1. Political Factors

- i. Through the initiative of local politicians such as the Congressman, Governors, Mayors, and Barangay Officials, special and additional funds are released for implementation of projects.

- ii. There is a possibility of interference from the fund initiators in the awarding of contracts and the particular projects which may be implemented.

2. Social Factors

- i. Due to lack of information to the public and some misunderstandings on rights of way, oppositions from the owners of affected properties may arise.
- ii. Through the direct involvement of militant groups in the monitoring of projects, they may influence the work performance of the on-going projects either adversely or favorably.

II. RESOURCES

1. Financial aspect

In 1999, the District in its Agency Budgetary matrix had an approved of P98,380,600.00 received through NCAs. Funds in the amount of P45,794,692.00 were also received from secondary sources through SAROs. The District incurred expenditures of P121,241,237.92 leaving an unexpected balance of P22,934,054.58.

For the year 2000, the District has an approved budget of P118,659,000.00. P92,359,000.00 was received to date the while P28,679,425.00 was received from secondary sources. Total funds received for the year therefore amounted to P121,038,425.00. To date, P133,790,159.00 has been expended.

2. Capital Assets

- i. Equipment of the District consists mainly of service vehicles used by the officials and staff and heavy equipment used for the maintenance of projects.
- ii. Equipment used for projects under straight contracts are either owned or leased by the contractors of the projects.

3. Manpower

The District is headed by Engineer Sandy B. Benedito. He is assisted by the Assistant District Engineer, Francisco B. Astudillo and the six (6) Section Chiefs. The District has a total work force of 168, consisting of 67 permanent personnel and 101 temporary or casual. They are distributed as follows:

<u>Office</u>	<u>Section Chiefs</u>	<u>Staff</u>	
		<u>Permanent</u>	<u>Casual</u>
Office of the District Engineer -	Sandy B. Benedito	3	3
Office of the Asst. District Engr. -	Francisco B. Astudillo	2	1
Maintenance Section -	Pompeyo J. Beroña	19	40
Construction Section -	Carmelo B. Valera	9	21
Planning and Design Section -	Paulino B. Ferraren	9	14
Research and Standard Section-	Benjamin B. Belendrez	3	9
Administrative Section -	Dante B. Bringas	16	7

Finance Section	- Nerio P. Plurad	<u>6</u>	<u>6</u>
TOTAL		67	101

III. INFORMATION

1. In the implementation of projects, supervision rests with the Project Engineers. The projects are monitored, verified and evaluated by the inspectorate team and sometimes representatives from NGO's.
2. Post audit lies with the auditor's office with the assistance of the assigned Technical Audit Specialist, who reviews the project contracts to determine reasonableness of project costs and conducts actual inspection to validate reported project accomplishments.

IV. STAKEHOLDERS

1. Oversight Agencies

- i. Office of the President
- ii. Congress
- iii. Department of Budget and Management
- iv. Commission on Audit

2. Clients/Customers/Beneficiaries

- vi. The direct beneficiaries of the projects
- vii. The Congressmen/Senators
- viii. Indirectly, the Philippine Economy

V. SUPPLIERS/CONTRACTORS

1. Awarding of project is determined through bidding.
2. Supplies are purchased through canvass.
3. The District has a list of pre-qualified contractors for the year 1999-2000.

Prepared by:

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Noted by:

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SABIANO G. CABATUAN
Project Manager

Audit Objectives and Applicable Audit Criteria

Audit Objectives	Audit Criteria
1. To determine if the projects completed are as envisioned/in accordance with plans and specifications.	Plans and specifications Structural designs
2. To determine if the project supervision system is adequate to ensure project completions at the programmed costs and time frames.	Generally accepted engineering Supervision and management Standards of control D.O. No. 73 series of 1998
3. To determine if travel time is reduced	Standard travel time for a number of kilometers
4. To determine if there is an increase in traffic volume	Comparative data on traffic volume
5. To find out if the family structure is altered particularly the role of women	Time spent with the family economic activity of women
6. To determine if the projects altered the way of life of beneficiaries	Change of economic and social activities of beneficiaries
7. To determine if the delivery of basic medical services has improved/been enhanced.	Responsive time

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COA Briefing Materials on Information Lead in Auditing Infrastructure Projects

INFRASTRUCTURE PROJECTS
-Local Government Sector-

- Notes: Look for the LGU resolution adopting the Model Guidelines – Memo Circular No. 94-185
- Look for the resolution adopting the P.D. 1594 or other guidelines

Activities	Responsible	Sent to	Legal Basis
1. PLANNING			
1.1 Project Identification			
1. Conduct Inventory of Infrastructure and related facilities to determine if for repair, improvement, maintenance, reconstruction	Local chief executive	Sanggunian	Art. 470, Rule XXXIX, IRR of RA 7160
2. Propose projects	Local chief executive	Sanggunian	Art. 85-87, Rule XV, IRR of RA 7160
3. Deliberate and decide what projects to implement	Sanggunian	Local chief executive	Art. 85-87 Rule XV, IRR of RA 7160
1.2 Appropriation			
1. Submit Local Development Plan and Annual Investment Program	Local Development Council (LDC)	Local Finance Committee	Art. 410, Rule XXXIV, IRR of RA 7160
2. Use the Plan to ensure that projects proposed for local funding are included in the budget	Local Finance Committee		Art. 85-87 Rule XV, IRR of RA 7160
3. Prepare/Submit Executive Budget	Local Finance Committee	Local Chief Executive	Art. 412 & 414, Rule XXXIV, IRR of RA 7160
4. On or before July 15 Prepare/Submit Statement of Income and Expenditures	Local Treasurer	Local Chief Executive	Art. 412 & 414, Rule XXXIV, IRR of RA 7160
5. Prepare/Submit budget proposals	Heads of Offices	Local Chief Executive	Art. 414, Rule XXXIV, IRR of RA 7160
6. On or before the end of the current fiscal year, Enact/Submit appropriation ordinance	Sanggunian	Local Chief Executive	Art. 414 & 415, Rule XXXIV, IRR of RA 7160

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INFRASTRUCTURE PROJECTS
-Local Government Sector-

Activities	Responsible	Sent to	Legal Basis
7. Approve appropriation ordinance	Provincial Governor	DBM	Art. 415, Rule XXXIV, IRR of RA 7160
7.1 Approve or veto/submit appropriation ordinance	City Mayor, highly urbanized cities/independent component cities	DBM	
	Municipal Mayor, Metro Manila area	DBM	
	City Mayor, component cities	Sanggunian Panlalawigan	
	Municipal Mayor outside Metro Manila	Sanggunian Panlalawigan	
7.2 Approve/Submit appropriation ordinance	Barangay Captain	Sanggunian Panlungsod/Bayan	
8. Within 90 days from receipt of ordinance, Review appropriation ordinance	DBM/Sanggunian Concerned	Local Chief Executive Concerned	Art. 421 and 424, Rule XXXIV, IRR of RA 7160

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INFRASTRUCTURE PROJECTS
-Local Government Sector-

Activities	Responsible	Sent to	Legal Basis
1.3 Feasibility Study			
1. Conduct feasibility study	In-house Staff or Consultant	Agency Head/Local Chief Executive	NEDA Guidelines on the Procurement of Consultancy Services dated Dec. 1992; Sec. 1.2, Model Guidelines, Rules and Regulations Governing LGU-Funded Infrastructure Projects (DILG Memo. Cir. 94-185 dated 20 Oct. 1994)
2. Examine findings in feasibility study report	Authorized Technical Staff	Local Chief Executive	-do-
1.4 Detailed Engineering			
1. Examine the findings contained in the feasibility study and necessary; propose specific recommendations for changes in the design standards or principal features, supported by detailed justifications (if necessary, economic justification), including their effect on the cost	Local Chief Executive	In-house Staff or Consultant	Sec. 1,2 Model Guidelines, Rules and Regulations Governing LGU-Funded Infrastructure Projects (DILG Memo. Cir. 94-185 dated 20 Oct. 1994)
2. Undertake detailed engineering activities, to include the following: a. Survey b. Site investigation	In-house Staff or Consultant	Local Chief Executive	Sec. 1.3., and Sec 1.4, -do-

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<ul style="list-style-type: none"> c. Founded investigation d. Soils and materials investigation e. Preparation of design <ul style="list-style-type: none"> -Site Development Plan -Plans and Profile Sheet -Typical Sections and details 			
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INFRASTRUCTURE PROJECTS
-Local Government Sector-

Activities	Responsible	Sent to	Legal Basis
<ul style="list-style-type: none"> -Drainage details, where applicable -Structural plans at appropriate scales indicating all details necessary in order that the complete structure can be set out and constructed -Other details which may be required by the Head of the local government unit f. Preparation of specifications g. Preparation of quantity and cost estimates -Local Government Unit Estimate (LGUE) h. Preparation of Program of Works Include, among others: <ul style="list-style-type: none"> -Estimate of work items (quantities and costs) -PERT/CPM Network of project activities i. Preparation of Proposed Construction Schedule (and estimated Cash Flow for Projects with Schedule Over Six (6) Months) 			

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<ul style="list-style-type: none"> j. Preparation of Site or Right-of-Way Plans including Schedule of Acquisition k. Preparation of Utility Relocation Plan l. Preparation and Submission of Design Report m. Environmental Impact Statement for Major Projects 			
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INFRASTRUCTURE PROJECTS
-Local Government Sector-

Activities	Responsible	Sent to	Legal Basis
n. Preparation of Bid/Tender Documents Include: -Instructions to Bidders -General Conditions -Addenda -Itemized Bill of Quantities -Day Work Schedule -Form of Bid Security -Performance Security -Contract Plans and Specification -Draft contract -Estimate of the rainy/unworkable days considered unfavorable for the prosecution of the works at the site			
3. Approve plans and specifications and Local Government Unit Estimate (LGUE)	Local Chief Executive		Sec 1,4.g –do-
Activities	Responsible	Sent to	Legal Basis
2. PRECONSTRUCTION ACTIVITIES: ADVERTISEMENT TO CONTRACT AWARD			
1. Constitute the Prequalification, Bids and Awards	Local Chief Executive		Sec. 37, RA 7160

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<p>Committee (PBAC) Composition: a. Chairman – Local Chief Executive (governor, city or municipal mayor) b. Members b.1 Chairman of the Appropriations Committee of the Sanggunian b.2 Representative of the minority party in the Sanggunian concerned, if any, or if there be none, one chosen by the said sanggunian from among</p>			
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INFRASTRUCTURE PROJECTS
-Local Government Sector-

Activities	Responsible	Sent to	Legal Basis
<p>Its members b.3 the Local Treasurer b.4 Two (2) representatives of non-governmental organizations that are represented in the local development council concerned, to be chosen by the organizations themselves b.5 Any practicing certified public accountant from the private sector, to be designated by the local chapter of the Philippine Institute of Certified Public Accountants (PICPA)</p> <p>Observer: Representative of the Commission on Audit</p> <ul style="list-style-type: none"> - In case a head of office/department would sit in a dual capacity, a member of the Sanggunian elected from among its members shall sit as member - The Committee on Awards at the barangay level shall be the sangguniang baarangay - No national official shall sit as a member of the Committee 			

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<p>2. Create the Local Technical Committee Composition: a. Chairman-Local PBAC b. Members: b.1. Provincial/City/Municipal Engineer b.2. Local Planning and Development Coordinator b.3. Such other officials designated by the local PBAC</p>	<p>Local PBAC</p>		<p>Sec. 38, RA 7160</p>
<p>3. Classify and register contractors and issue certificate of registration and classification of contractors</p>	<p>Body and Committee under the supervision of DILG and Provincial Engineers' Association of the Philippines (PEAP)</p>	<p>Contractors who have submitted contractor's confidential Application for Registration and Classification (ARC-C)</p>	<p>IB 5, Model Guidelines...</p>
<p>4. Issue invitation to bid a. For locally funded projects costing more than PhP 1,000,000 -Advertisement for at least two times, within a reasonable period depending upon the size and complexity but in no case less than two weeks in at least two newspapers of local circulation which have been regularly published for at least two years before the date of issuance of notices or announcements -AND, posting copies thereof at any conspicuous place in the local government unit concerned b. For locally funded projects costing PhP1,000,000 and below -Advertisement at least once, within a week in newspaper of local circulation which has been regularly published for at last six months before the date of issuance of the notice or announcements within the province where the project is situated, -OR, posting copy thereof at any conspicuous place in the local government unit concerned</p>	<p>Local PBAC</p>	<p>Publishing House</p>	<p>IB3, Model Guidelines...</p>

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<p>-OR, through other forms of media such as radio and television</p> <p>c. For projects requiring special technology</p> <p>-Direct invitation of contractors known for their capacity to undertake such type of projects</p> <p>d. For foreign-Financed/assisted projects</p> <p>- The same procedure above and/or in accordance with procedure established by, and agreed upon with the lending financing institution</p>			
<p>5. Issue of notice to Prequalification and other relevant information regarding the proposed work, including the brief technical description of the work as to size, type, major items and other important features of the work</p>	<p>Local PBAC</p>	<p>Prospective Bidders</p>	<p>IB 4, Model Guidelines...</p>
<p>6. Not later than the deadline set, submit qualification statements, to include:</p> <p>a. Certificate of Registration and Classification</p> <p>b. Pre-C: Contractors Confidential Prequalification Statement for the project, composed of any of the following, at the discretion of the LGU concerned, under oath and accompanied by a letter authorizing by the head of the LGU or his duly authorized representative to verify any or all of the documents submitted:</p> <p>b.1 Statement of completed construction project in the last three years, government and private. The statement shall include the nature and value of the project, the name and address of the owner, the financial institution from whom guarantees, credit lines, loans and other financial accommodations were secured for such projects, and the aggregate outstanding form each institution in each year</p> <p>b.2 Detailed statement showing</p>	<p>Prospective Bidders</p>	<p>Local PBAC</p>	<p>IB 4, Model Guidelines</p>

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<p>the list of all ongoing construction projects, government and private, as well as awarded and/or approved contracts not yet started. This statement shall include the value of the project, percentage of time elapsed, percentage of physical accomplishment and scheduled date of completion. b.3. Actual employment or contract to employ duly qualified project manager and project engineer who have managed or supervised at least a project of similar nature as to type and cost (escalated). b.4. An organization chart and a complete qualification and experience data sheet of key personnel. b.5. List of owned equipment and those pledged exclusively for the project.</p>			
<p>7. Prequalify contractors 7.1 Review the technical capability to carry out the subject contract as gauged by extent and quality of his relevant experienced, performance and track record, the suitability of his available construction equipment, and the adequacy of his proposed project organization and personnel. 7.2 Determine the financial capacity requiring submission of statement from a bank or financial institution authorized/licensed by the Central Bank of the Philippines that the bank/financing institution commits to provide the contractor, if awarded the contract, a credit line in an amount specified by the agency which is equal to the average operating expenses of the project for two months or 10% of the approximate total project cost,</p>	<p>Local PBAC</p>	<p>Local Chief Executive</p>	<p>IB 6, Model Guidelines...</p>

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<p>whichever is less, or a cash deposit certificate in the amount specified in the foregoing, in the case of cash deposit certificate submitted by the winning bidder, withdrawal of said cash deposit shall be subject to approval by the concerned contracting local government unit.</p> <p>7.3 Check the performance in his ongoing government and private projects. If there is a reported negative slippage of more than 15%, unsatisfactory quality of work and/or performance of his</p>			
8. Review and approve results of Prequalification evaluation	Local chief executive or his duly authorized representative	Local PBAC	IB 6.6, Model Guidelines...
9. Issue Notice of Prequalification/Predisqualification, stating grounds for disqualification	Local PBAC	Bidders that submitted Qualification Statements	IB 6.6, Model Guidelines...
10. Within 7 calendar days from receipt of Notice of Predisqualification, may submit an appeal	Predisqualified bidder	Local chief executive then Local PBAC	IB 6.6, Model Guidelines...
11. Act on the appeal	Local PBAC, then Local chief executive	Predisqualified Bidder that submitted appeal	
12. Upon payment of the corresponding price thereof to the collecting/disbursing officer of the LGU, issue plans, specifications, proposal book forms , and draft contract	Local PBAC	Prequalified bidders	IB 7, Model Guidelines...
13. If in doubt as to the meaning of any part of the bid documents, submit a written request for interpretation	Any prospective bidder	Local chief executive, through the Local PBAC	IB 8, Model Guidelines...
14. At least 7 calendar days prior to the date of opening of bids, for purposes of clarification or modification of the bid documents, issue Supplemental Notices	Local PBAC	All prospective bidder	IB 8, Model Guidelines...
15. For projects with an approximate cost	Local PBAC		IB 8.3, Model

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<p>of P20 million or more, not later than 14 calendar days, prior to the opening of the bids, conduct at least 1 pre-bid conference</p>			<p>Guidelines...</p>
<p>16. Prepare and submit bids in two sealed envelopes with</p> <ul style="list-style-type: none"> -name of project to be bid -name of bidder in capital letters -addressed to PBAC -marked: "Do not open before (date and time of opening of bid" <p>Envelope 1 contains:</p> <ul style="list-style-type: none"> a. Authority of signing official b. Constructive Schedule and S-curve c. Construction Method d. Project Organizational Chart e. Manpower Schedule f. Equipment Utilization Schedule and duly executed Contract of Lease of all equipment and machineries which shall be intended for use exclusively for the project, if any g. Affidavit of Site Inspection h. Bid Security (amount not less than 2-1/2% of total bid price in the form of cash, certified check, manager's check or bank draft/guarantee confirmed by a local bank (in case of foreign contractor bonded by a foreign bank) against any reputable bank or letter of credit issued by a commercial bank or surety bond, callable on demand, issued by a surety or insurance company duly accredited by the Office of Insurance Commission, or any combination thereof, valid for the period indicated in the Instructions to bidders) i. Certification that the detailed estimates, Cash flow by quarter, and Payment Schedule are in the second envelope <p>Envelope 2 contains:</p> <ul style="list-style-type: none"> a. Bid prices in the bill of quantities b. Detailed estimates 	<p>Bidders</p>	<p>Local PBAC</p>	<p>IB 10, Model Guidelines...</p>

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c. Cash flow by quarter and payment schedule			
17. Open and Abstract Bids/Tenders	Local PBAC		IB10.2, Model Guidelines...
18. Evaluate bids	Local PBAC		IB 10.3, Model Guidelines...
19. Recommend award of contract	Local PBAC	Local chief executive	IB 10.4, Model Guidelines...
20. Recommend award contract	Local PBAC	Local chief executive	IB 10.6. Model Guidelines...
21. Within the validity period of the bid security, approve award of contract and issue Notice of Award	Local chief executive	Unit in charge with the preparation of contract agreement AND Awardee bidder	
22. Accept award	Awardee bidder	Local chief executive	
23. Post performance security and executive contract	Awardee bidder	Local chief executive	
24. Within 15 calendar days from date successful bidder executed contract and submitted all documents required for contract perfection, including performance security, approve contract	Local chief executive	Department of LGU tasked with contract implementation AND contractor	IB 10.9, Model Guidelines...

IMPLEMENTATION

1. Notice of Proceed and Mobilization (NTP) 1.1 Issue NTP	Head of Engineering Office of LGU	Contractor	Sec. IB 10-10 Model Guidelines, Rules and Regulations Governing LGU-Funded Infrastructure Projects (DILG Memo. Cir. 94-185 dated 20 Oct. 1994)
2. Mobilization 2.1 Physically mobilize	Contractor		
3. Progress Payments/Price Escalation 3.1 Submit request for payment	Contractor	Local Government Unit Project	Sec. CI5, CI 6, and CI 11, Model Guidelines...

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3.2 Verify/certify reported accomplishment, review computations for price escalations	Local Government Unit Project Local Chief Executive	Engineer	
3.3 Approve Accomplishment Report/price escalation claim		Local Chief Executive	
3.4 Process progress payment/payment for the price escalation			
4. Variation Orders (Change Oder/Extra Work Order/Supplemental Agreements)			Sec. CI 1 to CI 3, Model Guidelines...
4.1 Submit a written notice of conditions leading to extra work	Contractor	Local Government Unit Project Engineer	
4.2 Deliver a written communication giving a full and detailed particulars of any extra cost	Contractor	Local Government Unit Project Engineer	
4.3 Prepare the proposed Order or Supplemental Agreement, plans and computations	Local Government Unit Project Engineer	Head of Engineering Office concerned	
4.4 Conduct an on-the-spot investigation to verify the need for the work to be prosecuted and submit a report thereon	Local Technical Staff of Head of Engineering Office		
4.5 Review the Report submitted by his Technical Staff including the proposed variation order	Head of Engineering Office	Local Chief Executive thru the Local Government Unit Committee concerned	
4.6 Review and evaluate variation and recommend approval/disapproval thereof	Local	Local Chief Executive	
4.7 Approve/disapprove variation order	Local Chief Executive	Contractor	
4.8 Implement variation order	Contractor		
5. Suspension			Sec. CI 9, Model Guidelines

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5.1 If initiated by contractor	Contractor	Provincial Engineer	
5.1.1 As situation necessitating suspension occurs, submit notice	Provincial Engineer	Contractor	
5.1.2 Verify existence of situation given to justify suspension and prepare authority	Contractor		Upon receipt of suspension order or after 15 calendar days from date of receipt of written notice from contractor
5.1.3 Implement suspension			
5.2 If initiated by Government			
5.2.1 Prepare/approve notice of suspension		Contractor	
5.2.2 Implement suspension	Local Chief Executive/Authorized Representative		
5.3 COA Validation	Contractor		COA Cir. No. 80-101-C dated 28 July 1980
5.3.1 Immediately upon issuance of the suspension order, submit certified true copy of suspension order		COA Auditor	
5.3.2 Validate/inspect existence of justifications given and send written results	Local Chief Executive	Local Chief Executive	
	COA Auditor		
6. Time Extensions			
6.1 Prior to expiration of contract time and within 30 calendar days after such work has been commenced or after circumstances leading to claim have arisen, submit request for time extension	Contractor	Local Government Unit Project Engineer	Sec. CI 10, Model Guidelines...
6.2 Validate reasons and prepare time extensions	Local Government Unit Project Engineer	Local Chief Executive	
6.3 Approve and issue time extension		Contractor	
6.4 Submit to COA for review	Local Chief Executive	COA Auditor	COA Cir. 95-006

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	Local Chief Executive		dtd. May 18, 1995
<p>7. Contract Completion</p> <p>7.1 Submit request for preliminary inspection</p> <p>7.2 Create inspectorate team</p> <p>7.3 Inspect and prepare punch list</p> <p>7.4 Implement punch list</p> <p>7.5 Submit final accomplishment report</p> <p>7.6 Verify and certify accomplishment and prepare Certificate of Completion and Acceptance</p> <p>7.7 Approve accomplishment report and Certificate of Completion and Acceptance</p> <p>7.8 Process final payment</p>	<p>Contractor</p> <p>Local Chief Executive</p> <p>Inspectorate Team</p> <p>Contractor</p> <p>Contractor</p> <p>Local Government Unit Project Engineer</p> <p>Local Chief Executive</p>	<p>Inspectorate Team</p> <p>Local Government Unit Project Engineer</p> <p>Local Chief Executive</p>	<p>Sec. CI 5 and CI 6.1, Model Guidelines...</p>
<p>8. Incentive Bonus</p> <p>8.1 File claim</p> <p>8.2 Verify and submit for approval</p> <p>8.3 Process Payment</p>	<p>Contractor</p> <p>Local Government Unit Project Engineer</p>	<p>Local Chief Executive thru the Local Government Unit Project Engineer</p> <p>Local Chief Executive</p> <p>Local Chief Executive</p>	<p>Sec. CI 8, Model Guidelines..</p>

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