

August 11, 2006

A project of the Office of the Ombudsman in collaboration with the Presidential Anti-Graft Commission, Department of Budget and Management, Commission on Audit, Civil Service Commission, Department of Education and the Development Academy of the Philippines

## **TEAM Composition**

## Ms. Magdalena L. Mendoza (DAP) Team Leader

Rey V. Galope, Assistant Team Leader (DAP)					
Ione S. Alejo (BIR)	Gilbert E. Lumantao (PAGC)				
Blessiline A. Alvero (DepEd)	Narcisa Z. Nubla (BIR)				
Jonathan B. Beltran (COA)	Atty. Maria Teresa A. Ruiz (OMB)				
Atty. V C. Cadangen (BIR)	Blesilda Pilar Z. Servando (OMB)				
Barbara F. dela Cruz (DAP)	Christie L. Villanueva (BIR)				

### **Outline of Presentation**

- Project Activity Highlights
- **IDR Project Background**
- **In Items** IDR Results
  - Stage 1 Corruption Resistance
     Review
  - Stage 2 Corruption Vulnerability
     Assessment
- Recommendations

## **Project Activity Highlights**

Step 1. Assessor Preparation

Step 2. Guided Self-Assessment

Step 3. Survey of Employees

Team of Assessors: DAP, BIR, COA, DepED, OMB & PAGC

Step 4. Indicators Research

Project Duration:

October 2005 to July 2006

Step 5. Corruption Vulnerability Assessment

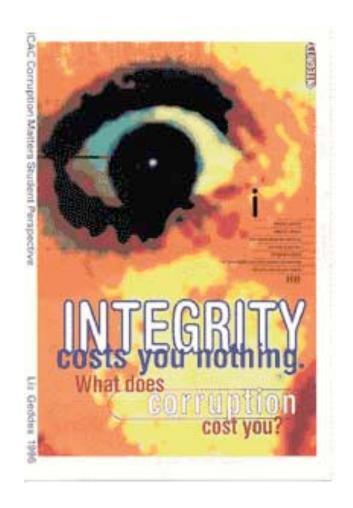
Step 6. Analysis and Validation

Step 7. Management Presentation

# IDR Project Background

### What is IDR?

Integrity Development Review (IDR) is a preventive measure against corruption. It entails a systematic assessment of the agency's corruption resistance mechanisms and its vulnerabilities to corruption.



## **Objectives of IDR**

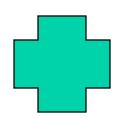
- > Assess the level of integrity development within the agency
- > Identify the agency's vulnerability to corruption
- > Assess the adequacy of agency's controls to detect and prevent corruption
- > Prepare a more focused Corruption Prevention and Integrity Development Plan
- > Establish benchmarks by which performance and results of anti-corruption programs can be monitored

## Concept of Integrity Review

CRR of ICAC NSW/HK

CVA of US-OMB/DAP

Corruption Resistance Review



Corruption Vulnerability Assessment



Integrity
Development
Review



## IDR Tools and Methodology

**STAGE 1: Corruption Resistance Review** 

INTEGRITY
DEVELOPMENT
ASSESSMENT

INDICATORS RESEARCH SURVEY OF EMPLOYEES

STAGE 2: Corruption Vulnerability Assessment

Examines the agency's general control environment, risk of corruption in operations, and adequacy of existing safeguards

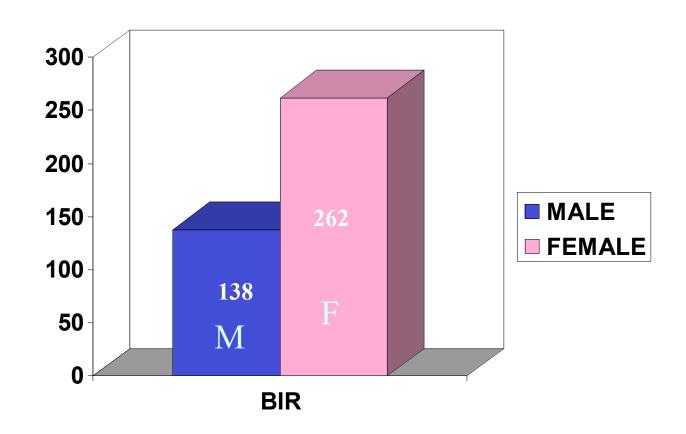
## Corruption Resistance Review

#### Integrity Development Assessment

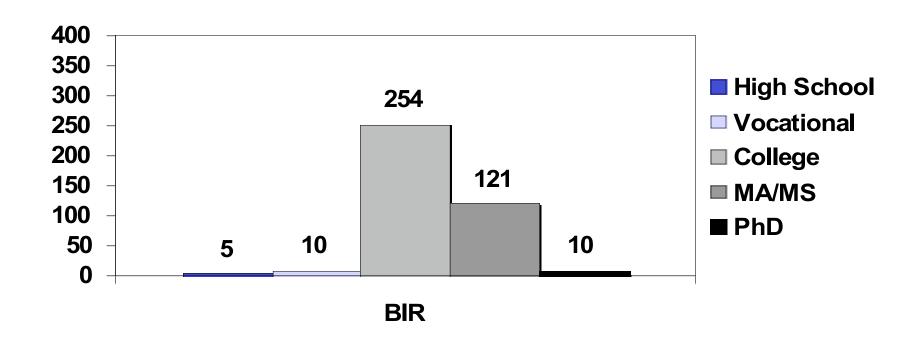
- -National Office
- -Revenue Region 9 (San Pablo City)
- -Revenue Region 13 (Cebu City)
- Revenue Region 19 (Davao City)

#### Survey of Employees

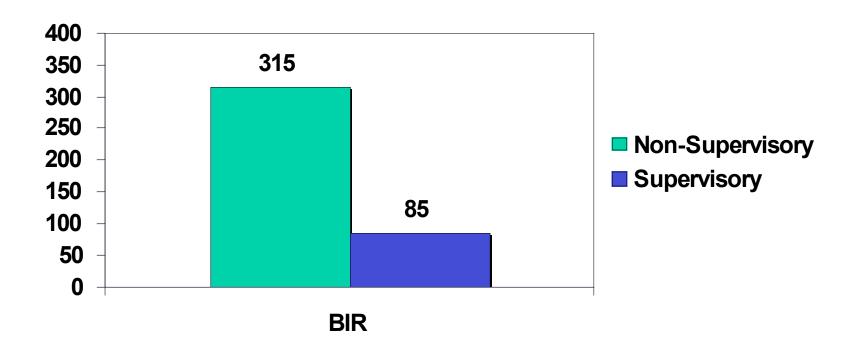
- 400 respondents, randomly selected
- Demographic Profile



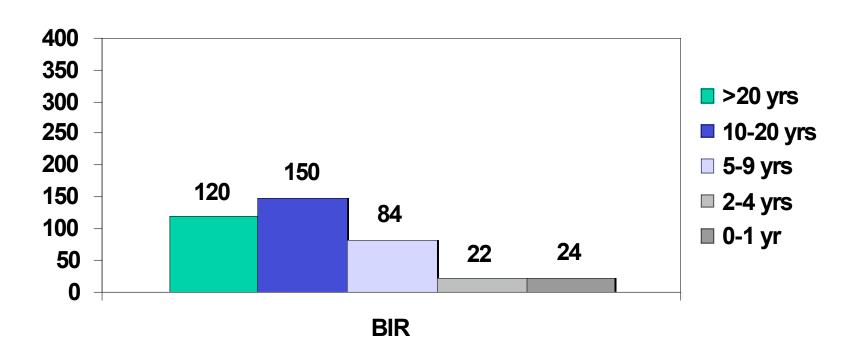
#### **Education Profile**



#### **POSITION**



#### YEARS OF SERVICE



### **IDA Levels of Achievement**

The higher the score, the better



## Survey of Employees

The closer the net rating to 1.00, the higher the net agreement

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1.00 - 1.79 = Highly positive net agreement
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**1.80 - 2.19** = Moderately positive net agreement

2.20 - 2.49 = Slightly positive net agreement

2.50 = Split opinion

2.51 – 2.80 = Slightly negative net agreement

**2.81 – 3.20** = Moderately negative net agreement

3.21 - 4.00 = Highly negative net agreement

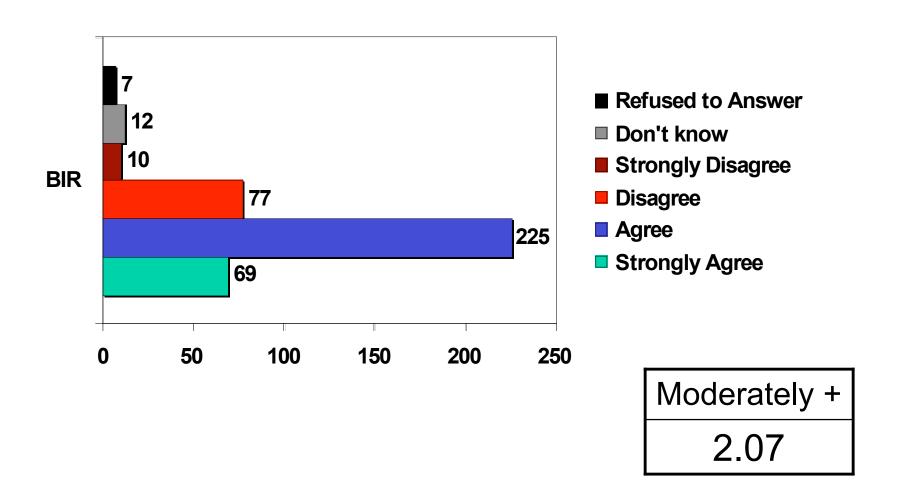
### 1. Leadership

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	2	2	2	2	2
Deployment	70-80%	80%	100%	50-60%	

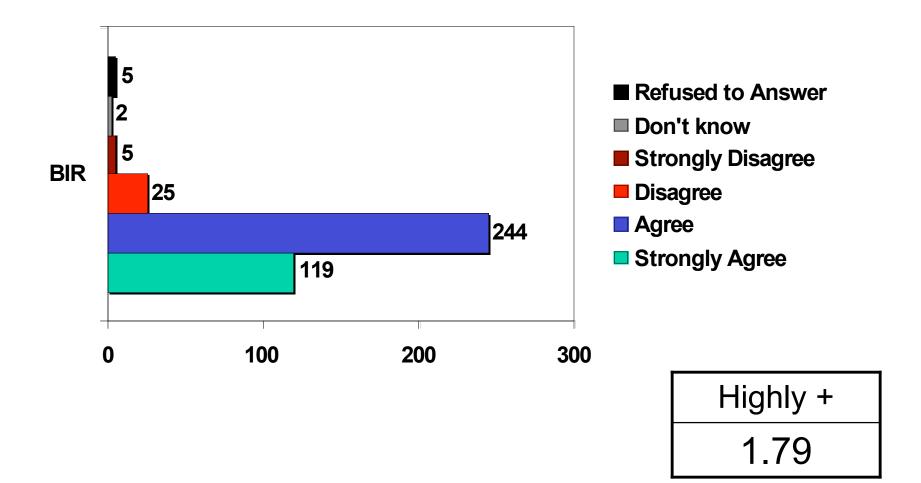
#### <u>Strengths</u>

- Authorities and accountabilities of senior leaders are clearly defined in the National Internal Revenue Code.
- Organizations and functions are defined through Revenue Administrative Orders (RAOs).
- Management responsibilities to prevent and detect corruption are specified in Sections 269 and 11 of NIRC and Chapter 11 of the Code of Conduct.
- Short- and long-term directions and performance expectations of senior leaders are set and deployed through Revenue Memorandum Orders.

## 1. Managers in our agency do not abuse their authority.



# 2. Managers in our agency inspire other employees to be professional.



# 3. What can you suggest to improve the leadership's contribution in preventing corruption in your agency?

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Increase in salary, benefits, promotion	97	24.25%
Leadership by example & honesty	68	17.00%
Professionalism, fairness and transparency	51	12.75%
Enforcement of policies, performance evaluation, discipline	41	10.25%
More training & values formation seminars	33	8.25%
Computerization, improvement of system to avoid opportunities	24	6.00%
Continuous dialogue between employee and mgt; employee participation in decision making	22	5.50%

### 1. Leadership

#### **Areas for Improvement**

- Senior leaders need formal training on corruption prevention and detection to be able to discharge their responsibilities more effectively.
- Agency needs more internal champions/advocates of anti-corruption efforts.
- Management performance/effectiveness in preventing and detecting corruption could be reviewed to identify further areas for improvement.

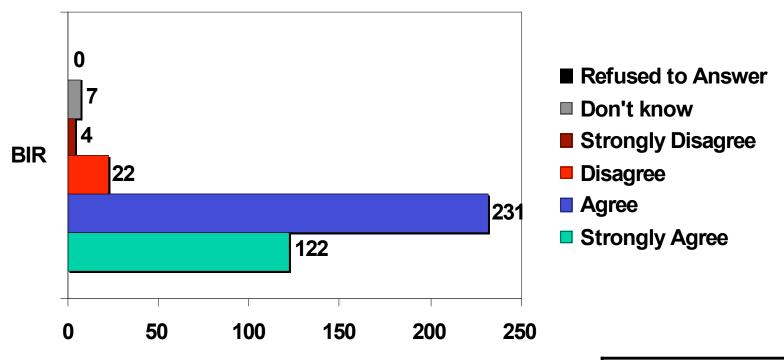
### 2. Code of Conduct

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	3	3	2	3	3
Deployment	50-60%	80%	100%	50-60%	

#### **Strengths**

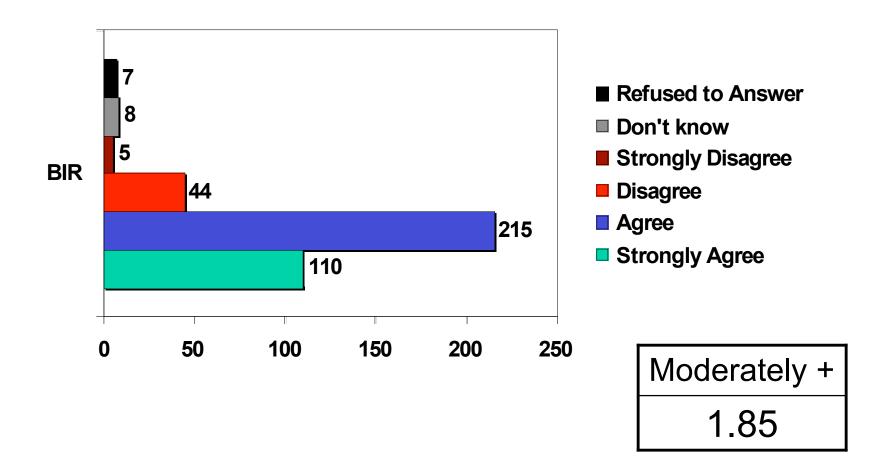
- ➢ Bureau has a customized code of Conduct (RMO 50-98).
- ➤ 98% of the BIR employees have attended seminars on the Code of conduct.
- ➤ The agency has an awards and incentive program (RMO 28-2004).
- ➤ The Code of Conduct has been integrated in key systems (e.g. recruitment and promotion) and mission critical functions (e.g. assessment and collection).

# 5. A written code of ethical conduct is being followed in our agency.

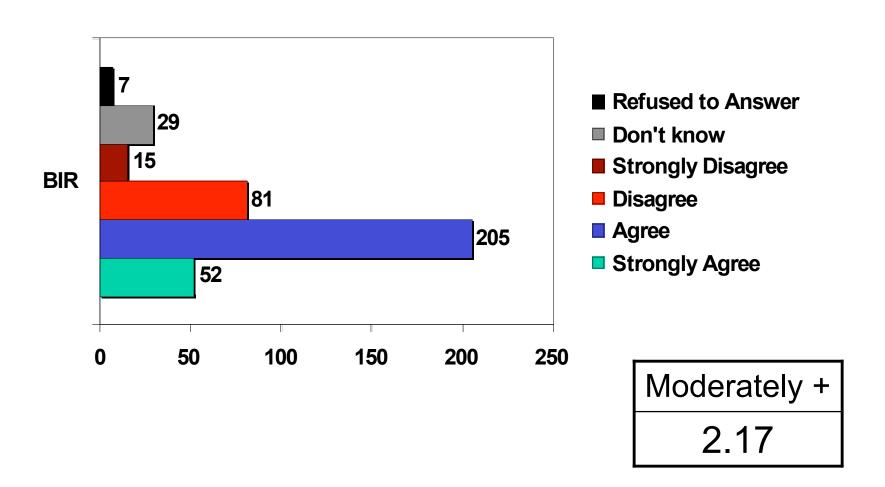


Highly + 1.76

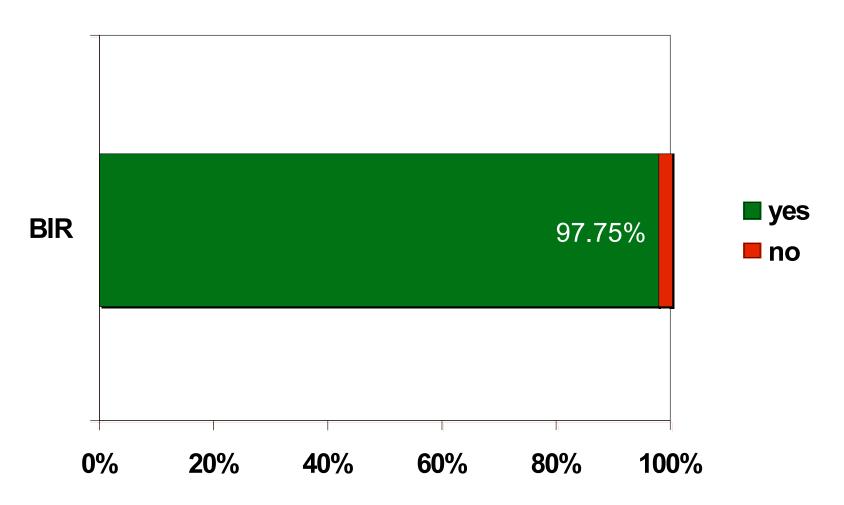
6. Adequate orientation on the code of conduct and other corruption prevention measures are provided in our agency.



#### 7. Those who violate the code are punished.



# 8. Did your HRD collect your Statement of Assets and Liabilities and Net Worth (SALN) for 2004?



### 2. Code of Conduct

#### Areas for Improvement

- Agency can proactively analyze disclosures of employees in their SALN and link these with lifestyle checks.
- Appropriate actions/sanctions should be taken for any violation of the Code of Conduct.
- Institutionalize the system of rewarding those who consistently follow the Code of Conduct.
- Applicable provisions of the Code of Conduct can be included in contracts with external parties (e.g. suppliers) and disseminated to clients (taxpayers).

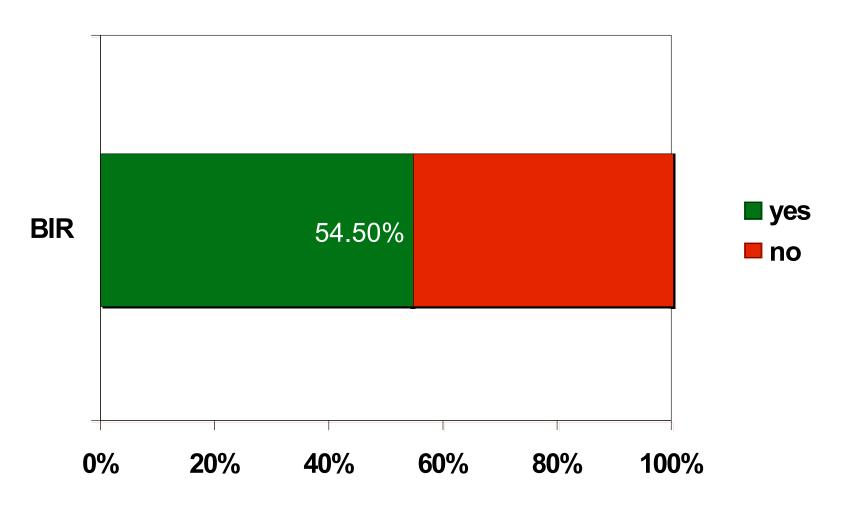
### 3. Gifts and Benefits

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	1	1	1	1	1
Deployment	70-80%	60%	50-60%	10-20%	

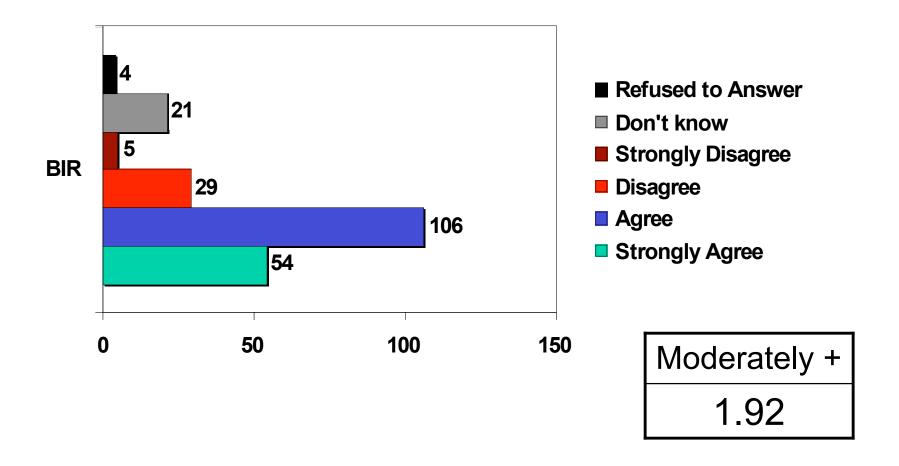
#### **Strengths**

- ➤ The agency's Gifts and Benefits Policy is provided in Section 32 of the Code of Conduct.
- ➤ Officers and employees are prohibited from receiving any gifts, fees or any valuable item in the course of their official duties (RMC NO. 4-2001).

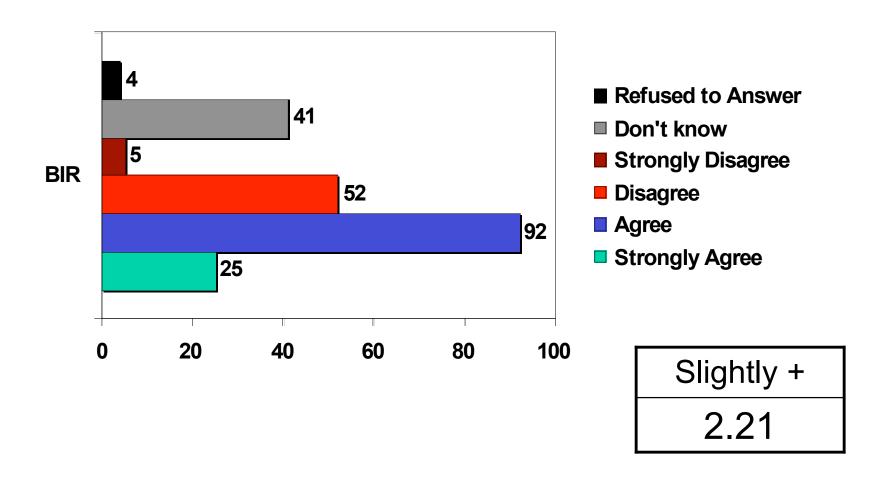
# 9. Does your agency have a written gifts and benefits policy?



# 10. The employees in our agency are made aware of the policy on solicitation and receiving of gifts.



# 11. The transacting public and suppliers know the policy of our agency on gifts and benefits.



# 12. How much do you think is an acceptable personal gift to you?

	BIR
None or Zero	186
	46.50%
<= P20	7
<= P50	10
<= P100	37
<= P200	11
P300	6
P500	38
P1,000	28
P2,000	9
P3,000	12
P5,000	7
<=P10,000	8
<=P15,000	1
P20,000	2
P25,000	0
P30,000	2
P50,000	1

### 3. Gifts and Benefits

#### Areas for Improvement

- ➤ A clearer policy on gifts and "benefits" (including donations), which specifies what is acceptable and what is not acceptable, must be articulated. Review what is a gift of nominal value.
- ➤ The policy should be proactively disseminated to everyone including clients (taxpayers) and suppliers.
- ➤ A registry for gifts, donations and institutional tokens can be maintained in order to record and monitor acceptance.
- ➤ The agency can consider giving rewards to those who report offers of bribes.

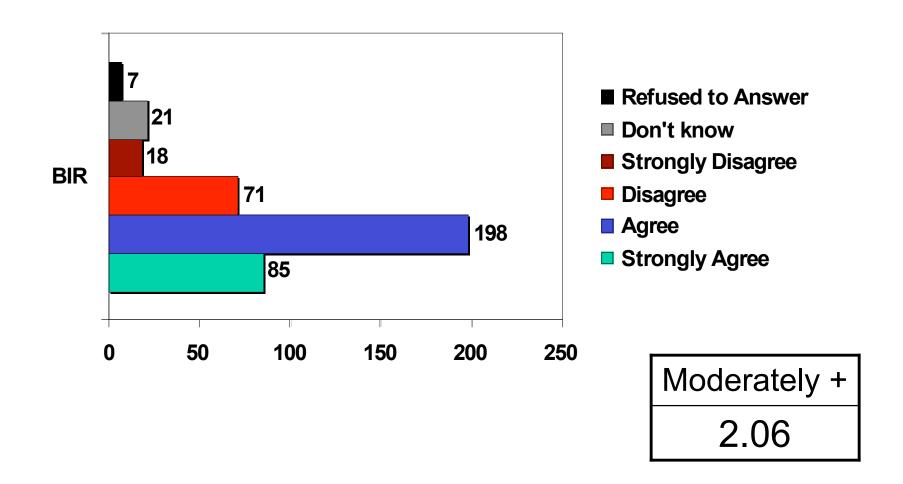
### 4. Human Resource Management

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	3	3	3	3	3
Deployment	70-80%	80%	50-60%	70-80%	

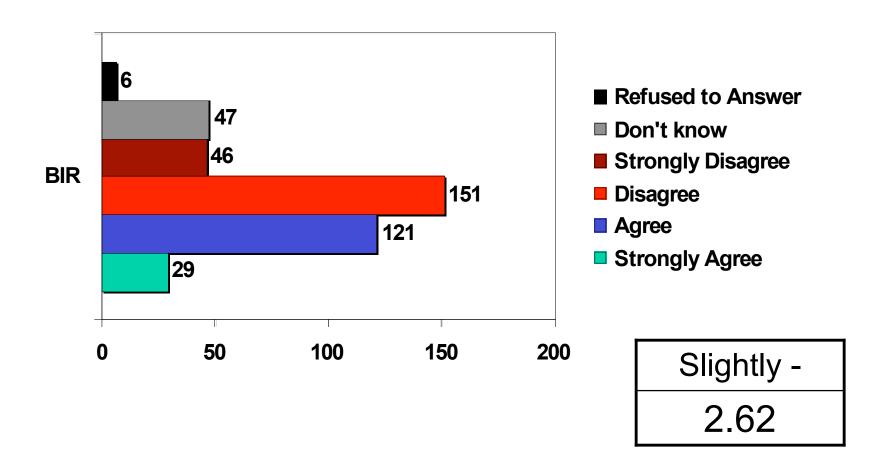
#### **Strengths**

- ➤ The Bureau has written guidelines (from DOF, CSC, DBM, BIR management) on recruitment and promotion. These guidelines are disseminated through RMOs.
- ➤ The Personnel Selection Board (PSB) is in place (RMO Nos. 3-93 and 16-94). PSB members undergo orientations or workshops.
- The Bureau has complete set of job descriptions and qualification standards for all positions.
- ➤ The Bureau requires clearances from NBI, PNP, NICA and conducts verifications from CSC, PRC and previous employers before employees are hired.

# 13. The process for recruitment and promotions in our agency follows a set of criteria.



# 14. The process of recruitment and promotions in our agency is free from external influences.



# 15. What can you suggest to improve the process of recruitment and promotion in your agency?

Based on educational qualification or work experience (merit)	149	37.25%
Strict implementation of selection criteria	73	18.25%
No political accommodation, influence peddling, and nepotism	61	15.25%
Broader publication of vacancies	32	8.00%
Based on length of service & seniority	24	6.00%
Based on credibility, integrity & diligence	21	5.25%
Credible promotions board ,more staff representation in recruitment and promotion, transparency.	15	3.75%

### 4. Human Resource Management

#### Areas for Improvement

- ➤ A more thorough background investigation of applicants (to cover business and financial interests, personal history, etc.) may be needed. (This may be done by Personnel Inquiry Division.)
- Recommendation letters of politicians should not be included in the documents for evaluation of PSB to preserve objectivity of the process.
- ➤ The agency can consider decentralizing the hiring/promotion of other personnel positions (up to SG 19).
- The agency should have a post-employment policy for resigning/retiring personnel.
- ➤ The agency can set a clear cut policy and synchronize rotation of Revenue Officers.

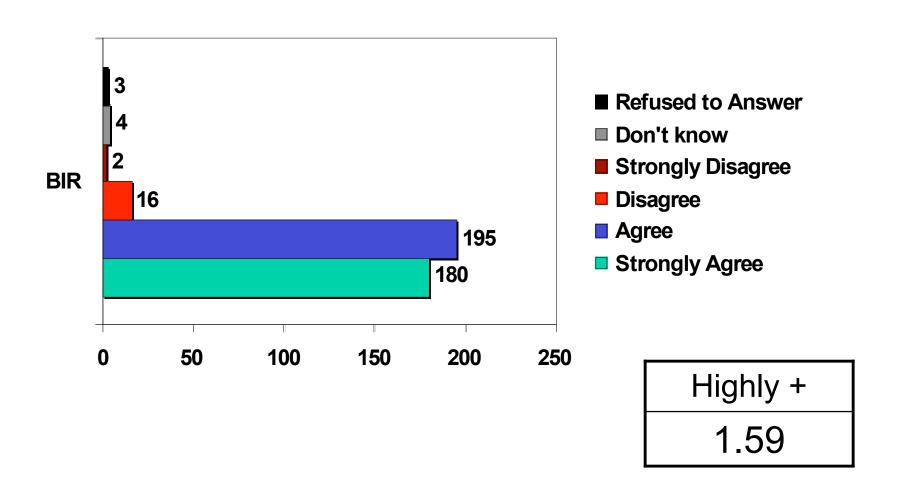
### 5. Performance Management

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	3	3	3	3	3
Deployment	70-80%	60%	70-80%	70-80%	

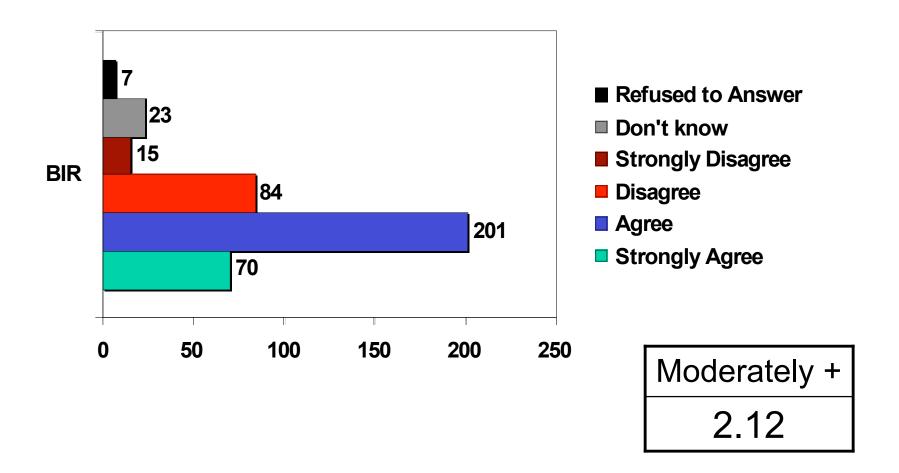
#### **Strengths**

- ➤ The Bureau sets organizational, unit, and individual performance targets (RMO Nos. 6-2006 and 2-2005).
- ➤ The Performance Management System (PMS) which consists of two parts (performance and behavioral dimensions) is in place (RMO No. 29-2004) and is being enforced. The system has been communicated to employees.
- ➤ The result of performance assessment is used in granting incentives and awards.

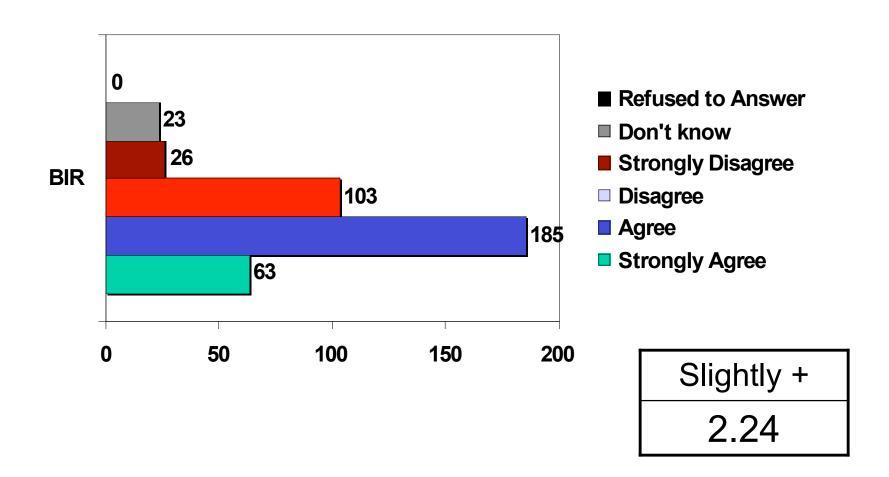
#### 16. My performance targets are clear to me.



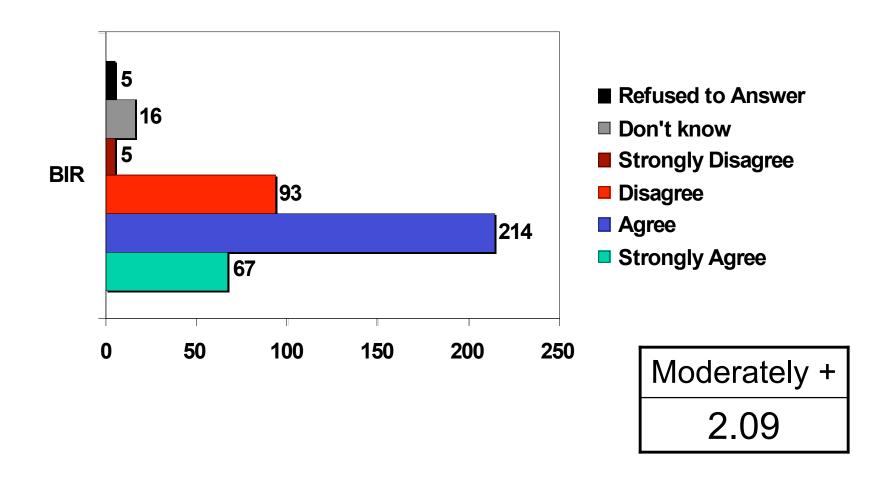
# 17. Outstanding performance is rewarded in our agency.



# 19. The employees of our agency are given the yearly performance bonus regardless of how they performed.



# 18. The employees in our agency are regularly provided feedback regarding their performance.



### 5. Performance Management

#### **Areas for Improvement**

- The agency may need to further clarify individual targets.
- There is a need to tighten linkage between rewards and performance.
- Regular feedback on individual performance must be given.
- The agency may consider analyzing agency/individual performance vis-à-vis corruption incidence.
- Immediate implementation of the Attrition Law will strengthen the agency's Performance Management System.

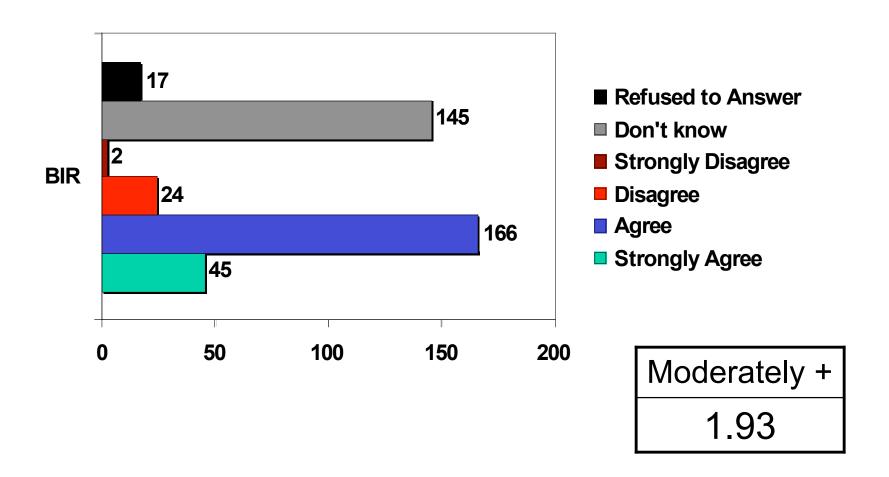
### 6. Procurement Management

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	4	1	4	0	3
Deployment	70-80%	50-60%	70-80%	10-20%	

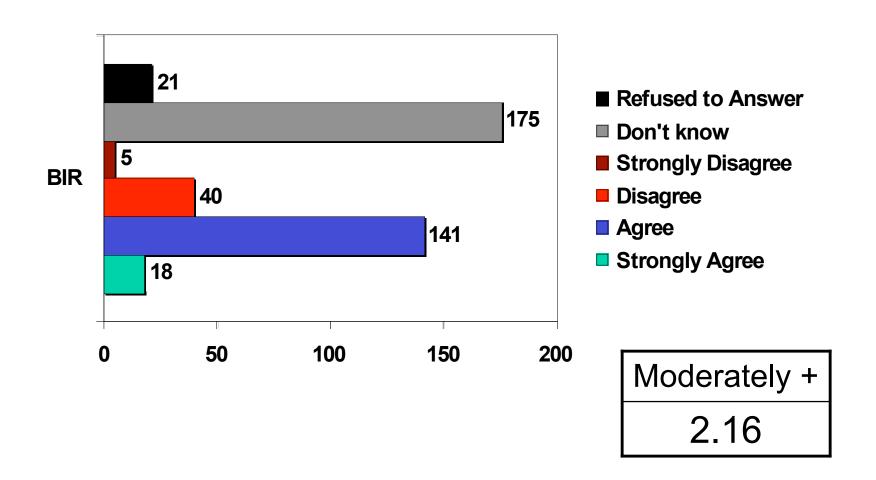
#### **Strengths**

- ➤ The Bureau has adopted R.A. No. 9184 and translated it to written procedures/flowchart; there is an annual procurement plan.
- The DBM-Procurement Service is used as benchmark in pricing and as database in addition to its list of suppliers/contractors.
- ➤ The agency monitors performance of its suppliers; blacklists and applies sanctions to non-performing suppliers.
- The Bureau conducts compliance and systems audit of materials, forms, supplies, equipment and contracts (IT and regular).

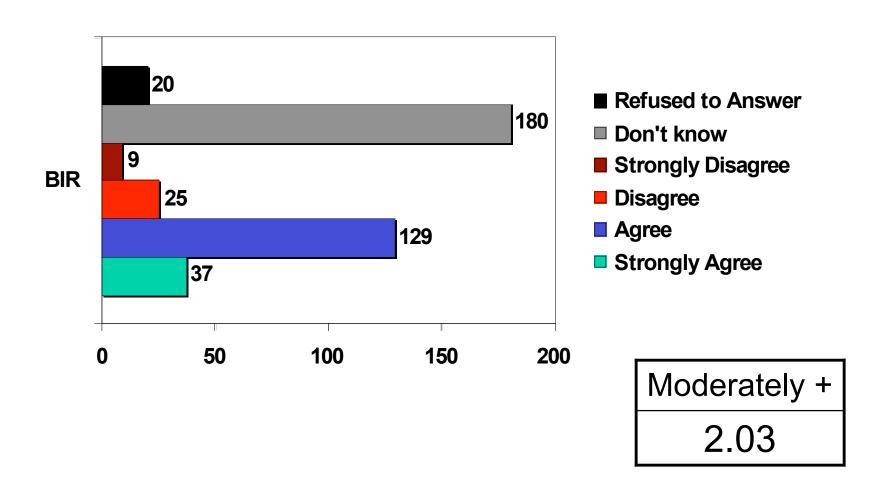
# 22. Procurement in our agency follows the procedures as stipulated under the Procurement Law



#### 23. BAC decisions are impartial.



#### 24. Non-performing suppliers are blacklisted.



# 26. What can you suggest to improve the procurement process?

Transparency in bidding process/open bidding	88	22.00%
Survey of needs, be specific in the technical descriptions of supplies or equipment being canvassed/quality before cost	53	13.25%
Strict compliance to guidelines, rules and regulations.	47	11.75%
Information dissemination & training	38	9.50%
Streamlining/Computerization of operations	25	6.25%
Carefully select personnel	21	5.25%
Sustainable budget	11	2.75%

### 6. Procurement Management

#### **Areas for Improvement**

- ➤ BAC members and other relevant personnel in all regions should be trained on RA 9184.
- Agency must disseminate written procedures in all regions for consistency. Regional offices should invite "third party" observers.
- Code of Conduct should be integrated in bidding documents.
- Conduct of systems, compliance and operations audit (by IAD) to review outcomes of procurement decisions.
- Blacklisted suppliers should be shared with other government agencies.

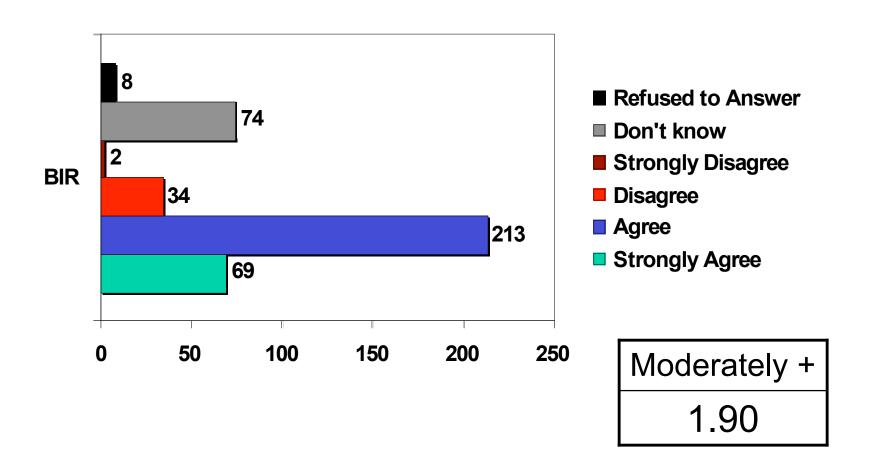
### 7. Financial Management

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	3	3	3	5	3
Deployment	70-80%	50%	70-80%	70-80%	

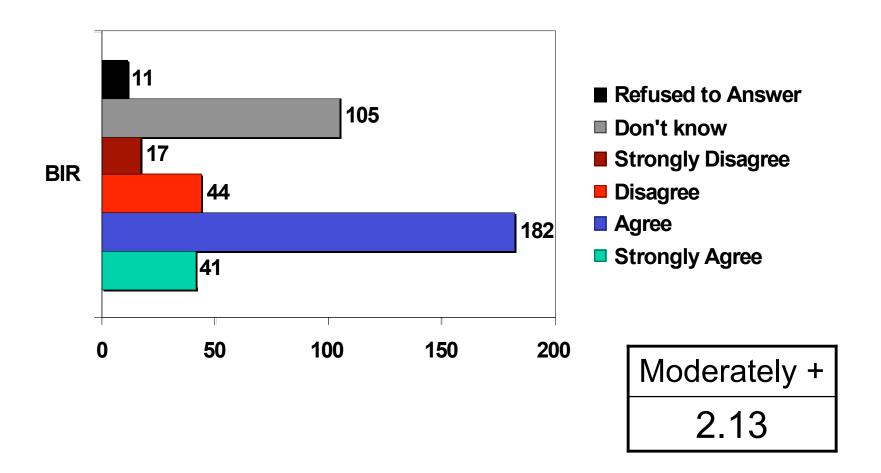
#### <u>Strengths</u>

- ➤ The Bureau has several computerized systems (e-NGAS, BIR payroll system, Electronic Filing and Payment System, Electronic Remittance Module, Central Database Facility, etc).
- There efforts to integrate the Financial Management Information System under the Integrated Tax System to facilitate transactions and strengthen monitoring.
- Reconciliation statements are submitted and demand letters are issued for unliquidated cash advances.
- COA audit findings are immediately acted upon.

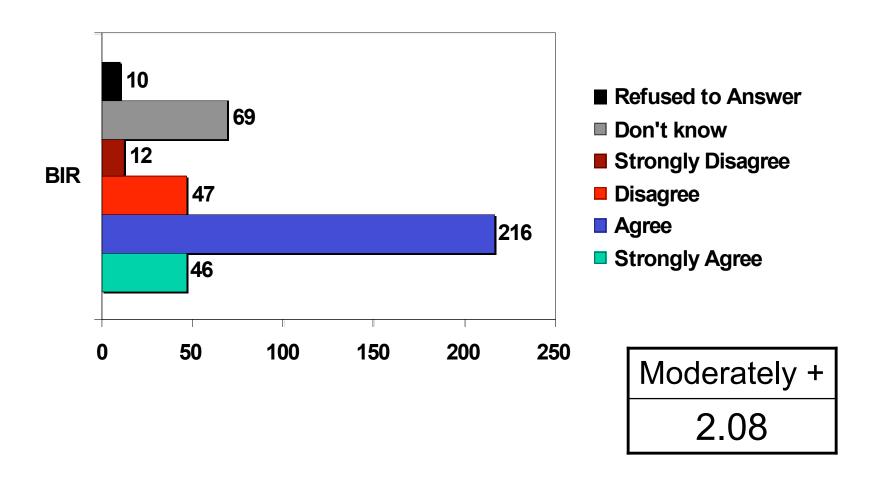
# 27. The management scrutinizes our agency spending.



# 28. Financial statements and audit reports of our agency are accessible.



# 29. Employees know who and where to report irregularities in financial transactions.



### 7. Financial Management

#### **Areas for Improvement**

- Fast-track integration of computerized systems with corresponding controls.
- Financial controls/systems should be regularly reviewed to ensure effectiveness in preventing fraud/e-corruption. A risk-based audit approach can be used in prioritizing the conduct of audits.
- Make other employees aware of the financial systems to enable them to recognize irregularities.
- Use the results of the review in strengthening the financial management system of the Bureau.

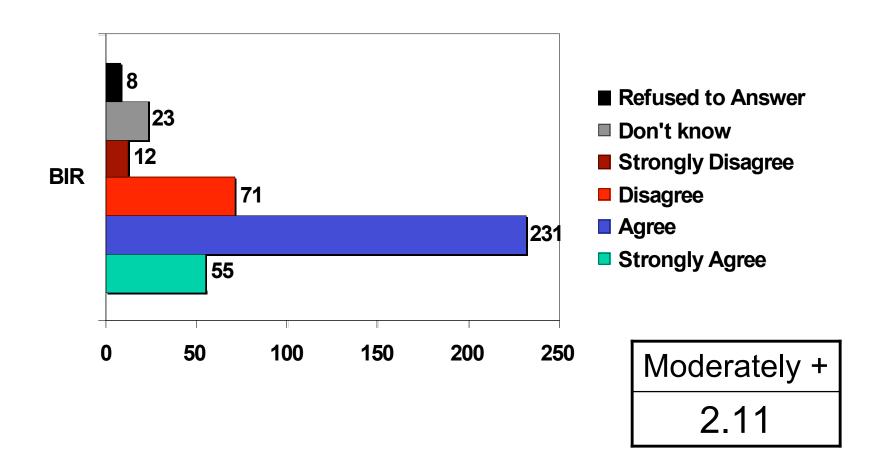
# 8. Whistleblowing, Internal Reporting and Investigation

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	1	1	0	1	1
Deployment	70-80%	60%	-	10-20%	

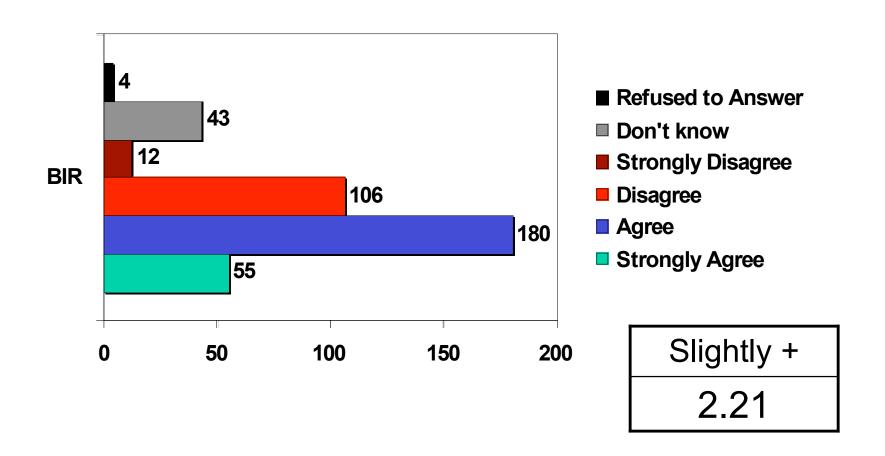
#### **Strengths**

- The Bureau's Code of Conduct provides guidelines in reporting allegations or information of employee's misconduct, attempted bribery, unethical practices or misconduct, law suits related to official duties, violations of revenue laws, loss or damage of official records and property.
- ➤ The agency has an office in-charge of receiving and investigating reports of misconduct (Inspection Service).
- Chapter VII of the said Code provides for the scope of grievance mechanism, grievance procedures, composition of the grievance committee, and responsibilities.

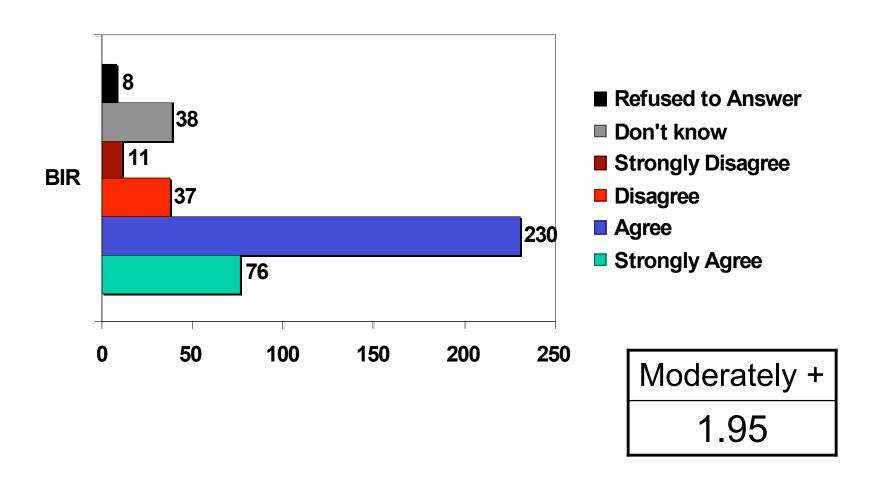
### 30. Employees are encouraged to report corrupt and unethical behavior.



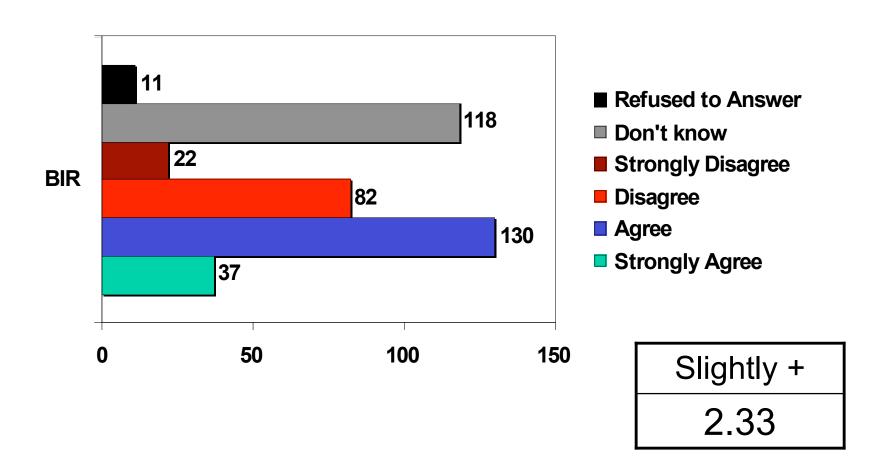
### 31. Guidelines for reporting corruption and unethical behavior are clear.



#### 32. Reports of corrupt behavior are investigated.

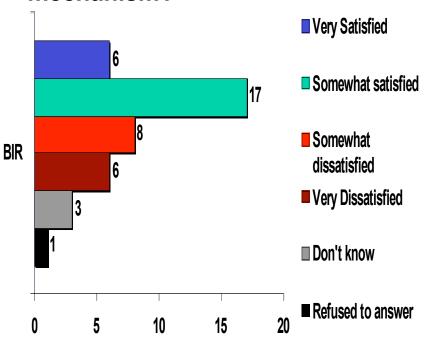


# 33. Employees who report corrupt behavior are protected.



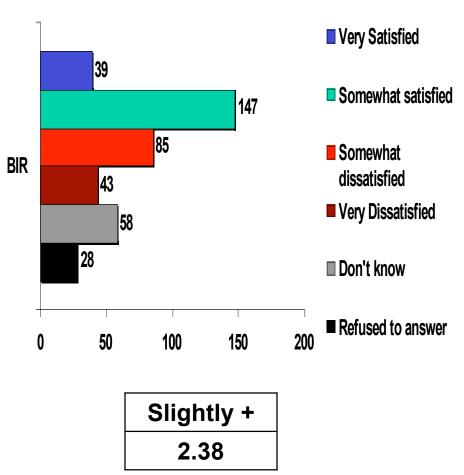
### **Attitudes regarding Corruption Reporting**

68. How satisfied or dissatisfied were you with your agency's reporting mechanism?



Slightly + 2.42

69. How satisfied or dissatisfied were you with your agency's investigation mechanism?



#### **Attitudes regarding Corruption Reporting**

### 71. If you ever witness a corrupt and unethical behavior (again), will you report it?

	N.O.	RR 9	RR 13	RR 19
Yes	96%	85.86%	76.24%	92%
No	4%	14.14%	23.76%	8%

#### 72. Reasons for NO response

Afraid of consequences, retaliation. No protection given to one reporting	9	33.33%
Nothing will be done, problem is inherent in the system	3	11.11%
No action will be taken especially if high ranking officials are involved	2	7.41%
Does not know reporting procedure, too much trouble/effort	2	7.41%
Minor offenses need not be reported	2	7.41%
Not his responsibility, doesn't want to get involved	2	7.41%
Have not witnessed any wrongdoing	2	7.41%
Give first offenders second chance	2	7.41%
No reason	2	7.41%
Doesn't want to ruin reputation of wrongdoer.	1	3.70%

# 34. What can you suggest to improve the system of internal reporting of corrupt and unethical behavior in your agency?

Protection for whistleblowers; strict confidentiality	80	20.00%
Expedient investigation; follow guidelines, rules & regulations; due process	68	17.00%
Fearless system of reporting; incentives to those who report	64	16.00%
Clear reporting channels	42	10.50%
Investigation is done by an independent body; no "palakasan"; transparency	23	5.75%
Proper dissemination of procedures & guidelines	21	5.25%
Immediate imposition of penalties/punishment if proven guilty	15	3.75%
Integrity of investigators	14	3.50%
Seminar for values formation and recollection	11	2.75%

# 8. Whistleblowing, Internal Reporting and Investigation

#### **Areas for Improvement**

- Wider dissemination/deployment of the policy to all employees especially in the regions.
- Relevant personnel should be trained in handling and investigating reports of corruption; employees should be trained on how to report corruption.
- The agency may need to provide specific guidelines on how whistleblowers will be protected and consider giving incentives to encourage internal reporting.
- Provide assurance that rights of suspected violators will be respected to prevent harassment.
- Expedient investigation and fast resolution of cases will encourage more personnel to report.

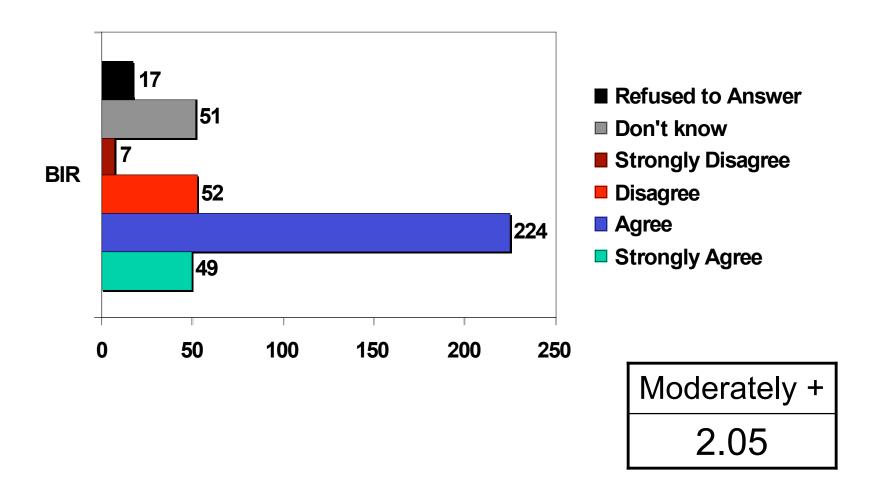
### 9. Corruption Risk Management

Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	1	1	1	1	1
Deployment	50-60%	60%	70-80%	50-60%	

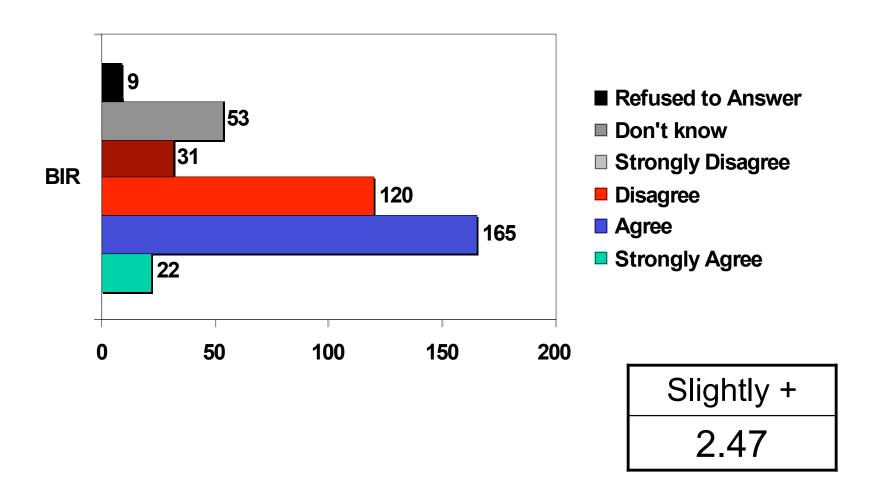
#### **Strengths**

- ➤ RAO No. 12-2000 created the Inspection Service to perform staff, advisory and consultative functions relative to internal control system, internal audit, preliminary/fact-finding investigation and prosecution.
- > RMO No. 9-99 created the Regional Internal Audit Team (RIAT).
- ➤ The agency has an Integrity Development Action Plan. IDAP has been integrated in the strategic and management plans.

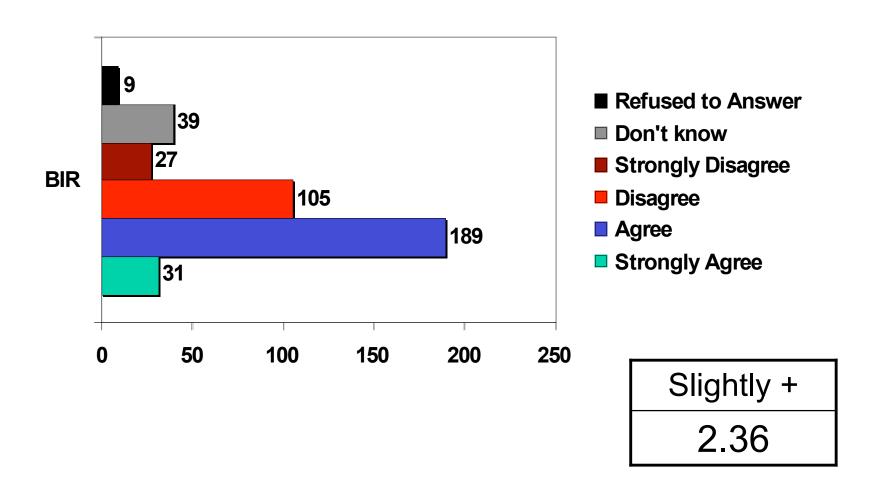
# 35. Our agency implements measures to identify potential fraud and corruption.



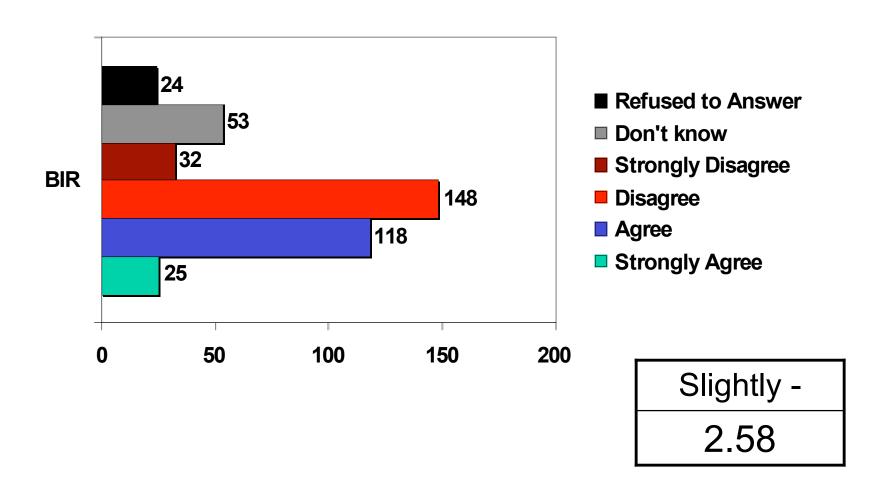
# 36. It is difficult to corrupt our current system of operations.



## 37. Employees in our agency are trained to prevent fraud.



#### 38. Our agency is successful in fighting corruption.



### **Types of Corruption**

# Q: What are the types of corruption that may occur in this agency?

Nepotism/Favoritism-2.11	Falsification of documents-1.50
Negligence of duty-2.00	Illegal use of public funds-1.48
Accepting bribes-1.86	Unauthorized collection of funds- 1.45
Overpricing of bids-1.67	Theft of public resources-1.43
Corruption of Filipino values-1.63	Disclosure of confidential info- 1.41
Collusion with suppliers-1.57	Collusion with BAC members- 1.41
Abuse of discretion/power-1.56	Forgery or fraud-1.34

NOTE: A weighted rating above 2.0 means a High rating and a rating below 2.0 means a Low rating. It is more desirable to have a low rating since it will denote less likelihood of occurrence of the type of corruption in the agency.

### **Types of Corruption**

#### Q: What can you suggest to prevent corruption?

Increase salary, benefits.	174	43.50%
Seminars and training for employees to do their jobs properly and efficiently; values formation.	63	15.75%
Improve system, less contact with clients , more logistical support, more transparency, more qualified personnel	58	14.50%
Expedient investigation; follow guidelines, rules & regulations; due process; punishment for guilty	26	6.50%
Strict monitoring of accountabilities and responsibilities of individual employee; define their duties and responsibilities.	22	5.50%
Officials should lead by example; no "palakasan"; should be held accountable for his employees' performance	17	4.25%
Fearless system of reporting; incentives to those who report wrongdoings	9	2.25%
Rewards and incentives for good performance.	8	2.00%
More lines of communication between officials and employees; employee empowerment.	5	1.25%
Security of tenure	1	0.25%

### 9. Corruption Risk Management

#### **Areas for Improvement**

- Relevant personnel should be trained on corruption risk assessment and corruption prevention planning.
- Employees should be informed of their roles and accountabilities in the corruption risk management plan.
- ➤ The agency's IDAP/corruption prevention plan should be reviewed/enhanced to take into account the corruption risk areas identified in the survey/CVA.
- > The Bureau can consider adopting a risk-based audit.
- ➤ The Bureau should review the effectiveness of its anticorruption programs and measures vis-à-vis reported incidence of corruption.

# 10. Interface with the External Environment

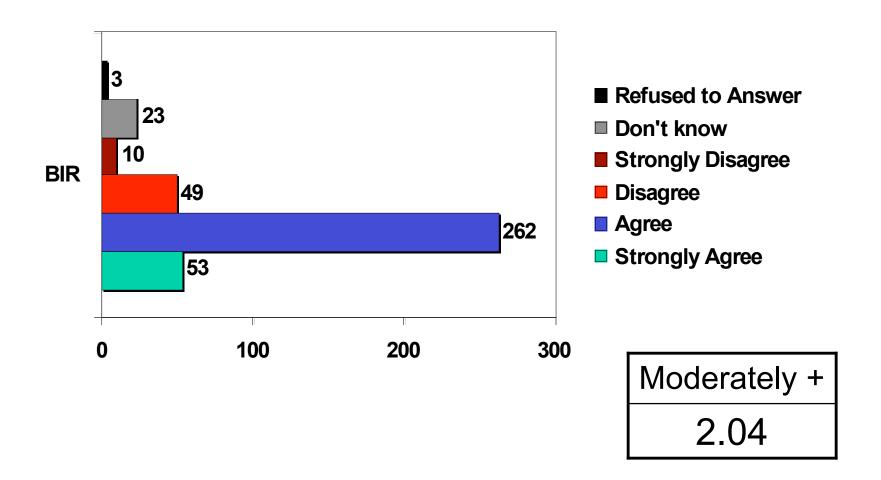
Levels	National Office	RR 9	RR 13	RR19	Assessors' Rating
Achievement	3	3	3	4	3
Deployment	50-60%	60-80%	50-60%	50-60%	

#### **Strengths**

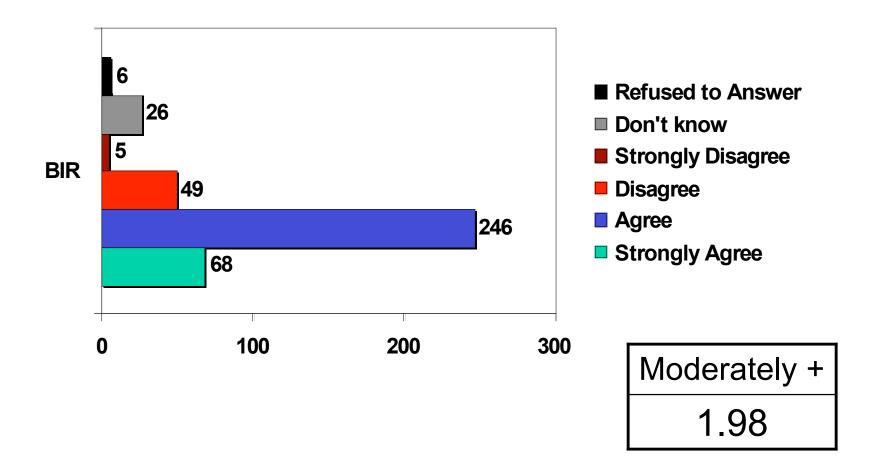
- The Bureau has a Taxpayer Assistance Service (TAS).
- The Bureau has a well published procedures and flowcharts.
- ➤ There are mechanisms installed to make transacting with BIR more convenient to its stakeholders (e.g. contact centers, electronic filing, electronic remittance, etc.). Relatedly, there is a system for receiving complaints.
- ➤ The RATE program sends a strong signal to taxpayers regarding the seriousness of the agency to pursue tax evaders.

Legend: Blue font-comment/s during the IDR presentation

## 39. Overall, operations in our agency are clear and easily understood.



## 41. Complaints and feedback of clients are acted upon in our agency.



## 43. What are the common complaints of your agency's clients?

Delay in the release of papers, red tape, lack of manpower, lack of forms/supplies	221	55.25%
Lack of information dissemination / difficulty in communication particularly with bank transactions	37	9.25%
Corruption and "palakasan"	33	8.25%
Incompetent, discourteous employees	31	7.75%
Excessive taxes imposed.	24	6.00%
Harassment	7	1.75%
Their complaints are not being acted upon promptly	6	1.50%
Additional payments are required	4	1.00%
Tax evaders	2	0.50%

## 44. What can you suggest to improve the services of your agency?

Continuous improvement of the system/ logistics	103	25.75%
Employees should perform their jobs with industry, diligence and honor	83	20.75%
Hiring of highly competent & dedicated professionals particularly for frontline duties	69	17.25%
Seminars and training; spiritual renewal	49	12.25%
Public information dissemination	27	6.75%
Increase salary, benefits	21	5.25%
Strict implementation of the new performance management system/rules and regulations	11	2.75%
Strict monitoring of employees, penalize offenders	7	1.75%
Fight graft and corruption/less corrupt officials	7	1.75%
Transparency, open to public	3	0.75%
Rewards and incentives for good performance	3	0.75%

# 10. Interface with the External Environment

#### **Areas for Improvements**

- ➤ The Bureau should address client complaints pertaining to delay in the release of papers, red tape, lack of forms/supplies.
- Records of complaints and feedback from clients should be analyzed to identify possible incidence of corruption.
- ➤ The Bureau may consider formulating a Service Charter for its frontline services to guarantee performance quality and reduce complaints. The service charter should include information on procedures, schedule of services, processing times, contact persons, and taxpayer's bill of rights.
- The Bureau may consider adopting an ISO-aligned quality management system for its operations.

## **Summary of IDA Ratings**

Dimension	National Office	RR 9	RR 13	RR19	Assessors' Rating
1 Leadership	2 70-80%	2 80%	2 100%	2 50-60%	2
2 Code of Conduct	3 50-60%	3 80%	2 100%	3 50-60%	3
3 Gifts and Benefits	1 70-80%	1 60%	1 50-60%	1 10-20%	1
4 HRM	3 70-80%	3 80%	3 50-60%	3 70-80%	3
5 Performance Mgt	3 70-80%	3 60%	3 70-80%	3 70-80%	3
6 Procurement Mgt	4 70-80%	1 50-60%	4 70-80%	0 10-20%	3
7 Financial Mgt	3 70-80%	3 50%	3 70-80%	5 70-80%	3
8 Whistleblowing, Internal Reporting & Investigation	1 70-80%	1 60%	0 -	1 10-20%	1
9 Corruption Risk Mgt	1 50-60%	1 60%	1 70-80%	1 50-60%	1
10 Interface w/ the External Environment	3 50-60%	3 60-80%	3 50-60%	4 50-60%	3

# Corruption Vulnerability Assessment

#### **Purpose:**

 Its purpose is to examine the high-risk activities and/or functions and assess the probability that corruption occurs or will occur and not be prevented or detected in a timely manner by the internal controls in place

#### **Process of Selection**

- IDR results
- Mission critical functions magnitude of operations, and exposure of assets

#### **Determinants of vulnerabilities**

- Significance and likelihood of occurrence of risks identified
- Condition and sufficiency of internal controls

# Corruption Vulnerability Assessment

#### Areas subjected to CVA

- Issuance of Letters of Authority (LAs)
- Assessment Process of One-Time Transaction (ONETT)
- Recruitment and Promotions

#### **Sites Covered**

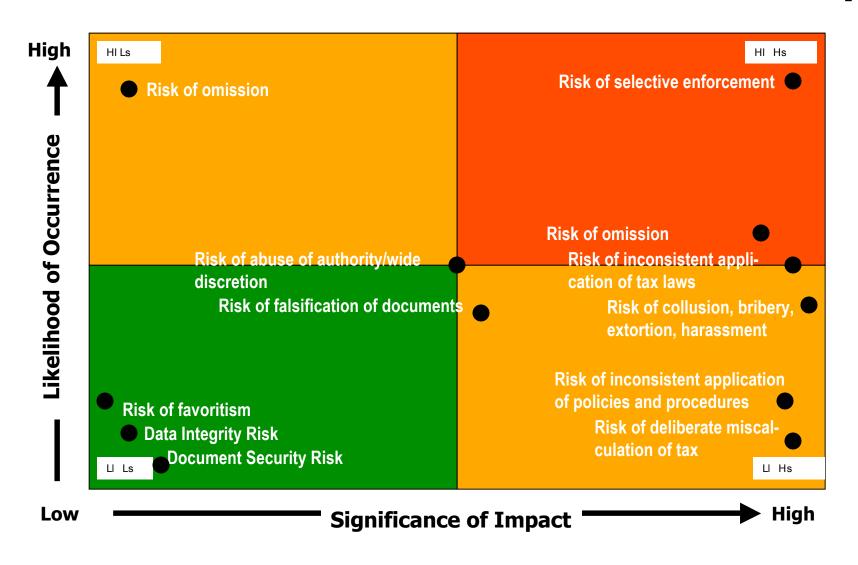
- N.O., San Pablo, Trece Martirez
- Cebu, Bohol
- Davao, Tagum

#### **Period Covered**

 May-July, 2006 (Documents Review, Process Mapping, Risk Prioritization, Risk Analysis & Report Preparation)

#### **Background**

- System/process of the issuance of LAs which authorizes the conduct of audits, investigations, and examination of the books of accounts of taxpayers
- The Bureau's main tool in the enforcement of tax laws and is a mission-critical, if not core, function
- Only slight agreement that systems are difficult to corrupt (Question 36 of survey, 2.47)



#### **Procedure**

Drafting, issuance, dissemination of the annual audit program

#### Control/s

Existence of annual audit program

#### Assessment

Process needs to be enhanced

- Possibility of erroneous prioritization
- Risk that standard selection criteria may miss out a whole class of potential taxpayers
- Policies and procedures may lack proper controls

#### **Procedure**

Selection of returns of TPs to be issued LAs

#### Control/s

Supervision of Section Chief; Batch Control Sheets and ITS Stop Filer System

#### <u>Assessment</u>

Controls may not be adequate

- Possibility of omission of returns to favor taxpayer (storage returns)
- Possibility of loss of returns

#### **Procedure**

Preparation of the list of taxpayers to be recommended for the issuance of LAs

#### Control/s

Review by the Assessment Division of list prepared; Monitoring through LAMS; Maximum case load; the Attrition Law & its IRR

#### **Assessment**

Controls more designed for improper inclusions rather than deliberate omissions, additional controls may be needed

- Risk of omission/inclusion to favor taxpayer
- Risk of favoritism in the assignment of cases in terms of load
- Possibility of assignment of cases to "cooperative" ROs

#### **Procedure**

Review and validation of list submitted

#### Control/s

Supervision in the conduct of the review

#### <u>Assessment</u>

Control would be more effective with additional personnel

#### Risk/s

 Possibility of overlooking deviations to favor taxpayers or revenue officers

#### **Procedure**

Preparation and issuance of the LAs by the Regional Director/RDO level (verbal agreement)

#### Control/s

LA is considered an accountable form; Review process before approval; Defined and various levels of access to the LAMS; Maintenance of the LA Registry Book, record/logbooks in addition to entries on the LAMS

#### **Assessment**

Additional controls may be needed

- Possibility of the preparation of fake LAs and possibility of loss of LAs
- Possibility of omission of certain taxpayers despite validated recommendation
- Possibility of deliberate non-encoding or erroneous entries in the LAMS

#### **Procedure**

Service of LA to the taxpayer and the conduct of the audit or investigation

#### Control/s

Presence/guidance of the GS/SCs in the service of the LA and the conduct of audit; Reading of the Taxpayer's Bill of Rights; e-Complaint system; Review of reports by RDOs and the Assessment Division; 120-day limit on the life of LAs, prohibition of consecutive assignments and maximum case load; the Attrition Law and its IRR

#### **Assessment**

Controls may not be adequate

- Risk/possibility of various irregularities including harassment, extortion, bribery or collusion
- Risk/possibility of inconsistent/deliberate mis-application of tax laws and regulations

#### **Procedure**

Review of case docket and the issuance of Assessment Notices

#### Control/s

Review of the work of reviewers by GS and CAD; Authorized signatories in the issuance of PAN; Practice of conducting conference at BIR offices; Authorized signatories in the preparation of the FAN

#### **Assessment**

Controls would work better with additional personnel, additional controls needed

- Risk of collusion, bribery, extortion, harassment
- Risk of improper review and inconsistent/deliberate mis-application of tax laws and regulations
- Possibility of reduced assessments or unauthorized compromises
- Possibility of fake and loss of PANs/FANs

#### **Procedure**

Settlement of the tax deficiency by payment of taxpayer/ collection by the Collection Division

#### **Control/s**

Supervision of the Collection Division Chief

#### <u>Assessment</u>

Monitoring and aging may be necessary

#### Risk/s

Risk of selective enforcement

#### Recommendations

- Consult RDs and RDOs in the preparation of the audit program
- Improve safekeeping of the tax returns by issuing policy setting clearer accountabilities and separating custody of the 2 copies of the returns
- Strictly implement "unless there is a return, no LAs can be issued" policy and certification by DPS that a certain return is non-existent
- Investigate returns categorized as non-exixtent
- Keep a masterlist of returns received and stored at the DPS

Legend: Blue font-suggestion/s during the IDR presentation

#### **Recommendations**

- Regularly audit the process of selection TPs for the issuance of LAs to determine compliance with audit program
- Provide TP with information on their rights upon service of the LA ("Miranda Rights")
- Present to taxpayers initial or final findings at the BIR office
- Regularly conduct "revalida" (systematic revalidation) of case dockets by internal auditors
- Make Preliminary Assessment Notices (PANs) and Final Assessment Notices (FANs) as accountable forms

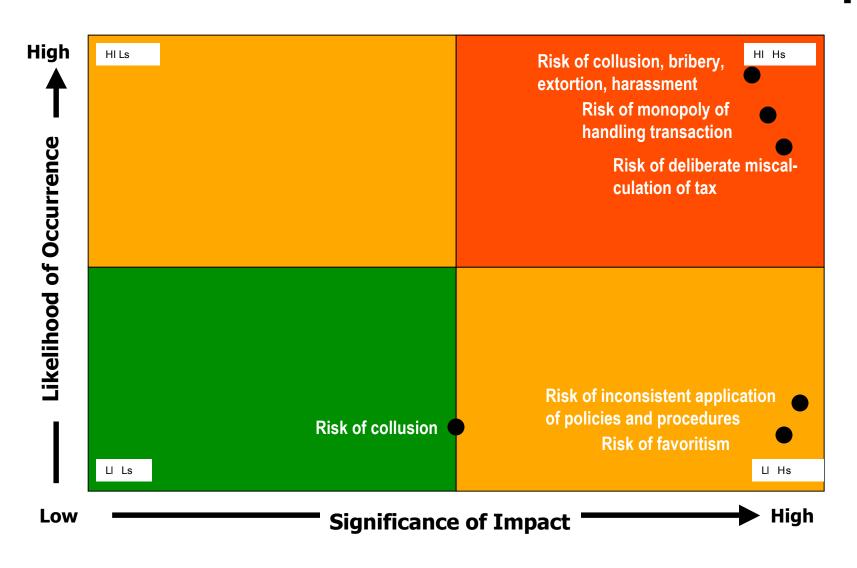
#### **Recommendations**

- Improve taxpayer and taxfiler database
- Maintain an annual list of taxpayers issued with Letters of Authority (LAs)
- Improve/expand the Letter of Authority Monitoring System (LAMS), to include other audits pursuant to TVNs, LNs, etc.
- Expand personnel complement of investigation offices

#### **Background**

- It covers one-time transactions and with heavy interface with external environment.
- It involves a material amount of money and if corruption occurs, it will have significant negative impact in reputation, governance and strategic and financial objectives.
- It requires a number of supporting documents and if not tracked, it may cause complaints from TPs for the delay in the release of their documents.

## One-Time Transactions (ONETT) Risk Map



#### **Procedure**

Creation of the ONETT Team

#### **Control/s**

Assignment of team members is time bound

#### Assessment

Apply policy consistently

#### Risk/s

 Only those employees favored by the RDO may be selected and there might be no job rotation

#### **Procedure**

Conduct of ocular inspection

#### Control/s

Review and approval of CDR and OCS by Head of ONETT Team

#### **Assessment**

1st level review may be necessary

- Single individual handling the entire transaction
- Possibility of collusion between ONETT members and TPs

#### **Procedure**

Mandatory/selective review or no review

#### Control/s

Policy regarding mandatory and or selective review or no review

#### <u>Assessment</u>

Policy needs to be enhanced by prescribing sampling and assigning of dockets

#### Risk/s

 Possibility of collusion between the personnel of the Assessment Division and the Revenue District Office to facilitate review or non-review of dockets

#### **Procedure**

Computation of tax

#### Control/s

Publication of tax rates and zonal valuation; Issuance of Attrition law and its IRR; Review and approval of CDR and OCS by Head of ONETT Team/

#### <u>Assessment</u>

1<sup>st</sup> level review may be necessary

#### Risk/s

 An ONETT member might deliberately miscalculate tax for a potential negotiation with the TP

#### **Recommendations**

- Include group supervisor in ONETT Team to perform 1<sup>st</sup> level review function or the Section Chief of the Assessment Section
- Provide information to TP on how to compute tax
- Prescribe sampling criteria for review of dockets
- Strictly implement ONETT team rotation

Legend: Blue font-suggestion/s during the IDR presentation

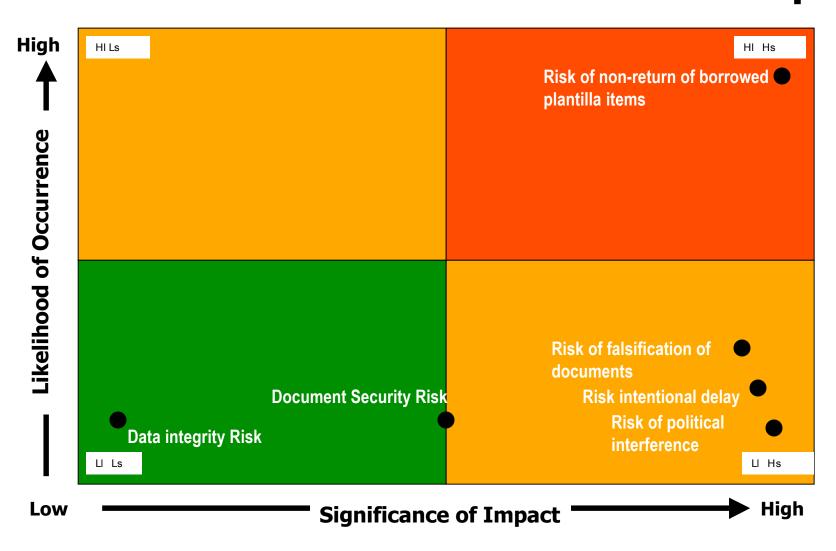
#### **Recommendations**

- Specify in the policy the size, type and location of real property that requires mandatory inspection
- Provide enough logistics to conduct ocular inspection
- Sanction non-compliance of the policy and regulations

#### **Background**

- It is part of the Human Resource Management system
- There is a disconnect between the results of the IDA and the Survey of Employees
- Majority of the survey respondents believed that the process of recruitment and promotions in the Bureau is not free from external influences (Question Numbers 13 & 14 of the Employee Survey).

## Recruitment and Promotion Risk Map



#### **Procedure**

Publication of notice of vacancy

#### **Control/s**

**CSC** publication requirements

#### <u>Assessment</u>

Need to establish timelines from the BIR not from the CSC

#### Risk/s

Risk of intentional delay

Legend: Blue font-comment/s during the IDR presentation

#### **Procedure**

Receipt of application from applicants (recruitment) and/or evaluation matrix (promotion)

#### Control/s

Logbook, set criteria for recruitment and promotion

#### <u>Assessment</u>

Inadequate

#### Risk/s

Risk of political influence

#### **Procedure**

Evaluation of applicant's personnel data sheet and supporting documents

#### **Control/s**

Verification with the PRC, CSC, former employer; Submission of clearances from NBI, NICA, etc.

#### **Assessment**

Adequate but not timely; all information are validated before submission for review/appointment

#### Risk/s

Risk of falsification of documents

#### **Procedure**

Administration of examination to qualified applicants

#### **Control/s**

Exam questions in a filing cabinet

#### <u>Assessment</u>

Inadequate

#### Risk/s

 Document security risk; outmoded exam; limited capacity of regions in conducting the exam

#### **Procedure**

Preparation of line-up for recruitment/promotion with evaluation matrix

#### Control/s

Set criteria; comparative matrices being reviewed by Section Chief, Assistant Division Chief, and Division Chief before submission to the PSB; and, RMO No. 25-2003 to address the issue of perceived favoritism/subjectivity in the promotion process.

#### <u>Assessment</u>

Inadequate

#### Risk/s

Data integrity risk, risk of political influence

Legend: Blue font-comment/s by ACIR Rogers.

#### **Procedure**

Getting item form one office to another w/o the knowledge of the office where the item is authorized/ transferring of personnel carrying the item into the recipient office without replacement

#### **Control/s**

There are issuances/guidelines to be observed which is covered by RDAO Nos. 7-2003 and 9-2003; endorsement by RD; and "no objection" document from head of office and RD.

#### Risk/s

Risk of plantilla items not being returned

Legend: Blue font-comment/s by ACIR Rogers

#### **Recommendations**

- Provide timelines and subject to random audits the publishing of notices of vacancies
- Check compliance of the recruitment and promotion processes with standards
- Discontinue the practice of including political recommendation letters to form part of the selection line up
- Update, standardize and tighten security of test questionnaires (Outmoded exam is being addressed already/in the process of purchasing the latest assessment tool and this is also to be distributed to regions)

Legend: Blue font-comment/s during the IDR presentation

#### Recommendations

- Accredit examination providers in regional offices as may be necessary
- Attach all supporting documents to the comparative matrices
- Strictly enforce RMO 26-83 to require a shorter list of promotable employees
- Address the problem of "borrowed items"

- BIR has established policies to guide the proper conduct and behavior of its "agents" and has installed systems to safeguard its operations. What is important at this stage is full deployment and "internalization" of these systems and policies.
- Management needs to maintain strong leadership of the integrity building efforts of the agency. It will benefit if there were more champions and advocates of the anticorruption programs.

 BIR has demonstrated that it can break out of institutional barriers to fight corruption e.g. through the RATE, Lifestyle Checks, etc. It can generate more support and eventually remove the stigma of negative public perception by communicating and encouraging the public to support its other anti-corruption programs.

 BIR employees are generally concerned and willing to participate in the agency's integrity development efforts. They can benefit from a clearer policy on acceptance of gifts. They can supplement monitoring and reporting of corruption given a good system of protecting whistleblowers and assurance of management's resolve to weed out corruption through fair and expedient investigation.

- The biggest challenge for the Bureau is on how to step up its existing systems to make them more robust and resistant to corruption. Existing systems must be continuously reviewed for their effectiveness in enhancing transparency, accountability and integrity.
- It can collaborate and call on the support of other institutions (like OMB, COA, CSC, PAGC, DOJ, CSOs) to strengthen the Bureau's integrity development efforts.

## Thank you...