



REPUBLIC OF THE PHILIPPINES  
**DEPARTMENT OF BUDGET AND MANAGEMENT**  
GENERAL SOLANO STREET, SAN MIGUEL, MANILA

**LOCAL BUDGET CIRCULAR**

No. 153  
Date: August 31, 2023

To : Local Chief Executives (LCEs), Members of the Local Sanggunian, Local Internal Auditors, Local Budget Officers, Local Treasurers, Local Planning and Development Coordinators, Local Accountants, Local Human Resource Management Officers, and All Others Concerned

Subject : **INTERNAL AUDIT MANUAL FOR LOCAL GOVERNMENT UNITS (IAM for LGUs), 2023 EDITION**

---

**1.0 BACKGROUND**

1.1 The IAM for LGUs was first issued by the Department of Budget and Management (DBM) through Local Budget Circular (LBC) No. 110 dated 10 June 2016, pursuant to its mandate under Executive Order No. 292, s. 1987,<sup>1</sup> and the following Office of the President issuances directing the Department to promulgate the necessary rules and regulations for the strengthening of the internal control systems (ICS) in government:

1.1.1 Administrative Order (AO) No. 119 dated 29 March 1989,<sup>2</sup> as amended by AO No. 278 dated 28 April 1992<sup>3</sup> and AO No. 70 dated 14 April 2003;<sup>4</sup>

1.1.2 Memorandum Order No. 277 dated 17 January 1990;<sup>5</sup> and

1.1.3 Memorandum Circular No. 89 dated 18 August 2005.<sup>6</sup>

---

<sup>1</sup> Administrative Code of 1987 dated 25 July 1987, as Amended

<sup>2</sup> Directing the Strengthening of Internal Control Systems of Government Offices, Agencies, Government-Owned or Controlled Corporations and Local Government Units in their Fiscal Operations

<sup>3</sup> Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions and Local Government Units, in Their Operations

<sup>4</sup> Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges and Local Government Units

<sup>5</sup> Directing the Department of Budget and Management to Promulgate the Necessary Rules, Regulations or Circulars for the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned or Controlled Corporations and Local Government Units

<sup>6</sup> Reiterating Compliance with A.O. 70, s. 2003 "Strengthening of the Internal Control Systems of the Government Offices, Agencies, Government-Owned and/or Controlled Corporations, Including Government Financial Institutions, State Universities and Colleges and Local Government Units" and Its Implementing Guidelines under DBM Budget Circular No. 2004-4

- 1.2 The IAM for LGUs aims to provide a guide in establishing, maintaining, and operating an Internal Audit Service Unit (IAU) in LGUs. It is anchored on the Philippine Government Internal Audit Manual (PGIAM) issued by the DBM through Circular Letter (CL) No. 2011-5 dated 19 May 2011.

Nine (9) years after the issuance of the PGIAM, the DBM promulgated the Revised PGIAM (RPGIAM) and issued the same through DBM CL No. 2020-8. The revision primarily aims to clarify and address various emerging issues and concerns that are relevant to the effective and efficient conduct of internal audit in the government, as well as to have certain provisions clarified and/or harmonized with pertinent laws, rules, regulations, guidelines, and standards.

- 1.3 Hence, to be aligned with the RPGIAM and existing Philippine laws, rules, and regulations, the revision of the IAM for LGUs has been pursued.

## 2.0 **PURPOSE**

This Circular is being issued to prescribe the institutionalization of the IAM for LGUs, 2023 Edition as a reference for LGUs in establishing and thereafter strengthening their internal audit function to promote effective, efficient, economical, and ethical operations in government, among other objectives.

## 3.0 **THE IAM for LGUs, 2023 EDITION**

- 3.1 The IAM for LGUs, 2023 Edition serves as a generic guide for internal auditors in LGUs to help them: *(i)* understand the legal bases, nature, and scope of the internal audit function in the Philippine public sector, including the institutional arrangements, protocols, and processes for the conduct of the same, *(ii)* identify and prioritize potential audit areas for appraisal as they progress in the internal audit activity, and *(iii)* describe the logical procedures to facilitate a structured and systematic approach in internal auditing.

- 3.2 Among the major changes that have been adopted in the IAM for LGUs, 2023 Edition are as follows:

- 3.2.1 Clearer guidelines on the establishment of an IAU, including its organization, staffing, and reporting line;
- 3.2.2 Stronger justification on the delineation of the role of the local accountant in relation to internal audit;
- 3.2.3 Delineation of the roles and responsibilities of various key players in the LGU on internal control and internal audit to foster participation and involvement at all levels;



- 3.2.4 Provision of concrete examples of the various types of audits that can be performed by the IAU in the LGU;
  - 3.2.5 Provision of more comprehensive and detailed internal audit processes, and general templates on internal audit reports, plans, and communications to better guide internal auditors;
  - 3.2.6 Inclusion of actual examples of non-audit functions, as well as the appropriate series of actions to be taken by the IAU when it is instructed to do the same; and
  - 3.2.7 Clarification on the distinction between internal audit and internal quality audit; authority, purpose, and functions of an IAU; and involvement of internal auditors in the improvement of operations, among others.
- 3.3 The IAM for LGUs, 2023 Edition which is made an integral part of this LBC, shall govern the internal audit work in the LGUs. Thus, LGUs are directed to make use of the same as their guide in executing the internal audit function. The LGUs should refrain from using other guidelines and standards on internal auditing that are inconsistent with existing Philippine laws, rules, and regulations and/or not applicable for adoption by the Philippine public sector.

#### 4.0 **ROLL-OUT ACTIVITIES**

To ensure the widest dissemination and application of the IAM for LGUs, 2023 Edition, the roll-out activities shall be conducted by the DBM for all provinces, cities, and municipalities. In addition, capacity-building training shall be provided to the IAUs of LGUs concerned to ensure their full adoption of the IAM for LGUs, 2023 Edition in the operationalization of their internal audit functions.

#### 5.0 **ITEMS FOR RESOLUTION**

Interpretation of the provisions of this Circular and the IAM for LGUs, 2023 Edition including relevant items not covered therein, shall be referred to the DBM for resolution.

#### 6.0 **PERIODIC REVIEW AND SUBSEQUENT GUIDELINES**

The IAM for LGUs, 2023 Edition shall be periodically reviewed by the DBM to ensure its responsiveness to the prevailing circumstances in LGUs related to their conduct of internal control and internal audit activities. The need to amend

the IAM for LGUs, 2023 Edition may be prompted by, among others, any future modification, updating, and enhancement of the RPGIAM that may have implications to the LGUs, feedback from the LGUs on the implementation of the IAM for LGUs, 2023 Edition, changes in laws, policies, guidelines, and regulations, and other requisites for enhancing work practices.

Meanwhile, subsequent guidelines that may be issued by the DBM relative to the strengthening of internal audit in the bureaucracy, including the guidelines on establishing IAU and operationalizing the internal audit function, shall be adopted by the LGUs, as may be deemed applicable.

#### 7.0 **SEPARABILITY CLAUSE**

If any part or provision of this Circular and the IAM for LGUs, 2023 Edition is declared invalid or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

#### 8.0 **REPEALING CLAUSE**

All existing guidelines, circulars, issuances, manuals, or parts thereof which are inconsistent with this Circular and the IAM for LGUs, 2023 Edition are hereby repealed, amended, or modified accordingly.

#### 9.0 **EFFECTIVITY**

This Circular shall take effect immediately after its publication.

  
**AMENAH F. PANGANDAMAN**  
Secretary

