

## **[ COA CIRCULAR NO. 2009-002, May 18, 2009 ]**

### **REINSTITUTING SELECTIVE PRE-AUDIT ON GOVERNMENT TRANSACTIONS**

#### **1.0 Rationale**

1.1 It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations and safeguarded against loss or wastage resulting from illegal or improper disposition, with a view of ensuring efficiency, economy and effectiveness in the operations of government. The primary responsibility for faithful adherence to this policy rests with the chief or head of the government agency concerned (Cf. Sec.2, P.D. No. 1445).

1.2 Consistent with such policy and in pursuance of the constitutional mandate vesting in the Commission on Audit the exclusive authority to define the scope of its audit and examination, establish the techniques and methods required therefore, and promulgate accounting and auditing rules and regulations [Sec. 2 (2), Article IX-D, 1987 Constitution], the Commission, under COA Circular No. 95-006 dated May 18, 1995, lifted all pre-audit activities that were then performed on financial transactions.

1.3 Recent developments, however, necessitate the revisiting of the present policy of examining government transactions strictly on a post-audit basis in view of the rising incidents of irregular, illegal, wasteful and anomalous disbursements of huge amounts of public funds and disposal of public property. An assessment of the risk-prone areas (using the risk-based audit approach) in government operations and the marked inadequacy in internal controls as exemplified by the frequency of anomalies uncovered or reported likewise point to the need to consider restoring pre-audit as a deterrent against the resurgence of the observed maladies. Further, adequate safeguards need to be observed by the auditor to ensure that the agency accepts all responsibility for (i) establishing and monitoring internal controls, (ii) making all management decisions with respect to the design, implementation, and maintenance of the internal controls, (iii) evaluating the adequacy and results of the design, implementation, and maintenance of the internal controls, and (iv) the data used or generated by the financial reporting process.

1.4 For these reasons and in consonance with the power of the Commission on Audit to adopt such measures as are necessary and appropriate to correct the deficiencies, this Commission hereby reinstitutes selective pre-audit, subject to periodic review and assessment of the effectiveness and coverage thereof in accordance with the risk-calibrated agency audit framework.

#### **2.0 Definition and General Scope of Pre-Audit and Post Audit**

2.1 Pre-audit is the examination of documents supporting a transaction or series of transactions before these are paid for and recorded.

Pre-audit operates to:

- 2.1.1 determine that the proposed expenditure is for a purpose in compliance with the appropriation law, other specific statutory authority and regulations;
- 2.1.2 assure that sufficient funds are available to enable payment of the claim;
- 2.1.3 initially determine that the proposed expenditure is not illegal, irregular, extravagant, excessive, unconscionable or unnecessary;
- 2.1.4 determine that the transaction is approved by proper authority and duly supported by authentic underlying evidences.

2.2 Post audit covers the same areas and supplemented by tracing the transaction under audit to the books of accounts. It also includes a final determination that the transaction is not illegal, irregular, extravagant, excessive, unconscionable or unnecessary. In general and wherever practical, the scope of post audit work covers all areas identified in the risk assessment and embraces financial, compliance, and value-for-money audits. Transactions subject to pre-audit shall be post audited without re-performing the audit procedures previously undertaken in pre-audit, unless there is compelling reason to re-perform the same.

### **3.0 Coverage**

3.1 Pre-audit shall be selectively reinstituted in national government agencies, local government units, and government-owned and controlled corporations with original charters, as indicated in the attached list marked as Annex A[\*] and made integral part hereof, with any, some or all of the following transactions:

- 3.1.1 cash advances;
- 3.1.2 payments of salaries and terminal leave benefits;
- 3.1.3 payments for infrastructure projects;
- 3.1.4 payments for road right-of-way;
- 3.1.5 payments for procurement of capital assets, goods and services;
- 3.1.6 payments made thru automatic debit advice (ADA);
- 3.1.7 releases of funds to NGOs/POs;
- 3.1.8 transfers of funds between government agencies subject to the exceptions provided in item 4.8;
- 3.1.9 disbursements from trust funds of local government units, as limited in item 4.9;
- 3.1.10 disposal of real property and unserviceable property, subject to the limitations provided in item 4.10.

3.2 Subsequent identification of the national government agencies, local government units and government-owned and controlled corporations and their respective transactions that may be included or excluded in pre-audit shall proceed from the results of an evaluation of the internal control system put in place and operating in each agency.

Such evaluation shall be undertaken by the Supervising Auditors (SAs) or Audit Team Leaders (ATLs) with the results thereof reviewed and validated by the Cluster

Director or Regional Director before elevating the same, through the Assistant Commissioner or other authorized official concerned, to the Oversight Committee created in item 10.0 hereof.

3.3 National high schools, government-owned and controlled corporations audited under the team approach, and barangays shall be initially exempt from pre-audit.

## **4.0**

### **Specific Scope of Pre-Audit Activities**

#### **4.1 Cash advances**

4.1.1 Except for cash advances for payroll, intelligence funds, petty cash funds, and those granted for local travel expenses of officers and employees, all other cash advances including those for foreign travels funded out of the local funds regardless of amount shall pass through pre-audit.

4.1.2 The liquidation of cash advances shall first be audited and the corresponding Credit Notice issued before the same shall be taken up in the books.

4.1.3 The grant of cash advances and their liquidation shall be governed by the following guidelines and by the provisions COA Circular No. 97-002 dated February 10, 1997, which are not inconsistent herewith:

- (i) No cash advance shall be given unless for legally authorized specific purpose.
- (ii) No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first liquidated and accounted for in the books.
- (iii) A cash advance shall be liquidated/reported on as soon as the purpose for which it was granted has been served.
- (iv) Except for cash advances for travel, no officer or employee shall be granted cash advance unless he is properly bonded in accordance with law or regulations. The amount of cash advance which may be granted shall not exceed the maximum cash accountability covered by his bond.
- (v) Only permanently appointed and duly designated disbursing officers shall be granted cash advance. However, these requirements shall not apply to cash advances for travel.
- (vi) Transfer of cash advance from one accountable officer to another shall not be allowed.
- (vii) The cash advance shall be used solely for the specific purpose for which it was granted. Under no circumstance shall it be used for encashment of checks or for liquidation of a previous cash advance.
- (viii) No cash advance shall be granted for payments on account of infrastructure projects or other undertaking on a project basis.
- (ix) Cash advance for special time-bound undertaking shall be liquidated by the accountable officer concerned within one month from the date the purpose of the cash advance was

accomplished.

(x) Cash advances which are no longer needed or have not been used for a period of two months shall be returned to or deposited immediately with the proper collecting officer or treasurer.

(xi) All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the accountable officer shall refund any unexpended balance to the cashier/collecting officer who shall issue the necessary official receipt.

#### 4.2 Payment of salaries and terminal leave benefits

4.2.1 Pre-audit of payments of salaries shall apply only to the first payment after appointment by transfer or reinstatement, and to the last payment prior to transfer.

4.2.2 All payments of terminal leave benefits shall be subject to pre-audit.

#### 4.3 Infrastructure projects

4.3.1 Infrastructure projects include the construction, improvement, rehabilitation, demolition, repair, restoration or maintenance of roads and bridges, railways, airports, seaports, communication facilities, civil works components or information technology projects, irrigation, flood control and drainage, water supply, sanitation, sewerage and solid waste management systems, shore protection, energy/power and electrification facilities, national buildings, school buildings, hospital buildings, and other related construction projects of the government [Section 5 (n), IRR-A of R.A. No. 9184)]

4.3.2 All infrastructure project with contract amounts falling under the categories outlined below shall be covered by pre-audit.

##### **For national government agencies:**

- (i) Department/Bureau/Agency Main/Central/Head Offices, General Headquarters, Project Management Offices - P25 million and above
- (ii) Regional Offices/Operating Units/Area Commands/Field Offices or their equivalents - P10 million and above
- (iii) Provincial /District/Division/Satellite Offices - P2 million and above
- (iv) Tertiary and/or specialized hospitals - P5 million and above

##### **For local government units:**

- (i) Cities within Metro Manila, other highly urbanized cities and first class provinces - P5 million and above
- (ii) Provinces/cities below first class - P3 million and above
- (iii) Municipalities - P1 million and above

**For government-owned and/or controlled corporations/government financial institutions**

- (i) Head Offices, Project Management Offices - P25 million and above
- (ii) Regional/Provincial Branches/Field Offices - P10 million and above

4.3.3 Only the advance payments granted to contractors as well as the first and last progress billings of contracts for infrastructure projects the contract amount of which fall within the threshold as above indicated shall be subject to pre-audit. First progress billing represents claims made for the first collection on the work accomplished in a particular project. In the pre-audit of the last progress billing, all previous payments shall be considered.

4.3.4 All first payments of progress billings under a change order, extra work order, supplemental agreement, or any other form of variation order related to contracts subject to pre-audit under item 4.3.2, shall likewise be subject to pre-audit. However, where the amount of the variation order brings a contract not previously covered by pre-audit within the threshold established in item 4.3.2, the first payment under the variation order as well as the last progress billing of the original contract, as modified or amended by the variation order, shall be subject to pre-audit. All claims of contract price escalations regardless of the amount shall be subject to pre-audit taking into consideration the guidelines provided in Government Procurement Policy Board Circular No. 03-2008 dated August 20, 2008 and such other existing regulations on the matter.

4.3.5 Inspections of construction project accomplishments shall be mandatory on the payment for the first and last progress billings. The Auditor may, however, conduct random on-the-spot inspection of on-going infrastructure projects or request inspection of projects at any time he may deem necessary.

4.3.6 The auditor shall review the completeness of the supporting documents, its terms and conditions, the bidding procedures, necessity and validity of other alternative modes of procurement and manner of award to the winning bidder/contractor and such other relevant requirements provided in RA No. 9184 and its implementing rules and regulations. Whenever practicable, the SA/ATL or the Technical Audit Specialist (TAS) after due referral, shall evaluate the reasonableness of the cost of the project or activity immediately upon receipt of the contract as provided in item 6.6 hereof. Provided that the final determination of such reasonableness shall in no case extend beyond twenty-one (21) working days from the time the contract and complete supporting documents are submitted for technical review.

4.3.7 These pre-audit guidelines shall equally apply to infrastructure projects undertaken in areas declared as under a state of emergency or calamity.

**4.4. Payments for road right-of-way**