ASIA PACIFIC MEDICAL CENTER
(APMC) - AKLAN, INC.
Formerly: Allied Care Experts (Ace) Medical Center - Aklan, Inc.

Document ID **PP- IA-0.001**	Title **AUDIT PROCESS MANUAL**	Page No. **1 of 50**
Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

Table of Contents

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**2 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**3 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**1 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

INTRODUCTION

CHARTER

Asia Pacific Medical Center-Aklan, Inc. supports Audit Division as an independent, objective, assurance and consulting authority which shall provide its Board of Directors, Management, Stockholders and other governing bodies with a reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

ACCOUNTABILITY

The Audit Manager, in the discharge of his/her duties, shall be accountable to the management to:
- Provide periodic reports to the Management and investors
- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work,
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution,
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of division resources, and
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental and external audit).

RESPONSIBILITY

The Audit Manager and staffs of the audit division have the responsibility to:
- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates,

- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and or Board of Directors,
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Charter,
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation and/or expansion,
- Issue periodic reports to the management summarizing results of audit activities,
- Keep the management informed of emerging trends and successful practices in internal auditing,
- Provide a list of significant measurement goals and results to the management,
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management of the results, and
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

AUTHORITY

The Audit Manager and Audit Division staff are authorized to:
- Audit the entire APMC operations.
- Have unrestricted access to all functions, records, property and personnel relevant to the audit performance,
- Have full and free access to the Management Committee,
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives, and
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The Audit Manager and Staff of the audit division are not authorized to:

- Perform any operational duties for the organization or its affiliates,
- Initiate or approve accounting transactions external to the audit division,

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**3 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date **07/07/2023**

- Direct the activities of any organization employee not employed by the auditing division, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

VISION

Audit Division will be the source of APMC's success in achieving its goal by delivering the highest quality of service and continuously maintain high levels of commitment, professionalism, efficiency and integrity.

MISSION

To provide reasonable assurance to the Management and Investors that APMC's key organizational and procedural controls are effective, appropriate and complied with.

VALUES

We are committed to live the APMC core-values at all times.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**4 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	Unit/Section/Dept. **Internal Audit Department**	**001**
		Issue Date **07/07/2023**

ORGANIZATIONAL CHART

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**5 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	Internal Audit Department	**001**
		Issue Date **07/07/2023**

SECTION 1000: POLICY

1100. POLICY ON AUDITING

The audit division will meet or exceed the Standards for the Professional Practice of Information Systems Audit and Control Association (ISACA) Code of Ethics, Institute of Internal Auditors (IIA) and Philippine Institute of Certified Public Accountants (PICPA).

1200. INDEPENDENCE / OBJECTIVITY

To provide for independence of the audit division, its personnel report to the Audit Manager, who reports to the Medical Officer in a manner outlined in the section of Accountability. It will include as part of its reports to the Management Committee a regular report on internal audit personnel.

In order to maintain objectivity, Auditors will immediately inform the Medical Officer of any factors that may be perceived as impairing their objectivity on an assigned audit. Also, Auditors will take great care to prevent even a perception of partiality by maintaining a professional distance from the staff of the client while performing an audit. Questions concerning any relationships with auditees or potential auditees should be brought to the attention of the Audit Manager. Finally, Auditors will not accept anything of value from an employee, supplier, or business associate which would impair or be perceived to impair their professional judgment or objectivity. Any gifts accepted will be immediately reported to the Audit Manager.

1300. CONFIDENTIALITY/CONDUCT

Much of the information available to auditors and verifiers is of a sensitive or confidential nature. Audit personnel should be prudent in their use of information acquired in the course of their duties or information which is available to them. They will not discuss any matters pertaining to the audits performed by the division in other than an official manner.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**6 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

Auditors shall not use confidential information for any personal gain or in a manner which would be detrimental to the Company or any employee of the Company.

Auditors will take adequate measures to prevent the unauthorized release of confidential materials or information in any medium including paper copies, microfiche, or computer files. Such materials should be adequately secured from theft, reproduction, or casual observation.

Confidential materials include any information (except public information), but not limited to, the following:

- Company manuals
- Audit reports and work papers
- Financial records
- Database/network library
- Employee personnel, benefit, or payroll information
- Supplier information
- Company licensed software
- Any information which could cause the Company embarrassment or liability.

CONDUCT

The following guidelines are established regarding personal conduct and the confidentiality of audit or business information acquired through audit assignments:

- As a member of the audit division, you are representing the highest level of management. Conduct yourself in a manner that reflects favorably upon yourself and those you represent. You are expected to exercise professional skill, integrity, maturity of behavior and tact in your relations with others. In general, you are encouraged to be friendly with all Company employees without affecting your objectivity. You should guard against any conduct or mannerisms which permit an impression that you consider yourself an "expert" sent to check on employees. As far as possible, take the position of an independent/objective analyst and advisor. Avoid the image of policing.

- In the course of your assignments, you will be in contact with personnel at all levels of authority and position. At all times, independence in mental attitude is to be maintained. Reports resulting from your efforts should always contain full

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**7 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

and unbiased disclosure of all but minor audit findings. Although you report to the audit division, you have responsibilities to both management and the personnel being audited.

- Much of your work is confidential; therefore, be discreet on and off the job in discussing current or past audits or your personal assessments of audit customers. Judgment should be exercised in the security of audit work papers, programs, records and information at all times.
- Never indiscreetly discuss any information you obtained during your audits.
- Avoid extremes of dress or personal grooming. Comply with the Company dress code.

1400. RELATIONSHIP OF AUDIT TO THE MANAGEMENT COMMITTEE

The relationship to the Management Committee should revolve around a core role of ensuring that the committee understands supports and receives all assistance needed from the audit function. Consideration of the work of auditors is essential for the management committee to gain a complete understanding of the company's operations. A primary component of Audit's role with the committee is to ensure that objectives are accomplished and the committee views Audit as their trusted advisor. The Audit Manager can perform several activities to accomplish this role:

a. Request that the management committee to review and approve the audit charter on an annual basis

b. Review with the management committee the functional and administrative reporting lines of audit to ensure that the organizational structure in place allows adequate independence for the auditors

c. Assist the management committee in evaluating the adequacy of personnel and budget, and the scope and results of audit activities, to ensure that there are no budgetary or scope limitations that impede the ability of the audit function to execute its responsibilities

d. Provide information on the coordination with and oversight of other control and monitoring functions (e.g. risk management, compliance, security, business continuity, legal, ethics, environmental, external audit)

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**8 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	Unit/Section/Dept.	**001**
	Internal Audit Department	Issue Date
		07/07/2023

e. Report significant issues related to the processes for controlling the activities of the company, including potential improvements to those processes, and provide information concerning such issues through resolution

f. Provide information on the status and results of the annual audit plan and the sufficiency of division resources to the management committee

g. Develop flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plant to the audit committee for review and approval as well as periodic updates

h. Report on the implementation of the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management.

i. Incorporate into the audit charter the responsibility for the audit division to report to the management committee on a timely basis any suspected fraud involving management or employees who are significantly involved in the internal controls of the company. Assist in the investigation of significant suspected fraudulent activities within the company and notify management committee of the results.

1500. COMMUNICATIONS WITH THE MANAGEMENT COMMITTEE

The Audit Manager should consider providing communications to the management committee in the following areas:

a. Management Committee should meet privately with the Audit Manager on a regular basis to discuss sensitive issues.

b. Provide an annual summary report or assessment on the results of the audit activities relating to the defined mission and scope of audit work

c. Issue periodic reports to the management committee summarizing results of audit activities

d. Keep the management committee informed of emerging trends and successful practices in internal auditing

e. Together with external auditors, discuss fulfillment of committee information needs

f. Review information submitted to the management committee for completeness and accuracy

g. Confirm if there is effective and efficient work coordination of activities between auditors and other departments. Determine if there is any duplication between the work of the auditors, and external auditors and give the reasons for such duplication.

ASIA PACIFIC
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Formerly: Allied Care Experts (Ace) Medical Center - Aklan, Inc.

Document ID **PP- IA-0.001**	Title **AUDIT PROCESS MANUAL**	Page No. **9 of 50**
Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

SECTION 2000: AUDIT PLANNING

2100. AUDIT'S ROLE IN THE RISK MANAGEMENT PROCESS

Risk management is a key responsibility of management. The key stakeholders in effective business risk management include shareholders, Management Committee, business units, process owners, and Audit to which responsibilities are shared. To achieve business objectives, management should ensure that sound risk management processes are in place and functioning.

Boards and Management Committees have an oversight role to determine appropriate risk management process in place and that these are adequate and effective. Auditors should assist the Management Committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes.

Information from management's risk management process will assist the auditors in planning audit activities.

RISK ASSESSMENT PROCESS

The Audit Manager should establish risk-based plans using the risk assessment process to determine the priorities of the audit activities, consistent with the organization's goals.

Objectives:
- Identify, prioritize, measure and source business risks within the company or a specific business process within the company. This entails a comprehensive look at business risks that affect the organization as a whole. These risks are generally not specific to one business process but rather are applicable at the organization-wide level. Some of these risks include competitor risk, political risk and regulatory risk.
- Evaluate the effectiveness of controls within the company or a specific business process within the company and
- Enhance the performance of a specific business process within the company.

Audit Procedures regarding risk management process

1. Send questionnaires to division heads
2. Audit determines high risk areas
3. Meet with division…to agree on audit areas
4. Present audit plans to the Audit Manager
5. Present the audit plans to Management Committee

Background information should be obtained about the activities to be reviewed. A review of background information should be performed to determine the impact on the engagement. Such items include:

- Objectives and goals
- Policies, plans, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports
- Organizational information, e.g. number and names of employees, key employees, job descriptions, and details about recent changes in the organization, including major system changes
- Budget information, operating results, and financial data of the activity to be reviewed
- Prior engagement working papers
- Results of other engagements completed or in process
- Correspondence files to determine potential significant engagement issues
- Authoritative and technical literature appropriate to the activity.

If appropriate, a survey should be conducted to become familiar with the activities, risks and controls, to identify areas for engagement emphasis, and to invite comments and suggestions from auditees. A survey is a process for gathering information, without detailed verification, on the activity being examined. The main purposes are to:

- Understand the activity under review
- Identify significant areas warranting special emphasis
- Obtain information for use in performing the engagement
- Determine whether further auditing is necessary

A survey permits an informed approach to planning and carrying out engagement work, and is an effective tool for applying the audit activity's resources where they can be used most effectively. The focus of a survey will vary depending upon the nature of the engagement. The scope of work and the time requirements of a survey will vary.

Contributing factors include the auditor's training and experience, knowledge of the activity being examined, the

type of engagement being performed, and whether the survey is part of a recurring or follow-up assignment. Time requirements will also be influenced by the size and complexity of the activity being examined, and by the geographical dispersion of the activity.

A summary of results should be prepared at the conclusion of the survey. The summary should identify:

- Significant engagement issues and reasons for pursuing them in more depth
- Pertinent information developed during the survey
- Engagement objectives, procedures and special approaches such as CAAT's
- Potential critical points, control deficiencies and/or excess controls
- Preliminary estimates of time and resource requirements
- Revised dates for reporting phases and completing the engagement
- When applicable, reasons for not continuing the engagement

Components:

Identification/creation of risk universe – this list involves the identification of business risks applicable to APMC. The list of business risks is called the Risk Universe. Brainstorming techniques together with the department/division heads are used to obtain ideas with respect to all of the risks that may impact the organization. A business risk model is used as a framework for the identification process. Factors considered in the risk assessment process are in the risk universe are as follows:

- Environment risk
- Process risk: operations, empowerment, technology, integrity, financial risks
- Information for decision making risk: operational, financial, strategic

Changes in management direction, objectives, emphasis, and focus should be reflected in updates to the audit universe and related audit plan.

Prioritization of identified risks – this phase prioritizes risks based on the ff. criteria:

Significance – the impact that the event, action or inaction would have on the company if it were to occur

| Document ID | Title | Page No. |
| **PP- IA-0.001** | **AUDIT PROCESS MANUAL** | **12 of 50** |

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

Likelihood – the probability that the event or action would occur assuming no controls are in place to mitigate the risk.

We focus on areas with high likelihood and high significance.

Evaluation of control effectiveness – in this phase, the "high priority risks" are then analyzed for control effectiveness. Participants create a control map which helps to establish perceived performance gaps. Potentially under-controlled risks are identified, as well as over-controlled risks which are deemed candidates for efficiency reviews.

2200. LINKING THE AUDIT PLAN TO RISK AND EXPOSURES

The audit universe can include components from the company's strategic plan. By incorporating components of the strategic plan, the audit universe will consider and reflect the overall business plan. Strategic plans are also likely to reflect the company's attitude toward risk and the degree of difficulty to achieving planned objectives. It is advisable to assess the audit universe on at least an annual basis to reflect the most current strategies and direction of the company. The audit universe can be influenced by the results of the risk management process. When developing audit plans, the outcomes of the risk management process should be considered.

Audit work schedules should be based on, among other factors, an assessment of risk priority and exposure. Prioritizing is needed to make decisions for applying relative resources based on the significance of risk and exposure. A variety of risk models exist to assist the Audit Manager in prioritizing potential audit subject areas. Most risk models utilize risk factors to establish the priority of engagements such as: peso materiality, asset liquidity, management competence, quality of internal controls, degree of change or stability, time of last audit engagement, complexity, employee and government relations, etc.

Changes in management direction, objectives, emphasis, and focus should be reflected in updates to the audit universe and related audit plan.

In conducting audit engagements, methods and techniques for testing and validating exposures should be reflective of the risk materiality and likelihood of occurrence.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**13 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

Management reporting and communication should convey risk management conclusions and recommendations to reduce exposures. For management to fully understand the degree of exposure, it is critical that audit reporting identify the criticality and consequence of the risk activity to achieving objectives.

The Audit Manager should, at least annually, prepare a statement of adequacy of internal controls to mitigate risks. This statement should also comment on the significance of unmitigated risk and management's acceptance of risk.

The toll audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of management and the board should be considered in this process.

The Audit Manager should consider accepting proposed consulting engagements based on its potential to improve management of risks, add value, and improve the company's operations. Those engagements that have been accepted should be included in the plan.

2300. AUDIT PLANNING

Audit planning shall be undertaken, at least annually, and should cover a 3-year period. The planning process involves establishing:

- Goals
- Engagement work schedules
- Staffing plans and financial budgets
- Activity reports

The goals of the audit activity should be capable of being accomplished within specified operating plans and budgets and, to the extent possible, should be measurable. They should be accompanied by measurement criteria and targeted dates of accomplishment.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**14 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

Engagement work schedules should include the ff:
- Activities to be performed
- Target period/dates
- Estimated time required, taking into account the scope of the engagement work planned and the nature & extent of related work performed by others

Matters to be considered in establishing work schedule priorities include:
- Dates and results of previous audit
- Updated assessments of risk and effectiveness of risk management and control process
- Requests by Management Committee, and other units
- Current issues relating to organizational governance
- Major changes in business, operations, programs, systems and controls
- Opportunities to achieve operating benefits
- Changes to and capabilities of audit staffs. The work schedules should be sufficiently flexible to cover unanticipated demands on the audit activity.

2400. COORDINATION WITH EXTERNAL AUDITORS

Internal and external auditing work should be coordinated to ensure adequate audit coverage and to minimize duplicate efforts. The scope of internal auditing work encompasses a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. On the other hand, the external auditor's ordinary examination is designed to obtain sufficient evidential matter to support an opinion on the overall fairness of the annual financial statements. The scope of work of external auditors is determined by their professional standards, and they are responsible for judging the adequacy of procedures performed and evidence obtained for purposes of expressing their opinion on the annual financial statements.

Oversight of the work of external auditors, including coordination with the internal audit activity, is generally the responsibility of the board. Actual coordination should be the responsibility of the Audit Manager. The Audit Manager will require the support of the board to achieve effective coordination of audit work.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**15 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

The Audit Manager may agree to perform work for external auditors in connection with their annual audit of the financial statements. Work performed by the auditors to assist external auditors is subject to all relevant provisions of the internal auditing standards.

The Audit Manager should make regular evaluations of the coordination between internal and external auditors. Such evaluations may also include assessments of the overall efficiency and effectiveness of internal and external auditing functions, including aggregate audit cost.

Assessments of the performance of external auditors extending to matters beyond coordination with the internal auditors may address additional factors such as:

- Professional knowledge and experience
- Knowledge of the company's industry
- Independence
- Availability of specialized services
- Anticipation of and responsiveness to the needs of the company
- Reasonable continuity of key engagement personnel
- Maintenance of appropriate working relationships
- Achievement of contract commitments
- Delivery of overall value to the organization

The Audit Manager should communicate with external auditors regarding certain matters to have an understanding of the issues which include:

- Those that may affect the independence of the external auditors
- Significant control weaknesses
- Errors and irregularities
- Illegal acts
- Management judgments and accounting estimates
- Significant audit adjustments
- Disagreements with management
- Difficulties encountered in performing the audit

Coordination of audit efforts involves periodic meetings to discuss matters of mutual interest:

- Audit coverage

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**16 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

- Access to each other's audit programs and working papers
- Exchange of audit reports and management letters
- Common understanding of audit techniques, methods and terminology

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SECTION 3000: TYPES OF AUDITS

APMC's Audit Division follows the Information Systems Standards, Guidelines and Procedures for Auditing and Control Professional Practice of ISACA (Information Systems Audit and Control Association) and Philippines Auditing Standards. A variety of audits are performed in the review of APMC and the Employer's resources. These audits include:

- Operations Audit
- Revenue Verification
- Financial Audit
- Hospital Information System (HIS) Audit
- Compliance Audit
- Investigative Audit
- Other Service

3100. OPERATIONS AUDITS

These audits address the effective and efficient use of company and the employer's resources, and evaluate whether procedures and controls are best used to achieve company goals and objectives. Operations audit is done in all departments.

3200. REVENUE VERIFICATION

The audit primarily relates to accounting, reconciliation and reporting of cashiers and related transactions. Revenue audit review, examines, evaluates and validates the accuracy and completeness of cashier's transactions on a per day basis.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**17 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

3300. FINANCIAL AUDIT

These audits primarily relate to accounting and reporting of financial transactions including commitments, authorizations and receipts and disbursement of funds. Financial audits validate the accuracy, completeness, and authorization of records and account balances, and address accounting for and reporting of all financial transactions. An additional purpose is to determine whether there are sufficient controls over cash and similar assets as well as policies and procedures governing the acquisition and use of resources. These transactions should be properly reported in the financial statements and supported by accounting records and financial documentation.

3400. HOSPITAL INFORMATION SYSTEM (HIS) AUDIT

HIS audits address the internal control environment of automated information processing systems and how people use those systems. HIS audits typically evaluate system input, output, processing controls, backup and recovery plans, system security, and computer facility reviews. HIS audits evaluate all aspects of computer services including: existing computer-based systems, systems under development, systems development process, computer center operations, and operating systems.

3500. COMPLIANCE AUDIT

These audits address the specific department's adherence to laws and regulations, policies and procedures, government requirements, and restrictions imposed, etc.

3600. INVESTIGATIVE AUDIT

Overview

Investigative audits are performed when appropriate. These audits focus on alleged violations of company policies and procedures and others that may result in prosecution or disciplinary action. Internal theft, misuse of company assets, cash losses, inventory manipulation, misrepresentation and conflicts of interest are examples of reasons for investigative audits. For complicated/complex cases requiring specialization or technical

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**18 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

knowledge, an external service investigative agency may be tapped for an enhanced/comprehensive audit report.

Investigative Audit Process

The Audit process documented in this *Manual* should be followed. However, initiation of the investigation usually begins with actual audit findings, feedbacks/tips from other units, or request from the management; these discussions replace the traditional opening conference. Audit procedures are generally not shared with the auditee. In fact, the objective of the investigation may be masked so that the potential for losing evidence is not increased. Fieldwork and interviews are dictated by the circumstances. Workpaper organization and standards should comply with the guidelines in this *Manual*. Auditors are not allowed to request Incident Report from auditee.

Reporting

The report publication process is also very sensitive. If the Auditor suspects' illegal act has been committed, the Auditor should contact the Audit Manager by phone immediately and who shall keep abreast of any ongoing investigations. When the audit reasonably certain that an illegal act has been committed, the Audit Manager will contact the appropriate company officials. It is important to maintain confidentiality in all investigations to protect the reputations and careers of those involved.

3700. OTHER SERVICES
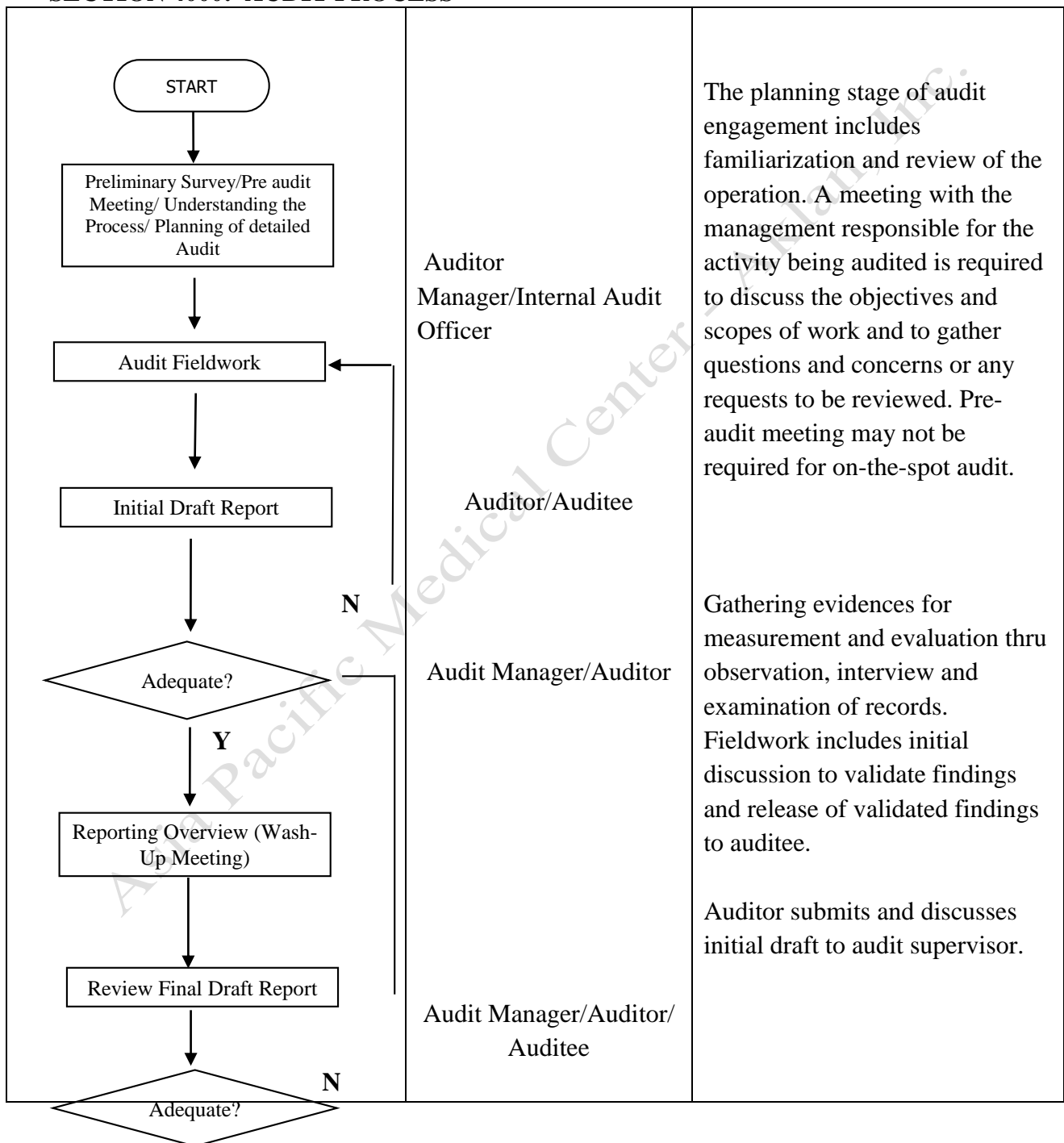
Audit also performs other ad-hoc services such as:
- Review of policies and procedures of various units,
- Membership in cross-functional process teams,
- Involvement in pre-implementation reviews,
- Orientation of audit personnel and other employer/department's personnel re: audit procedures, and,
- Others as requested by management.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**19 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

SECTION 4000: AUDIT PROCESS

SECTION 4000: AUDIT PROCESS

Auditor Manager/Internal Audit Officer

The planning stage of audit engagement includes familiarization and review of the operation. A meeting with the management responsible for the activity being audited is required to discuss the objectives and scopes of work and to gather questions and concerns or any requests to be reviewed. Pre-audit meeting may not be required for on-the-spot audit.

Auditor/Auditee

Audit Manager/Auditor

Gathering evidences for measurement and evaluation thru observation, interview and examination of records. Fieldwork includes initial discussion to validate findings and release of validated findings to auditee.

Auditor submits and discusses initial draft to audit supervisor.

Audit Manager/Auditor/ Auditee

ASIA PACIFIC MEDICAL CENTER (APMC) - AKLAN, INC.
Formerly: Allied Care Experts (Ace) Medical Center - Aklan, Inc.

Flowchart	Responsibility	Description
Y → Release of Final Audit Report → Exit Conference → Follow-up → (A)	Audit Manager/ Medical Director Auditor Auditor/Auditee/ Management Auditor/Auditee	The auditor discusses the audit findings, Conclusions and recommendations with the auditee and his/her immediate supervisor. Auditor finalizes the audit report and indicates in the report to whom audit was discussed. Immediate superior shall be given nine (9) days to resolve the case upon receipt of audit report. Final audit report is released to the auditee and the management. Auditee's comments on the report and any inaccuracies or impractical recommendations are resolved. Auditor shall conduct a follow-up audit focusing mainly on the deviations/action plans noted above.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**21 of 50**
		Issue No.
Revision	Unit/Section/Dept.	**001**
0.0	**Internal Audit Department**	
		Issue Date
		07/07/2023

Estimated Time Table to complete the Audit Process	
Activity	**Estimated No. of Days**
Preliminary Survey/Pre audit Meeting/ Understanding the Process/ Planning of detailed Audit	2.00
Fieldwork	4.00
Reporting Overview	1.50
Exit Conference	1.00
Follow-up	1.00
Close Out meeting	0.50
Total estimated no. of days to complete an audit process	**10.00**

4100. PRELIMINARY SURVEY & RESEARCH

4101. INITIAL RESEARCH (FAMILIARIZATION)

Prior to meeting with the auditee, the assigned auditor/s shall obtain a basic understanding of the operation or system under review. This review will normally include:

- Review of permanent/continuing audit file (if available)
- Review of previous audit work papers, reports, management letters (if available)
- Review of department financial statements (transactions) including historical trends if available
- Review of department organization and staffing
- Consultations with other audit staff who have been involved with similar audits or are familiar with this department, related files, systems, etc
- Review department goals/objectives
- Review department's mission statement and other information
- Review and research for applicable laws, regulations and departmental policies and procedures
- Evaluation of need for 3rd party consultant/s and other technical experts.

4102. PERMANENT FILE

A permanent file should give the auditor general knowledge about the unit. The information in the file is not expected to change significantly from year-to-year, but it is pertinent to the current year's audit. Prior year's financial would aid the auditor in gathering general knowledge about the unit. It might also be useful in comparing the current year to the prior year or performing analysis. A permanent file should only be prepared for audits that we continually do or if the area audited is a system such as payroll, accounts payable, etc. Before a permanent file is established, consult with the Audit Manager. If a permanent file is not prepared, useful information can be filed in the work papers.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**23 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date **07/07/2023**

4200. PRE-AUDIT MEETING

A pre-audit meeting is held to communicate information with all who need to know about the engagement. Attendees should include the engagement team and members of management responsible for the activity being examined. The meeting should be held during the planning phase of the engagement.

An agenda for this meeting should be prepared and sent to the attendees prior to the meeting, and a copy of the agenda should be included in the working papers. **A summary of the topics** discussed at the pre-audit meeting, the **date of the meeting**, and **attendees** (name and title) should be documented as minutes in the workpapers. The topics of discussion should include the following:

- Planned engagement objectives and scope of work
- Timing of fieldwork and report issuance
- Audit team members assigned to the engagement
- Process of communicating throughout the engagement, including the methods, time frames, and individuals who will be responsible
- Business conditions and operations of the activity being examined, including recent changes in management or major systems
- Questions, concerns or any requests from management
- Required documents and Audit space
- Matters of particular interest or concern to the engagement team

Description of the audit division's procedures for findings and potential recommendations in addition to report issuance, including how, when, and to whom the engagement results will be communicated, and follow-up process.

4300. UNDERSTANDING THE PROCESS

The auditor will review the unit's internal control structure and processes. In doing this, the auditor uses a variety of tools and techniques, including flow charts, interviews, data gathering and analysis. The review of internal controls helps the auditor design tests to be performed in the fieldwork section of the audit.

4301. IDENTIFICATION OF POTENTIAL PROBLEM AREAS

An objective of the preliminary review is to identify potential problem areas. One of the first steps in determining problem areas is to identify those processes, activities and functions that are significant. These can be identified as those processes or activities:

- Which are susceptible to fraud, abuse or mismanagement
- In which there is a large amount-volume of transactions or large investments in assets which are subject to loss if not carefully controlled
- About which concerns have been expressed by management
- In which prior audits have disclosed major weaknesses or deficiencies

This phase of the preliminary review should identify the significant activities of the area and what inherent risks exist. Once activities and risks have been identified, the next step is to evaluate controls.

The auditor is responsible for determining how much reliance can be placed on the entity's controls to protect its assets, assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results.

A complete review of all controls is not always necessary because some controls may be irrelevant to basic issues which are the subject of the audit effort. Therefore, the auditor must identify those controls which are the most important and critical to the operation and concentrate on them. Some controls which can normally be identified as critical are those which are designed to protect against:

- Substantial financial losses
- Non-compliance to SOP's
- Mismanagement
- Legal violations

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**25 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

4302. EVALUATION OF THE INTERNAL CONTROL ENVIRONMENT

The evaluation of the system of internal controls should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to accomplish its intended purpose. The study and evaluation should be adequately documented and properly supported by tests, observations and inquiries. The use of information system methods that can affect the reliability,

accuracy or usefulness of financial or statistical data and reports should be included as part of the study and evaluation.

Internal controls are evaluated throughout the audit examination. Auditor in-charge assigned in the engagement should prepare the program to assist them in performing this aspect of audit work. Generally, the guidelines are incorporated in the audit program in the form of internal control questionnaires, checklists and specific audit tests and procedures. Although the written audit guidelines are invaluable aids, Auditor in-charge must ensure that each assigned staff member is familiar with the scope and objectives of the internal control review.

The review of the system of internal controls is performed by discussing the control procedures, methods, and plan of organization with the auditee. The auditor may use internal control questionnaires or checklists as well as written memoranda, flowcharts, a transaction walkthrough, and other applicable techniques in determining the adopted control procedures and the method and plan of organization. These techniques are preferred because they provide adequate documentation. In addition to discussion with the auditee, auditors make inquiries and perform observations relating to the system of internal controls. These inquiries and observations, and resulting findings and conclusions are also documented in their working papers. This documentation includes identifying control strengths and weaknesses and cross-referencing them to the audit tests and procedures concerned with substantive testing.

To assist in evaluating the system of internal control, the auditor should consider the following:

- Types of errors or irregularities that could occur
- Control procedures to prevent or detect such errors or irregularities
- Whether the procedures have been adopted and are being followed satisfactorily

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**26 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

- Weaknesses which would enable errors and irregularities to pass through existing control procedures
- The effect these weaknesses have on the nature, timing and extent of auditing procedures to be applied
- Audit methods used to study and evaluate existing internal controls include: Internal Control Questionnaires, Narratives, Flowcharts, Working papers, tests of compliance, etc.
- The nature, timing and extent of tests of compliance are closely related to the control procedures and methods studied by the auditor.
- Additionally, the auditor must consider the availability of evidence and the audit effort required to test compliance.

4400. PLANNING THE DETAILED AUDIT

The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The auditor's principal effort should be in those areas where significant problems or deficiencies may exist, rather than in areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

The results of the preliminary review should be analyzed to determine the need for a detailed audit and the specific areas to be covered. The detailed audit program should be prepared allocating the project budget time established for the fieldwork to the specific areas to be covered in the audit.

4401. AUDIT PROGRAM DEVELOPMENT

The audit program outlines the necessary steps to achieve the objectives of the audit within the defined scope as listed in the assignment sheet. The audit program is a detailed plan for the work to be performed during the audit. A well-constructed audit program is essential to completing the audit project in an efficient manner.

A well-constructed audit program provides:

Document ID **PP- IA-0.001**	Title **AUDIT PROCESS MANUAL**	Page No. **27 of 50**
Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

ASIA PACIFIC
MEDICAL CENTER
(APMC) - AKLAN, INC.
Formerly: Allied Care Experts (Ace) Medical Center - Aklan, Inc.

- A systematic plan for each phase of the work that can be communicated to all audit personnel concerned
- A means of self-control for the audit staff assigned
- A means by which the audit manager can review and compare the performance with approved plans
- Assistance in training inexperienced staff members and acquainting them on the objectives, scope and work steps of the audit
- An aid to the audit manager in making possible reduction in the amount of direct supervisory effort needed
- Assistance in familiarizing successive audit staff with the nature of work previously carried out. The program consists of specific directions for carrying out the assignment. It should contain a statement of the objectives of the operation being reviewed. For each segment of the audit program should (1) lists the risk that must be covered in that segment, (2) show for each risk the controls that exist or that are needed to protect against the indicated risk, (3) show for each of the listed controls the work steps required to test the effectiveness of those controls or set forth the recommendations that will be required to install needed controls, and (4) provide space for referencing the related audit working papers.

Standardized audit programs are available and should be used or modified to achieve the audit objectives. The Section Audit Head or auditor in-charge shall submit the APG to the Audit Manager for approval. The auditor includes an estimate of the hours necessary to complete the project. The section audit head/audit manager reviews the auditor's work-to-date and then discusses any concerns or proposed audit program changes. APG's are tailor-fitted, as necessary, during the course of the engagement

4500. FIELDWORK

Fieldwork is the process of gathering evidence for measurement and evaluation. Audit evidence is obtained by observing conditions, interviewing people, and examining records. Audit evidence must provide the basis for audit findings, conclusions and recommendations. The purpose of fieldwork is to complete the audit procedures identified in the audit program in response to the audit objectives and in support of the audit conclusions.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**28 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

Fieldwork includes:

1. Gaining an understanding of the activity, system or process under review and the prescribed policies and procedures
2. Observing conditions or operations
3. Interviewing people
4. Examining accounting, business and other operational records
5. Analyzing data and other information
6. Reviewing systems of internal control and identifying internal control points
7. Evaluating and concluding on the adequacy of internal controls
8. Conducting compliance testing
9. Conducting substantive testing
10. Determining if observations and recommendations reported in prior audits have been corrected and/or implemented
11. Initial discussion to validate findings by the auditor, which should be signed/agreed by the auditee. A photocopy of this discussion should be left with the auditee.
12. Release of initial validated findings per module for complex projects
13. Does not require auditee to issue incident reports. Instead, IR's should be requested thru the auditee's superior.

4501. AUDIT SAMPLING

Audit sampling is performing an audit test on less than 100% of a population. In sampling, the auditor accepts the risk that some or all errors will not be found and the conclusions drawn may be wrong.

Types of Sampling:

- Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.
- Attribute sampling – is used when the auditor has identified the expected frequency or occurrence of an event
- Variables sampling – is used when the auditor samples for values in a population which vary from item to item

- Judgment sampling – is used when it is not essential to have a precise determination of a probable condition of the universe, or when it is not possible, practical or necessary to use statistical sampling.

The type of sampling used and the number of items selected should be based on the auditor's understanding of the relative risks and exposures of the areas audited.

Policy/Process: All audit testing will include sampling. The type and sample size will be described in the audit program and approved by the audit head.

4502. FLOWCHARTING

A flowchart is a pictorial description of how transactions flow through the system. It visually communicates procedures, controls, and the sequence in which it occurs. The advantages of using a flowchart to document a system is as follows:

- Flowcharts are easier and less time consuming to understand than narrative
- Flowcharts make it easier represent flow of transactions using standardized symbols
- Flowcharts are easier to update

Flowcharting is an effective way to document processes and related control activities. When preparing flowcharts, the following guidelines should be observed:

- In general, licensed software should be used to prepare flowcharts.
- At a minimum, flowcharts should document divisions/departments and people involved, activities, information and communication systems, documents used or produced, and significant control and monitoring activities; the flowchart should always include the activities necessary to post transactions to the general ledger.
- The flowchart should proceed from left to right and from top to bottom; left to right arrangement should indicate the crossing of departmental lines; top to bottom arrangement should indicate activities within departments.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**30 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

4503. INTERVIEWING TECHNIQUES

Auditing requires interpersonal contact and, therefore, the ability to effectively communicate with people is essential. Communication occurs most frequently through the audit interview, which is primarily used to obtain information about operating procedures. As the major source of contact, the interview also presents the opportunity to create and maintain better relations between the audit division and auditees. Effective interviewing helps the auditee come to regard the auditor as an aid to improvement, rather than bearer of trouble.

Before the interview can begin, the auditor must determine and clarify his objectives: "What information is needed?" or "What is to be accomplished as a result of the interview?" The objectives are the purpose for conducting the interview and should not be forgotten as it progresses. Once the objectives are determined, the auditor can determine the best method for accomplishing them.

Fundamentally, two methods of interviewing are recognized--directive and non-directive. The directive interview is planned and led by the auditor whose purpose is to obtain specific information about verifiable facts. Prior to the interview, the auditor determines exactly what they want to know and

establishes questions that will aid them in arriving at the information. During the interview, the auditor maintains complete control of events. They set the tone and the pace and keep the conversation in line with the predetermined program. The advantage in directive interviewing is that the auditor discovers exactly what they want to know. The disadvantage is that they discover very little else.

In contrast to the rigid control of the directive interview, the non-directive interview is to achieve understanding and build confidence with the auditee by creating an atmosphere of candid self-expression.
When using this technique, the auditor avoids asking direct questions. The interview is structured only to the extent that the auditor opens areas for discussion. While the free form of the non-directive interview has the advantage of presenting new areas for investigation, the discussion can wander indefinitely if it is not well controlled.

The interviewing method chosen depends on the situations presented to the auditor. The person being interviewed, the information needed and the time allotted must all be considered before the method can be determined. Consequently, there is not a universal "best" method for conducting an interview. Directive may be used one-time, non-directive the next, and a combination of the two on a subsequent occasion. Generally, within the audit framework, the interview begins with the directive approach and concludes with the non-directive approach so that a maximum amount of information can be gained within the limited time available.

After the method has been determined, there are several steps that should be followed in conducting the interview. They are as follows:

Plan The Interview
Planning for the interview should include scheduling the interview, establishing where the interview will take place and determining who will be involved and in what sequence.

In scheduling the interview, the department's peak workloads should be considered. The auditor should have enough knowledge of the department's operations so that they will avoid peak work periods. A time and place mutually convenient to the auditor and to the auditee should be established.

The setting for the interview should reflect an atmosphere conducive to congenial conversation. If possible, a place that is comfortable and completely private should be found. The auditee will talk more freely if the possibility of being overheard is eliminated. Furthermore, constant interruptions divert the conversation and important objectives may not be achieved.

The auditor must also decide who should be interviewed and in what sequence the interviews should occur. The manager of the department being reviewed will invariably be interviewed. In addition, supervisors and appropriate operating personnel should be interviewed since they are more often aware of how the department is functioning and where problem areas lie.

Open The Interview
Establishing rapport is the purpose of a good opening. The opening should be kept informal with a few general remarks that will put the auditee at ease, especially if the auditee seems apprehensive. If, however, the auditee appears to be pressed for time,

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**32 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

small talk will probably irritate them and should, therefore, be avoided. Conduct the opening according to the mood of the auditee, but always be informal, friendly and natural.

Question

Regardless of the method of interviewing used, all questions that are asked should be designed to elicit a detailed response. Avoid questions that can be answered with a "yes" or "no." Rather than using "do" or "are" to begin a question, use "why," "how" and "what" or other words that requires an explanation in reply. Also, avoid leading questions that assume an answer. The leading question usually evokes the response the auditor wants to hear instead of an accurate reply. (Although they can be one and the same, it's better not to make this assumption.) If, for example, the auditor asks, "You do keep all signature cards on file, don't you," the auditee will be inclined to answer "yes" even if they do not have a single card in their file drawers.

Listen

Listening, as opposed to hearing, should begin the moment the interview begins and continue throughout. Listening and hearing are not the same. Whereas hearing is only the mechanical reception of sound, listening is a skill requiring discipline as seen in the ability to give attention, to interpret and to
understand. In short, listening is the facility for determining the speaker's meaning.

Meaning can be discerned from more than words alone. It can be inferred from voice inflections, rate of speech, gestures, facial expressions, body language or

the emotional tone of the words spoken. The manner in which something is said can be more revealing than what is said. Very often, the speaker's sincerity, emotions, attitudes or intentions can be detected from the clues contained in the way the words are spoken.

Close the Interview

The auditor should know when to terminate the interview. If the auditee appears to be restless or preoccupied, end the interview as quickly as possible. If, on the other hand, they are especially talkative and willing to continue the conversation, do not stop because the allotted time is up. Valuable information could be lost as a result of sticking to a schedule. In closing the interview, follow simple rules of courtesy and common sense. Always express appreciation for the opportunity to talk with the auditee and offer

to answer any questions that may arise regarding the interview itself or the audit in general.

Follow Through on the Interview

If during the interview it was decided that some kind of action should be taken, take it. If another interview is to be set up, set it up. When, however, unforeseen circumstances prevent a decision from being acted upon, inform the auditee and explain why. The failure to support words with actions is the fastest route to losing credibility and should be avoided without exception.

Review and Evaluate

In order to learn for future interviewing, review and evaluate notes made during and after the interview. Go back over the interview to determine what went right or wrong and why. Interviewing techniques can then be adjusted and practiced according to past successes and failures. Interviewing is a skill and as such, requires practice in order to be done effectively. The steps outlined above should serve as practice guidelines and not as an inflexible set of rules. After experience has been attained, revisions, deletions or additions can be made. Eventually, the auditor will have developed a style of interviewing that is comfortable and is an effective device for acquiring information as well as communicating with auditees.

4504. AUDIT EVIDENCE

Evidential matter obtained during the course of the audit provides the documented basis for the auditor's opinions, findings and recommendations as

expressed in the audit report. As internal auditors, we are obliged by our professional standards to act objectively, exercise due professional care, and collect sufficient, competent, relevant and useful information to provide a sound basis for audit findings and recommendations.

Audit evidence is the information internal auditors obtain through observing conditions, interviewing people and examining records. Audit evidence should provide a factual basis for audit opinions, conclusions and recommendations. Audit evidence has been categorized as physical, testimonial, documentary and analytical.

Physical Evidence

Physical evidence is obtained by observing people, property and events. The evidence can take the form of photographs, charts, maps, graphs or other pictorial representations. Graphic evidence is persuasive. A picture of an unsafe condition is far more compelling than a written description. All observations should, if possible, be supported by documented examples. When the observation is the sole evidence, it is preferable to have two or more auditors make important physical observations. If possible, representatives of the auditee should accompany the auditors on such inspections.

Testimonial Evidence

Testimonial evidence takes the form of letters or statements in response to inquiries or interviews. These, standing alone, are not conclusive; they should be supported by documentation if possible. Auditee statements can be important leads not always obtainable by independent audit testing. Where possible, tape interviews to serve as testimonial evidence.

Documentary Evidence

This is the most common form of audit evidence. It may be external or internal. External documentary evidence includes letters or memorandums received by the auditee, suppliers' invoices and packing sheets. Internal documentary evidence originates within the auditee organization. It includes accounting records, copies of outgoing correspondence, receiving reports and the like.

The source of documentary evidence will affect its reliability. An external document obtained directly from its source (a confirmation, for example) is more reliable than a document obtained directly from the auditee. The possibility always exists that internal documents can be altered. Other matters affecting reliability include the circulation of documents through outside parties (canceled checks), satisfactory internal review procedures and corroboration by other evidence.

Internal procedures have an important effect. For example, the reliability of a time card is significantly improved if employees are prohibited from punching a fellow employee's card, supervisors review the cards, the payroll section checks time cards against job tickets and surprise floor checks are made.

Analytical Evidence

This type of evidence stems from analysis and verification. The sources of such evidence are computations; comparisons with prescribed standards, past operations, similar operations, and laws or regulations; reasoning; and breaking down information into its components.

4600. REPORTING OVERVIEW

Reporting Results

Our principal product is the final report in which we express our conclusion/s on the audit findings and discuss our recommendations for improvements. To facilitate communication and ensure that recommendations presented in the final report are practical, Audit discusses the rough draft of the audit report with the auditee prior to issuing the final report. Auditees' immediate superior should resolve the audit concerns within nine (9) days from the release of the audit report. Audit prints and distributes through e-mail the final report to the respective addressees (including Department Heads). The results of the audit are also included in the periodic reporting to the Management Committee.

Report Criteria

Accuracy: Findings must be accurate and factual. Every statement, figure and reference must be based on sufficient evidence. Statements of fact must carry the assurance that the auditor personally observed or validated the fact.

Clarity: Clarity is the accurate expression of an idea that results in an understanding of that idea by the reader. Lack of understanding of the subject matter on the part of the auditor may impede clear writing. When using an acronym or abbreviation, spell it out when it first appears in the report with the acronym in parenthesis. Therefore, in the report, the acronym may be used.

Conciseness: The report should be concise; should be brief but complete.

Tone: The report's tone should be courteous. The auditor should consider the report's possible effect upon the audience and strive to present the facts in a neutral, objective

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**36 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

manner. The report should always avoid the use of slang and technical terms that would not be familiar to all individuals receiving the report. In instances where a technical term must be used, it should be clearly explained or defined. One way to do this is to include a footnote explaining the term at the bottom of the page containing the first occurrence of that term. The audit report should make reference to positions and titles instead of individual names, except for perpetrators identified in investigative audit reports, which because of their nature would be marked as "Confidential".

Tense: The use of past or present verb tense in the audit report should be based upon what will best communicate to the reader our knowledge of the conditions at the time the document is issued. When the significant audit concern still exists, present tense may be more appropriate and less confusing to the reader. If corrective action has been taken, past tense may be more appropriate.

4700. EXIT CONFERENCE

After the draft report has been reviewed and approved by the Comptroller, the auditors meet with the auditee to discuss the findings, recommendations and text of the draft. At this time, the auditee comments on the draft report, and any inaccuracies or impractical recommendations resolved to the extent possible. Note: it is expected that audit findings are already final at this stage and will not be overturned by the auditee.

Pre-exit conference items:
- There should be no surprises – everything in the draft should have been discussed during the fieldwork.
- Be sure you can easily find supporting documentation for findings in the working papers in case questions arise.

- Try to anticipate potential questions / conflicts
- Meeting agenda
- Go through verbal recommendations (e.g. minor feedbacks / comments not included in the final report)

Discuss the following and go through report:

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**37 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

- Do they want to respond after receiving the report or would they like their response either included or attached to the final report?
- A follow-up will be done within the agreed timeframe to review action taken.
- Result of audit, response and follow-up will be included in the regular report to Management Committee.
- Are there any comments, additions, or deletions on background?
- Any questions or comments about other sections?
- General comments on the audit process?

4800. FOLLOW-UP

Within the set timeframe after the release of the final report, Audit shall perform a follow-up review to ascertain the resolution of the report findings.

The actions taken to resolve the findings are reviewed and may be tested to ensure that the desired results were achieved. In some cases, managers may choose not to implement an audit recommendation and to accept the risk associated with an audit finding; the follow up review will note this as unresolved finding.

The follow-up report will list the actions taken by the auditee. Unresolved findings will also appear in the report and will include a brief description of the finding, recommendation, management response, current condition and continued exposure.

4900. CLOSE OUT MEETING
Purpose:
To continuously improve the quality of service to our customers/clients by requesting and reviewing their feedback of the level of satisfaction with our audit work.
Process:
A close out meeting shall be conducted after an audit report has been issued and discussed with the auditee. Feedbacks, clarification and recommendations on the audit process shall be discussed in the meeting. For sensitive feedbacks and concerns, the auditee may opt to forward the feedback in writing and should be coursed through directly to the Comptroller.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**38 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

SECTION 5000: WORKPAPER ORGANIZATION & RETENTION

5100. QUALITIES OF GOOD WORKING PAPERS & AUDIT REPORTS

- **Complete** – working papers must be able to "stand alone". This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each segment. All necessary details are included.
- **Concise** – working papers must be confined to those that serve a useful purpose.
- **Neat** – working papers should not be crowded. Allow for enough space in each schedule so that all pertinent information can be included in a logical and orderly manner. At the same time, keep working papers economical. Forms and procedures should be included only when relevant to the audit or to an audit recommendation. Avoid unnecessary listing and schedules. All schedules should have a purpose, which relates to the audit procedures or recommendations. Folders used are not crumpled and in order.
- **Organized –** lists according to order of arrangement of working papers.
- **Uniform** – all working papers should be of uniform size and appearance. Smaller papers should be fastened to standard working papers, and larger working papers should be folded to conform to size restrictions.

5200. WORKING PAPER TECHNIQUES

- **Descriptive Headings** – all working papers should include the title of the audit, title of working paper, preparer's initials, date prepared, source of information, and purpose of the working paper. This is written in the leftmost bottom of the workpaper.
- **Tickmarks** – the auditor makes frequent use of a variety of symbols to indicate work has been done. These symbols are commonly referred to as tickmarks. As these tickmarks have no special or uniform meaning in themselves, an explanation of each tickmark should be made on the schedule to which it appears.
- **Cross-referencing** – cross-referencing within working papers should be complete and accurate. Working papers should be cross-referenced to the Audit Findings. Audit Findings should be cross-referenced to the Audit Report to indicate final disposition

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**39 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

of the item. Cross-referencing should be done in the margins of audit report drafts. These references readily provide direct access to working papers.

- **Indexing** – The system of indexing working papers should be simple, yet leave room for flexibility. A capital letter should be used to identify each segment of the audit and numerals used to identify schedules within segments. This is placed at the righthand bottom of the workpaper.

- **Carry forward** – the auditor should make full use of the working papers developed in the prior audit. Flowcharts, system descriptions, and other data may still be valid. Those papers which remain useful should be part of the current working papers. It should be updated for current information, renumbered, referenced, initialed and dated by the current auditor.

5300. TYPES OF WORKING PAPERS

a. **Schedules and Analyses**

These are useful for identifying statistical trends, verifying the accuracy of data, developing projections or estimates, and determining if tasks or records have been properly completed. Each record review, data schedule, or analyses should include the following items:

- Explanation of each purpose
- The methodology used to select the sample, make the calculation, etc
- The criteria used to evaluate the data
- The source data and time frame considered
- A summary of results and analyses
- The auditor's conclusion

b. **Documents and Reports**

Copies or actual samples of various documents can be used as examples, for clarification, and as physical evidence to support a conclusion or prove the existence of a problem. These documents can be memos, reports, computer printouts, procedures, forms, invoices, flowcharts, contracts or any other item. A copied document should serve a useful audit purpose. Relevant soft copies of computer files should be printed and form part of the workpapers

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**40 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

The following suggestions are offered for preparation of working papers using documents rather than the auditor's notes:

- Indicate both the person and/or file that the document came from (source)
- Copy and insert only that portion of the report, memo, procedure, etc which is needed for purpose of explanation or as documentation of potential finding. Do not include the entire document in the working papers unless absolutely necessary.
- Fully explain the terms and notations found in the document, as well as its use. This is especially true when including maps, engineering drawings, or flowcharts in the papers. These explanations may be made on an attached preceding page or on the face of the document itself.
- Each document should be cross-referenced either to the page or separate analysis where it was discussed
- No document should be included in the working papers without an explanation why it was included

c. **Process Write-ups and Flow Charts**

As much as possible, obtain system flowcharts/write-ups from the auditee, for the Auditors to validate. If none, it is necessary to describe systems or processes followed by the auditee. Describe such procedures or processes through the use of write-ups or flow charts or a combination of the two. The choice of which method will depend on the efficiency of the method in relation to the complexities of the system being described.

Write-ups are often easier to use, and should be used, if the system or process can be described clearly and concisely. However, when write-ups would be lengthy, and descriptions of related control points are difficult to integrate in narrative, flowcharting is an appropriate alternative. Flow charts conveniently describe complex relationships because they reduce narrative explanations to a picture of the system. They are concise and may be easier to analyze than written descriptions.

Interviews

Most verbal information is obtained through formal interviews conducted either by person or thru remote communication. Formal interviews are most desirable because the interviewee know they are providing input to the audit; however, impromptu interviews, or even casual discussions can often provide important information. Any verbal information which is likely to support a conclusion in the audit working papers should be adequately documented. Interviews are useful in identifying problem areas, obtaining general knowledge of the audit subject, collecting data in an undocumented form, obtaining feedbacks which may be relevant to the

audit, assessments, and documenting auditee opinions or rationale for actions. Interview notes should contain only the facts presented by the person interviewed and not include any of the auditor's opinions. Interview should be documented and to be acknowledged by the interviewee.

In preparing interviews for working papers, consider the following suggestions:
- Be sure to include the name and title of the persons from whom information was obtained. This includes data gathered through casual conversations
- Indicate when and where the meeting occurred
- Organize notes by topic wherever possible
- Identify sources of information quoted by interviewee
- Use standard ICQ's and tailor-fit if necessary

d. Observations

What the auditor observes can serve the same purpose as an interview. If observations can be used to support any conclusions, then they should be documented. They are especially useful for physical verifications. Any observations (w/o needed further validation) should be discussed immediately to the auditee. Take photos, when necessary.

Observations used as supporting documentation should generally include the following items:
- Time and date of observation
- Where the observation was made
- Who accompanied the auditor during the observation

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**42 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

- What was observed (when testing is involved, the working papers should include the sample selection and basis of sampling)

f. Summary of Findings

All audit findings must be documented in a Section Summary schedule in the working papers. Unfavorable findings will be summarized on a Summary of Findings working paper whether or not they are to be included in the audit report. All findings should be documented immediately by the auditor discovering the situation. These findings should already been verified and discussed with appropriate levels.

5400. WORKPAPER GUIDELINES

a. Binder Guidelines

Workpapers should be organized in the following sections:

- Audit Report (a. final, b. draft)
- Review notes
- Minutes of meeting / Correspondences (pre-audit, engagement letter, action plans, emails)
- APG
- System documentation (procedures, flowcharts, policies)
- Compliance tests
- Substantive tests
- Sample documents

Binder organization should be adapted to each individual engagement. Thickness for bound and completed workpapers should not exceed 2 inches for filing purposes.

b. Numbering Guidelines (Store Sample Index)

Administrative and Report:

Audit Program Guide	- Change Fund Audit	APG-CC
Authorization Letter		A
Confirmation of Fund Accountability		B series
Cash Count Sheet		C series
Vault Setup		D

Initial Cash Float Shortage Notification Slip	E
Final Cash Float Shortage Notification Slip	F
Follow-up	Series – Numeric

NOTE: Each binder should have an index of all workpaper binders for the engagement. The appropriate network filepath to the directories storing the electronic engagement workpapers should be included at the bottom of each index page.

c. General Guidelines:

- Organize workpapers from the reviewer's perspective (logical flow, concise, etc.)
  - ⇒ Workpaper sequence should follow the work program.
  - ⇒ Each workpaper series should document testing of a specific area (i.e., department, process or account balance).

  - ⇒ Organize workpapers from the most summarized to the most detailed information

An example in change fund audits is as follows:
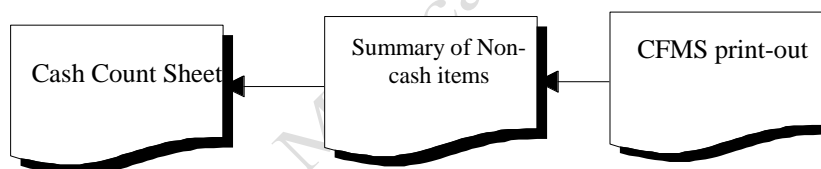
  - ⇒ A lead sheet should be located in the front section. The supporting schedules and testing should be documented in subsequent workpaper series' (i.e., Cash Count Sheet indexed as C, Summary of non-cash items as C-1, CFMC print-out indexed as C-2, etc.). The lead sheet and the testing series should be cross referenced.
- Documentation in the workpapers should satisfy the re-performance standard. Workpapers must be documented so that an auditor not familiar with the engagement can re-perform the procedures exactly as they were done. While copies of all work do not need to be included in the workpapers, enough descriptive information should be included to let reviewer(s) know what was done (e.g., voucher or document ID #).

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**44 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	Unit/Section/Dept. **Internal Audit Department**	**001**
		Issue Date **07/07/2023**

d. Tickmark Guidelines:

- Write tickmarks in red when possible.
- Use symbols to indicate attribute testing performed (Note: Use letters when several tests are performed)
- Use numbers to explain particular items on the workpapers
- Use notes at the bottom of the page to describe items relating to the entire workpaper
- Use circled numbers when summarizing amounts not aligned on workpapers
- Use circled numbers with arrows to cross reference a number within a workpaper
- Define tickmarks or reference tickmark legend at bottom of page
- Use standard tickmarks to indicate footing and cross footing, amounts tied to the general ledger and the AFR.

e. Standard tickmarks:

PBC	-	Prepared/provided by client (upon receipt of schedule)
G/L	-	Agreed to the general ledger
PNL	-	Agreed to the Profit and Loss Statement
₮	-	Footed by auditor (upon receipt of schedules with computations)
C₮	-	Cross-footed by auditor
R_x	-	Recalculated by auditor

f. Completed Engagement Workpapers and Checkout Procedures

Prior engagement workpapers are filed in respective laterals and can be checked out by any Audit staff. To checkout workpaper file(s), the staff should locate the workpaper needed. The workpaper file cabinet key should be requested from the Audit Assistant. To check-in workpaper file(s), this should be endorsed to the Audit Assistant to be re-filed. Electronic versions of the workpapers can be found in the applicable folders on the Audit shared network drive. A separate backup file (i.e. CD, flash discs) should be maintained. A centralized report file shall be maintained for all issued audit reports, memos, policies, etc. The custodian of this report file shall be the audit assistant/s.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**45 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

5500. RETENTION PERIOD

**Operations Audits**: 5 years with supporting working paper details and schedules.   If with cash loss and/or special investigation reports, these shall be kept for a maximum of 7 years.

**Non-operations audits**: Minimum of 5 years including supporting working paper details and schedules.

SECTION 6000: PERSONNEL

6100. AUDIT COMPETENCIES & JOB DESCRIPTION

Refer to HR files.

6200.   TRAINING POLICY

The ISACA _IS Standards, Guidelines and Procedures for Auditing and Control Professionals ("Standards")_ and **Attribute 5 of Code of Professional Ethics – Continuing Professional Education** states that "The IS auditor shall maintain competency in their respective fields and agree to undertake only those activities, which they can reasonably expect to complete with professional competence." The IS auditor is to maintain technical competence through appropriate continuing professional education.

6201. Training Requirements

It is the goal of the Audit Division that all members of the Audit Division strive to obtain an appropriate certification; such as, Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE) and/or Master's Degree (MBA).   In order to assist members in maintaining their technical competencies, the Audit Department provides a minimum of **___ days** technical training per year for all audit employees.

Each member of the Audit Division is responsible for ensuring that they obtain appropriate continuing education to maintain their certification: i.e., CPAs should comply with PICPA and PRC's minimum CPE hours for their license renewal. Regular employees of the department shall be covered by this training policy. Service providers are encouraged to enroll in similar trainings to maintain their competencies.

The Audit Division shall continuously evaluate its training needs. Auditors should also take the initiative to obtain the necessary trainings, as provided by the Company or on his personal capacity. For engagement specific training, the Auditor in-charge and individual team member(s) are responsible for seeking potential training opportunities to develop or enhance skill sets.

6202. Training Opportunities

Opportunities for training for Audit employees are available and should be approached proactively. There are in-house as well as external training programs offered, based on the training needs of an employee.

All new Audit employees will attend a formal TMC New Employee Orientation conducted by HR; which, shall focus on the company's core values, mission and vision, and general policies and procedures. An informal orientation shall be conducted by the appropriate audit personnel to the Toll Auditor.

Employees should determine their proficiency in core competencies and various other key areas using the Competency Profile Sheet to assist in developing their Individual Training Plan. Auditor positions may work with their respective Audit Supervisors on this plan.

6203. Training Approval

Refer to HR guidelines on training approval.

6204. Tracking Training

Upon the completion of any training, the employee and his/her superior are responsible for tracking their training activities, inclusive dates, and safekeeping of certificates of attendance.

6205. Echo Seminar

Auditors who attended trainings are required to share their learnings with their co-auditors, either thru a formal seminar or write-ups in the next departmental coordination meeting. They should also be able to identify application of their learnings on the job.

6300. DEVELOPMENT OF FUNCTIONAL SPECIALIZATION

The Division shall ensure this thru continuous assignment in various fields of specialization.

SECTION 7000: ADMINISTRATIVE PROCEDURE

7100. TIME REPORTING / OFFSETTING

All employees within the Audit Division must comply with the HR policies and procedures pertaining to time and attendance reporting.

Time Reports
- In addition, all employees are responsible for tracking the number of hours spent in performing their job duties.
- Tracking includes keeping record of hours spent on audit, project, administrative and/or other duties.
- A progress monitoring sheet, prepared on a monthly basis, or on a project basis, shall be tracked by concerned employee.
- For offsets, change of work schedules, prior approval by the respective superior shall be obtained by the audit staff.

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**48 of 50**

Revision **0.0**	Unit/Section/Dept. **Internal Audit Department**	Issue No. **001**
		Issue Date **07/07/2023**

7200. COMPUTERS

Policy

The Audit Division encourages employees to use information technology to do our work in the most efficient, cost effective way. Employees are primarily responsible for identifying opportunities to enhance their performance through the use of information technology and for providing adequate stewardship of the information technology entrusted to them. Comply with IT's policies and procedures

7300. TELEPHONES

Auditors shall efficiently use the telecommunication facilities adhering to policies and procedures regarding usage of telephones.

7400. E-MAILS

Audit Division supports the use of e-mail to assist in communicating with auditees and others. In order to efficiently use the computer resources, auditors should adhere to I.T.'s policies and procedures regarding e-mail usage.

7500. MISCELLANEOUS POLICIES

Information Security
The following security policy guidelines' information should be considered current audit division policy, to which compliance is expected.

Restricted information: All information reviewed in the course of an audit and information that auditors have access to should be considered confidential.

Workpapers: Upon completion of the audit, workpapers should be maintained in locked file cabinets within the audit premises. Access to audit files will be granted to individuals representing outside audit interests by the Medical Director. However, files should not leave the audit premises without authorization by the respective

Document ID	Title	Page No.
PP- IA-0.001	**AUDIT PROCESS MANUAL**	**49 of 50**

Revision	Unit/Section/Dept.	Issue No.
0.0	**Internal Audit Department**	**001**
		Issue Date
		07/07/2023

superior.

Data Ownership: All data kept in the Audit's computers should pertain to the company and related professional duties of the auditor. As such, these files are considered the property of the company, rather than the property of the individual who has created them. All files, whether paper, electronic, fiche, etc., may need to be accessed from time to time. It is the policy of the company that such information will be freely accessible to those who need it.

Housekeeping: Good housekeeping bears a direct relationship to orderly and efficient work habits. When out of the office, material in work areas should be straightened. Care is to be exercised to avoid exposure of confidential or potentially sensitive documents. It is suggested that on an annual basis, files in the lateral cabinets and stockroom are sorted, re-arranged, re-filed and/or shredded.

These standards are designed to allow efficient access to information by those who have a reason to use it, yet protect the integrity of the original files.

Responsibility for Updating Audit Files (i.e., APG's, rating sheets, blank wps, etc.)

It shall be the responsibility of the auditor who worked on the audit project to ensure that updated APG's, wps, etc, are filed upon completion of the project. He shall ensure that all new tools, techniques, approaches, procedures, etc are documented in the APG. This shall be part of his performance evaluation.

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