



# CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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## 1. PURPOSE

- 1.1. The Board of Directors (“the Board”) created the Audit Committee of the Board (“the Audit Committee”) to (a) assist the Board in the performance of its oversight responsibility for (i) the integrity of the Group’s financial statements and reporting process, (ii) compliance with applicable laws, rules, and regulations, (iii) the Group’s internal control system and (iv) the Group’s audit process and the performance of the Group’s internal audit organization and External Auditor, including the External Auditor’s qualifications and independence; and (b) provide oversight in the management and control of risks inherent in the Group’s businesses.
- 1.2. The primary responsibility of the Committee is oversight. Management is responsible for the integrity of the Company’s financial statements and disclosures and for maintaining effective internal controls. The External Auditor is responsible for the proper audit and review of the Company’s financial statements as may be required prior to the filing thereof with various stock exchanges and government entities. It is not the duty or responsibility of the Committee or its Members to conduct “field work” or other types of auditing or accounting reviews or procedures and each Member will be relying in part on the expertise of Management and the External Auditor. Each Member shall be entitled to rely on:
  - 1.2.1. the integrity of those persons and organizations within and outside the Group that it receives information from;
  - 1.2.2. the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board); and
  - 1.2.3. the representations made by Management as to any information technology, internal audit and other non-audit services provided by the External Auditor to the Group.

## 2. RESPONSIBILITIES

The responsibilities of the Audit Committee are as follows:

### 2.1 Financial Reporting

- 2.1.1 Review the quarterly, half-year and annual financial statements before their submission to the Board with particular focus on significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - 2.1.1.1 Complex or unusual transactions and highly judgmental areas including all material related party transactions.

- 2.1.1.2 Major issues regarding accounting principles, practices and financial statement presentations, including any significant dismissal of the CAJE; appointing, evaluating, setting time limits for, and discharging (with the concurrence of the Board) the external auditors; and evaluating the independence of both the internal and external auditors.
- 2.1.1.3 The effect of tax, legal, regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Group.
- 2.1.1.4 Going concern assumptions, if any.
- 2.1.2 Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative Philippine Accounting Standards (“PAS”) methods on the financial statements.
- 2.1.3 Review with management and the external auditors the results of audits, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor’s activities or on access to requested information and any significant disagreements with management.
- 2.1.4 Discuss the annual audited financial statements and quarterly financial statements with management and the external auditors, including subsequent events, all material related party transactions and, the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
- 2.1.5 Obtain and consider any reports or communications (and Management’s and/or the Chief Audit Executive’s responses thereto) submitted to the Committee by the External Auditor as required by or referred to in the prevailing applicable Auditing Standard, including reports and communications related to:
  - 2.1.5.1 the External Auditor’s responsibility under generally accepted auditing standards and certain procedures to be followed in any audit of financial statements required under the applicable rules of the relevant stock exchange, securities and exchange commission and other regulatory bodies;
  - 2.1.5.2 the External Auditor’s responsibility for other information in documents containing audited financial statements;

- 2.1.5.3 consideration of fraud in a financial statement audit and detection of fraud and illegal acts, whether or not material, that involve Management or other employees who have a significant role in the Group's internal controls, and that cause a material misstatement of the financial statements;
  - 2.1.5.4 the External Auditor's judgments about the quality of the Group's accounting principles; and
  - 2.1.5.5 any material written communication between the External Auditor and Management such as any management letter or schedule of unadjusted differences.
- 2.1.6 Discuss with the Group's legal counsel or Chief Compliance Officer any significant legal matters, litigation, claims, contingencies or other legal issues that may have a material impact on the financial statements, the Group's compliance policies, including material notices to or inquiries from governmental agencies and responses of management to such notices or inquiries.
- 2.1.7 Advise Management and the External Auditor that they are expected to provide to the Audit Committee a timely analysis of significant/critical financial reporting issues and practices, alternative treatments, observations on internal controls, audit adjustments, independence, limitations on the audit work set by the management, and other material issues that affect the audit and financial reporting.
- 2.1.8 Advise Management that it is expected to timely provide to the Audit Committee material notices to or inquiries from governmental agencies concerning financial statement filing and disclosures and its responses to such notices or inquiries.

## **2.2 Internal Control**

- 2.2.1 Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security.
- 2.2.2 Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- 2.2.3 Coordinate, monitor and facilitate compliance with laws, rules and regulations.

- 2.2.4 Oversee and review the company's code of business conduct and ethics and the company's system to monitor compliance with and enforce this code.

### **2.3 Internal Audit**

- 2.3.1 Perform oversight function over the Group's internal auditors. The Audit Committee shall ensure that the internal and external auditors act independently from each other.
- 2.3.2 Review the appointment and qualification, replacement or dismissal of the Chief Audit Executive (CAE) who shall functionally report directly to the Audit Committee, and ensure that the internal auditors are given unrestricted access to all records, properties and personnel to enable them to perform their audit function.
- 2.3.3 Review and approve the internal audit function's charter, plans, activities, staffing, organizational structure to ensure its conformity with the objectives of the Group and the necessary budget to implement it.
- 2.3.4 Review and deliberate on the audit reports with management's responses submitted by the CAE on the evaluation of the effectiveness of the risk management, control and governance processes, including IT systems and functions of the companies of the Group.
- 2.3.5 Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.
- 2.3.6 To evaluate and decide on the performance and remuneration package of the CAE and the internal auditors.
- 2.3.7 On a regular basis, meet separately with the CAE to discuss any matters that the Audit Committee or Internal Audit believes should be discussed privately.
- 2.3.8 Conduct an annual review and, if deemed appropriate, cause an update, of the Group's Internal Audit Charter.

### **2.4 External Audit**

- 2.4.1 Perform oversight function over the Group's external auditors. Review the external auditors' proposed audit scope and approach, and professional fees, including coordination of audit effort with internal auditing.

- 2.4.2 Review the qualification, independence and performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors. In performing this review, the committee will:
  - 2.4.2.1 At least annually, obtain and review a report by the independent auditor describing the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and to assess the auditor's independence as well as all relationships between the independent auditor and the company.
  - 2.4.2.2 Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report.
  - 2.4.2.3 Take into account the opinions of management and the internal audit function.
  - 2.4.2.4 Review and evaluate the lead partner of the independent auditor.
- 2.4.3 Present its conclusions with respect to the review of the performance of the external auditors to the Board.
- 2.4.4 Ensure the rotation of the lead audit partner every five years and consider whether there should be regular rotation of the audit firm itself.
- 2.4.5 Present its conclusions with respect to the independent auditor to the Board.
- 2.4.6 Set clear policies with respect to hiring employees or former employees of the independent auditors.

- 2.4.7 On a regular basis, meet separately with the external auditors to discuss any matters that the Audit Committee or auditors believe should be discussed privately.

## **2.5 Risk Management**

- 2.5.1 Ensure that the Group has the appropriate framework to identify, manage, monitor and control risks associated with the activities of the various Group businesses.
- 2.5.2 Ensure that risk management policies, procedures and practices that translate the Board's objectives and risk tolerances into operating standards are developed and implemented.
- 2.5.3 Review key risk indicators to ascertain actual performance against set risk tolerances, and direct management to undertake corrective actions as may be necessary. Receive from management copies of quarterly reports from management on risk exposures and risk management activities including programs on promotion of risk awareness, fraud prevention and detection, whistle-blower program and business continuity planning.
- 2.5.4 Review and discuss with management major policies with respect to risk assessment and risk management.

## **2.6 Reporting Responsibilities**

- 2.6.1 Regularly report its activities to the Board as well as issues that arise with respect to the quality or integrity of the Group's financial statements, compliance with legal or regulatory requirements, management's implementation of action plans to address findings of external and internal auditors, the performance and independence of the Group's independent auditors and internal audit function, and all matters of significant risk management or control nature. The reporting tool of the Audit Committee to the Board shall be the Audit Issues Management System (AIMS) which keep track of issues and management's action implementation on raised by internal auditor, external auditor, compliance officer and regulators.
- 2.6.2 Report annually to the shareholders on the Audit Committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- 2.6.3 Review any other reports the Group issues that relate to Audit Committee responsibilities.

## **2.7 Other Responsibilities**



- 2.7.1 Perform other activities related to this charter as may be requested by the Board.
- 2.7.2 Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- 2.7.3 Institute and oversee special investigations as needed.
- 2.7.4 Review and assess on an annual basis the adequacy of the Audit Committee Charter and propose for the approval of the Board proposed changes.
- 2.7.5 Confirm annually that all responsibilities set out in this charter have been carried out.
- 2.7.6 As a body, evaluate its performance through accomplishment of the self-assessment questionnaire at least annually. Refer to Annex 1 - Audit Committee of the Board Self-Assessment Form and; Annex 2 - Criteria for Audit Committee of the Board Self-Assessment.
- 2.7.7 Based on the results of the self-assessments, the Audit Committee shall formulate and implement plans to improve its performance. These shall include the identification of relevant training needs intended to keep the members up-to-date with corporate governance best practices, accounting and auditing standards, as well as specific areas of concern (e.g. emerging risks).
- 2.7.8 The result of the self-assessment of the Audit Committee shall be validated by the Chief Compliance Officer (CCO). As part of the validation process, the CCO shall deploy performance feedback forms to the members of the Board, senior management, legal counsel, internal audit and external auditors to obtain comments on the Audit Committee's performance in accordance with expectations set out in this Charter and the discharge of its responsibilities. Refer to Annex 3 - Audit Committee of the Board Performance Feedback Form and Annex 4 - Process Flowchart for Audit Committee of the Board Annual Performance Self-Assessment

### **3. AUTHORITY**

- 3.1. The Audit Committee is authorized to conduct or authorize investigations into any matter and to seek information it requires in order for it to carry out its responsibilities.
- 3.2. The Audit Committee is empowered to:

- 3.2.1. Appoint, compensate, and oversee the work of the public accounting firm employed by the Group to conduct the annual audit. This firm will report directly to the Audit Committee.
- 3.2.2. Resolve any disagreements between management and the auditor regarding financial reporting.
- 3.2.3. Pre-approve all audits and permitted non-audit services performed by the Company's external audit firm.
- 3.2.4. Retain or make available independent counsel, accountants, or others to advise the Audit Committee or in the performance of its duties or assist in the conduct of an investigation.
- 3.2.5. Seek any information it requires from employees - all of whom are directed to cooperate with the committee's requests - or external parties.
- 3.2.6. Meet with company officers, external auditors, or outside counsel, as it may deem necessary.
- 3.2.7. Create sub-committees and delegate authority to such sub-committees provided that such actions taken by such sub-committees are presented to the Audit Committee at its next scheduled meeting.

#### **4. MEMBERSHIP**

- 4.1. The Audit Committee will consist of at least three and no more than six members of the Board. The Nomination Committee of the Board will appoint committee members.
- 4.2. Audit Committee members should preferably have finance and accounting or audit backgrounds, and should have adequate understanding at least or competence at most of the Group's financial management systems and environment.
- 4.3. No committee member shall simultaneously serve on the audit committees of more than two other public companies.
- 4.4. The Audit Committee will be chaired by an Independent Director.

#### **5. MEETINGS**

- 5.1. The Audit Committee will meet at least four times a year. The quorum shall be three (3) members, at least one (1) of whom shall be an Independent Director.
- 5.2. Extraordinary meetings to take up urgent matters can be requested by any member.

- 5.3. Upon such request, the Chair will schedule an extraordinary meeting.
- 5.4. Audit Committee members are expected to attend each meeting, in person or via tele- or video-conference.
- 5.5. The Audit Committee may invite members of management, auditors or other persons to attend its meetings and provide pertinent information as it may deem necessary.
- 5.6. The Audit Committee may, at its discretion, meet separately with management, with internal auditors and with external auditors.
- 5.7. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.
- 5.8. Minutes of meetings will be prepared and circulated to all members within a reasonable time following each meeting.

## 6. RESOURCES

- 6.1. The Audit Committee should be provided with sufficient resources to undertake its duties.
- 6.2. The Audit Committee will be assisted by CAE and the Corporate Secretary on all audit committee matters including: assisting the chairman in planning the audit committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
- 6.3. The Corporate Secretary should ensure that the audit committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 6.4. The Board should make funds available to the Audit Committee to enable it to take independent legal, accounting or other advice when the Audit Committee reasonably believes it necessary to do so.

----- Nothing Follows -----