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Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

PURPOSE AND MISSION

The purpose of the internal audit activity is to provide independent, objective assurance and consulting activity designed to add value and improve the operations of **Cebu Holdings, Inc. (CHI)**.

Internal Audit’s mission is to enhance and protect organizational value by providing risk-based assurance, advice, and insight.


It helps **CHI** accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Assurance services involve the internal auditor’s objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system or other subject matters. These include the following:

- a. Operations Audits
- b. Commercial Center Merchant Anchor Audits
- c. Other assurance services as requested by the President or Senior Management

Consulting services are advisory in nature and are generally performed at the specific request of the engagement client. The nature and scope of consulting engagement are subject to agreement with the engagement client. These activities include, but not limited to, the following:

- a. Governance, risk and control-related management trainings;
- b. Process design, reviews requested by auditees
- c. Advice on interpretation, implementation or compliance of unit to the company’s control policies
- d. Review of a unit’s operating and control procedures
- e. Membership in cross-functional working groups and task forces to provide advice on control, risk management and governance processes.
- f. Participation on standing committees, limited-life projects, ad hoc meetings, and routine information exchange.
- g. Participation on dedicated teams such as mergers and acquisitions or system conversion team

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- h. Participation on a team established for recovery of maintenance of operations after a disaster or other extraordinary business event, or a team assembled to supply temporary help to meet a special request or unusual deadline.
- i. Timely examination of a past, present, or future aspect or operations that renders information to assist management in making good decisions. It may include estimating service from outsourcing processes or assessing the adequacy of internal controls over proposed system.
- j. Assistance to management in the examination of organizational performance for the purpose of promoting change by helping management to identify organizational strengths and opportunities for improvement. It may include control self-assessment, benchmarking, strategic planning support, and business process reengineering support.
- k. Developing and delivering training courses on risk management, internal controls, regulatory compliance, drafting proposed policies and augmenting operating policies.

On a need basis, the Internal Audit Department’s work may also involve periodic testing of transactions, leading practice reviews, special investigations, appraisals of regulatory requirements, and measures to help prevent and detect fraud. The Internal Audit Department’s responsibilities in relation to fraud include the following:

- Evaluating the consideration of fraud risk in every audit, and the conducting the appropriate audit procedure based on the identified fraud risk.
- Exercising due professional care to the degree that fraud may be present in activities covered by the normal course of audit.
- Evaluating the risk of fraud and the manner in which it is managed by the Corporation.
- Assisting in fraud prevention by examining and evaluating the adequacy and effectiveness of the internal controls’ system commensurate with the extent of a potential exposure within the Corporation.
- Conducting the investigations and seeking assistance from/ coordination with management, legal counsel, and other specialists, such as human resources or risk management, as appropriate throughout the course of the investigation.

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors’ Mandatory Guidance, which include the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

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The internal audit manager will report periodically to senior management and the Audit Committee regarding the internal audit activity’s conformance to the Code of Ethics and the Standards.

AUTHORITY


The internal audit manager will report functionally to the Audit Committee of the Board and administratively to the Chief Finance Officer (CFO). To establish, maintain, and assure that CHI’s internal audit activity has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit department’s budget and resource plan.
- Receive communications from the internal audit manager on the internal audit activity’s performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the internal audit manager.
- Approve the remuneration of the internal audit manager.
- Make appropriate inquiries of management and the internal audit manager to determine whether there is inappropriate scope or resource limitations.

The internal audit manager will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without management present.

The Audit Committee authorizes the internal audit activity to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of CHI, as well as other specialized services from within or outside CHI, in order to complete the engagement.

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INDEPENDENCE AND OBJECTIVITY

The internal audit manager will ensure that the internal audit [department/activity] remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the internal audit manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for CHI, its subsidiaries and affiliates.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any CHI employee not employed by the internal audit department except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.


Where the internal audit manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The internal audit manager will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit activity.

The internal audit manager will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

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SCOPE OF INTERNAL AUDIT ACTIVITIES


The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for CHI. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of CHI’s strategic objectives are appropriately identified and managed.
- The actions of CHI’s officers, directors, employees, and contractors are in compliance with CHI’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact CHI.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The internal audit manager will report periodically to senior management and the Audit Committee regarding:

- The internal audit activity’s purpose, authority, and responsibility.
- The internal audit activity’s plan and performance relative to its plan.
- The internal audit activity’s conformance with The IIA’s Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to CHI.

The internal audit manager also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.


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Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

RESPONSIBILITY

The internal audit manager has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in CHI’s business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact CHI are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to CHI’s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.

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- Ensure conformance of the internal audit activity with the Standards, with the following qualifications:
 - If the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the internal audit manager will ensure that the internal audit activity conforms to the Standards, even if the internal audit activity also conforms to the more restrictive requirements of other authoritative bodies.

- Review the Internal Audit Activity Charter at least annually and obtain approval of the Board through the Audit Committee for any revision thereto and for any case where external bodies may suggest a change. Suggestions by such external bodies, however, are subject to the approval of the internal audit manager.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM


The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply The IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The program will incorporate internal resources for continuously monitoring effectiveness, as well as, periodic evaluation by independent external resources covering:

- Internal assessments including ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization and ALI group.
- External assessments conducted by a qualified independent party at least every five years

The internal audit manager will periodically report to senior management and the Board on the internal audit activity’s purpose, authority, and responsibility as well as performance relative to its plan and defined measurement criteria.

The internal audit manager will communicate to senior management and the Audit Committee on the internal audit activity’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside CHI.

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Endorsed for Approval:

Jennifer G. Sia
Internal Audit Manager

Approved by the Audit Committee:

Fr. Roderick C. Salazar, Jr., SVD
Committee Chairman

Consul Enrique L. Benedicto
Committee Member

Justice Pampio A. Abarintos (Ret.)
Committee Member