



LBP LEASING CORPORATION
(A LAND BANK SUBSIDIARY)

ANNEX B

**AUDIT COMMITTEE
CHARTER**

Version 3
October 2015



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AUDIT COMMITTEE CHARTER
(Revised)

1. Overview:

This Charter shall ensure compliance to the requirements of BSP Circular No. 871, series of 2015 on Internal Control System and Internal Audit Functions; BSP Circular No. 749 series of 2012 on Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions, and the Code of Corporate governance of the Securities and Exchange Commission (SEC) that directs the Board of Directors to constitute an Audit Committee.

2. Purpose:

The purpose of the Audit Committee is to assist LBP Leasing Corporation's (LLC) management in fulfilling oversight responsibilities for financial reporting and audit processes, risk management and internal control processes, compliance with policies including other government regulatory bodies, as well as compliance with applicable laws and regulations.

3. Authority:

The Audit Committee shall have the authority to:

- a. Investigate any matter within its terms of reference, full access to and cooperation of Management, full discretion to invite any director or executive officer to attend its meetings and adequate resources to enable it effectively discharge its functions.
- b. Provide functional supervision over the Internal Audit Group (IAG) and Compliance Management Office (CMO).
- c. Recommend the formulation of or amendments to existing policies, systems and procedures based on results of its evaluation of the reports from internal audit, external audit and regulatory bodies.

4. Composition:

The Audit Committee shall consist of at least three (3) members of the Board, at least one of whom shall be independent directors including the Chairperson appointed/designated by the Board of Directors. Members of the Audit Committee shall preferably with accounting, auditing or related financial management expertise or experience. Committee members shall have the following:

- Knowledge of the primary industries in which the company operates

- Ability to read and understand fundamental financial statements, including company's balance sheet, income statement, cash flow statement and key performance indicators
- Ability to understand key business-related controls and control processes.

No member shall simultaneously serve on the Audit Committee of other agencies and/or Trust Committee of Land Bank of the Philippines.

5. Committee Operating Principles:

The Committee shall fulfil its responsibilities within the context of the following overriding principles:

- **Communications** – The Chairperson and other members of the committee shall, to the extent appropriate, have contact throughout the year with Senior Management, other committee chairpersons, external and internal auditors, to strengthen the committee's knowledge of relevant current and prospective business issues. The committee will establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing and other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for independent investigation, appropriate follow-up action, and subsequent resolution of complaints.
- **Education/Orientation** – Individual committee members are encouraged to participate in relevant and appropriate self-study and other educational opportunities to assure understanding of the business and environment in which the company operates. They should also get updates on the changing demands of financial reporting, evolving industry and regulatory issues.
- **Annual Plan** – The committee, with input from Management and other key committee advisors shall develop an annual plan responsive to the "primary committee responsibilities" detailed herein. The annual plan shall be reviewed and approved by the Board.
- **Meeting Agenda** – Committee meeting agendas shall be the responsibility of the committee chairperson, with input from committee members. It is expected that the chairperson would also ask for management, and key committee advisors, and perhaps others, to participate in the process.
- **Expectations and Information Needs** – The committee shall communicate committee expectations and the nature, timing and extent of committee information needs to management, internal audit, and external parties, including external auditors. Written materials, including key performance indicators and measures related to key business and financial risks, shall be received from management, auditors and others at least one week in advance of meeting dates. Meeting conduct will assume board members have reviewed written materials in sufficient depth to participate in committee/board dialogue.

- **External Resources** – The Committee shall be authorized to access internal and external resources, as the committee requires, carrying out its responsibilities.
- **Meeting Attendees** – The committee shall request members of management, counsel, internal audit, and external auditors, as applicable, to participate in committee meetings as necessary to carry out committee responsibilities. Periodically and at least annually, the committee shall meet in private session with only the committee members. It shall be understood that either internal and external auditors, or counsel, may at any time, request a meeting with the audit committee or committee chairperson with or without management attendance. In any case, the committee shall meet in executive session separately with internal and external auditors, at least annually.
- **Reporting to the Board of Directors** – The committee, through the committee chairperson, shall report periodically, as deemed necessary, but at least semi-annually, to the full Board. In addition, summarized minutes from committee meetings, separately identifying monitoring activities from approvals, shall be available to each board member at least one week prior to the subsequent Board of Directors' meeting.
- **Self-Assessment** – The committee shall review, discuss, and assess its own performance as well as the committee role and responsibilities, seeking input from senior management, the full board and others. Changes in role and/or responsibilities, if any, shall be recommended to the full Board for approval.

6. Meetings and Procedures:

- a. The Audit Committee shall meet once every two months, with authority to convene additional/special meetings, as circumstances require. All Audit Committee members are expected to attend the meeting.
- b. The Audit Committee will invite members of management, unit heads, personnel, auditors or others to attend meetings and provide pertinent information, as necessary.
- c. It will meet separately and periodically with Management, the internal and external auditors.
- d. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.
- e. Minutes of each meeting will be prepared and provided to the Audit Committee members for approval. The Audit Committee will be governed by the same rules regarding meetings, quorum and voting requirements as may be applicable to meetings.
- f. The Chairperson, or in his absence, the Vice Chairperson, shall be the presiding officer during committee meetings.
- g. The Internal Audit Group shall serve as the Secretariat of the Committee.

7. Functions and Responsibilities

- a. The Audit Committee shall establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractice in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take

corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolutions of complaints¹.

- b.** The Audit Committee shall be responsible for overseeing senior management in establishing and maintaining adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets².
- c.** The Audit Committee shall oversee the internal audit and compliance functions and shall be responsible for the following:
 - 1. Provide functional supervision over the Internal Audit Group and Compliance Management Office to ensure effective performance of their functions;
 - 2. Utilize the work conducted by internal audit and compliance functions by undertaking timely and effective actions on issued identified;
 - 3. Assess the reports from external auditors and regulatory agencies, and ensure that management judiciously and appropriately acts on recommendations on significant deficiencies and/or material weaknesses identified;
 - 4. Ensure that a review of the effectiveness of the corporation's internal controls including financial, operational, and compliance controls and risk management, is conducted at least annually;
 - 5. Establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.
 - 6. Assess the organizational structure and staffing of IAG and CMO, subject to the corporation's standard guidelines, for the effective performance of their assigned tasks and endorse the same to management.

7.1 RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAG AND CMO

- a. Endorse to the Board the appointment or removal of the IAG and CMO Heads;
- b. Review and approve the IAG and CMO plans and programs and major changes thereof;
- c. Conduct performance evaluation/appraisal of the IAG and CMO Heads and recommends compensation/salary adjustment if needed.
- d. Assess the appropriateness of IAG and CMO scope of plans and programs vis-à-vis their resources.

¹Subsection 4141Q.3 of the MORNBF I on Audit Committee

²BSP Circular No. 871 series of 2015, Internal Control and Internal Audit

7.2 SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAG

- a. Set up the internal audit function;
- b. Review IAG's Charter and endorses any amendment/s thereto to the Board for approval;
- c. Ensure that internal auditors have free access to all corporation's records, personnel and properties relevant to the performance of their functions;
- d. Ensure that IAG is free from interference in determining the scope of the internal auditing examinations necessary to perform the work and communication of results;
- e. Monitor and review the effectiveness of the internal audit function;
- f. Approve the Internal audit plan, scope and budget;
- g. Review the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;
- h. Assess the discoveries of fraud and violations of laws and regulations raised by the internal audit function;
- i. Report to the board the annual performance appraisal of the head of the internal audit function;
- j. Recommend to the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;
- k. Appoint, reappoint and remove the head of the internal audit function and key internal auditors; and
- l. Recommend and oversee the performance of the internal audit provider.

In particular, the Audit Committee shall be responsible for:

- a. Ensuring independence of the internal audit provider;
- b. Reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;
- c. Ensuring that the internal audit provider comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant Code of Ethics and corresponding Rules of Conduct;
- d. Ensuring that the audit plan is aligned with the overall plan strategy and budget of the corporation and is based on robust risk assessment; and
- e. Ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

7.3 SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER CMO

- a. Review the corporation's Compliance Charter and endorses any amendment/s thereto to the Board for approval.
- b. Ensure that the compliance program is able to identify, monitor and mitigate business risks.
- c. Endorse the annual update of the Compliance Program to the Board for approval.

- d. Oversee the implementation of the Compliance Program.
- e. Approve any amendment/s to the Compliance Manual.
- f. Review reports submitted by CMO and deliberate/resolve major findings on compliance issues to policies, rules and regulations expeditiously.
- g. Adopt measures to ensure the independence of the compliance functions from the business activities of the corporation.
- h. Establish the right of the compliance function to obtain access to information necessary to carry out its responsibilities.
- i. Provide the Board with regular reports on the findings of external regulatory bodies together with the actions of management on said findings.

7.4 OTHER RESPONSIBILITIES

- a. The Committee, through the chairperson, shall regularly report to the Board its activities, issues and related recommendations.
- b. Obtain any information and or training needed to enhance the members' understanding/competence on the areas of financial reporting policies, practices and control, internal and external audit and compliance functions.
- c. Review and update this Charter at least annually or whenever there is significant changes, and endorses the same to the Board for approval.
- d. Conduct annual self-assessment of the committee's performance including its effectiveness and compliance with this Charter.

8. Relationship with External and Internal Auditors

The external Auditors, in their capacity as independent public accountants, shall be responsible to the Board of Directors and the Audit Committee as representatives of the shareholders. As the External Auditors review financial reports, they will be reporting to the Audit Committee. They shall report all relevant issues to the committee responsive to agreed-on committee expectations. In executing its oversight role, the Board or committee should review the work of the external auditors. The Audit Committee shall:

- 1. Annually review the performance (effectiveness, objectivity, and independence) of the external and internal auditors.
- 2. Ensure receipt of a formal written statement from the external auditors consistent with standards set by the Philippine regulators and the Philippine Accounting Standards/Philippine Financial Reporting Standards (PAS/PFRS) and the Commission of Audit (COA).
- 3. Discuss with the auditor relationships or services that may affect auditor objectivity or independence.
- 4. Recommend to the Board appropriate action to ensure the independence of the external auditor, if the committee is not satisfied with auditor's assurances of independence.
- 5. Communicate significant issues, if management have not adequately addressed the issues based on their judgement.
- 6. Recommend changes in the key officers of internal audit or corporate compliance to Governance Committee.

9. Reporting Requirements

The Audit Committee has the duty and responsibility to report its activities to the Board as needed, but not less than annually. Periodic written reports of Audit

Committee activities are important communication link between the Audit Committee and the Board on key decisions and responsibilities.

The Audit Committee's reporting requirements are to:

- a) Report of the scope of committee activities to keep the Board informed of its work;
- b) Provide minutes or summary of minutes of meetings' which clearly record the actions and recommendation of the Committee;
- c) Report of their review of the annual audit report and significant findings;
- d) Report of suspected fraud, waste or abuse, or significant internal control;
- e) Report on indications of material and significant non-compliance with laws or policies and regulations; and
- f) Report on any other matters that the committee believes should be disclosed to the Board.

10. Assessment of Performance:

The baseline on the assessment of the effectiveness of the performance of the Audit Committee is its charter, thus, it should be prepared in accordance with the requirements of the Code of Corporate Governance and other applicable laws and regulations in the Philippines. It should be aligned with the best practices and standards. The Audit Committee shall assess its performance through a self-assessment worksheet.

11. Review of the Charter:

The Audit Committee shall assess and report to the Board on the adequacy of this Charter no less than an annual basis or as necessary. Charter modifications, as recommended by the Audit Committee, should be presented to the Board in writing for their review, action and approval.