



Office Circular No.: 23-008

Series of 2023

**LBP LEASING AND FINANCE CORPORATION
REVISED AUDIT COMMITTEE CHARTER**

A. OVERVIEW

This Charter shall ensure compliance with the requirements of the following:

1. BSP Circular No. 1022, series of 2018 on the Amendment to Part 8 or the Anti-Money Laundering Regulations of the Manual of Regulations for Banks
2. BSP Circular No. 950 series of 2017, as amended by BSP Circular No. 969, series of 2017 on the Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institution.
3. BSP Circular No. 871, series of 2015 on Internal Control System and Internal Audit Functions
4. BSP Circular No. 749 series of 2012 on Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions
5. Code of Corporate Governance of the Securities and Exchange Commission (SEC)

The above issuances identify the functions related to audit and compliance management, under the Board-level committee, thus, directs the Board of Directors to constitute an Audit Committee.

B. PURPOSE AND SCOPE OF WORK

The Audit Committee shall assist LBP Leasing and Finance Corporation's (LLFC) management and Board of Directors in fulfilling oversight responsibilities specifically:

B.1 For Internal Audit and Internal Control (BSP Circular No. 871)

- a. To oversee Senior Management in establishing and maintaining an adequate, effective, and efficient internal control framework; it shall ensure that the systems and processes re designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency, and effectiveness of operations, safeguarding of assets.
- b. To oversee the internal audit function

B.2 For Compliance (BSP Circular Nos. 972 and 950, as amended by BSP Circular 1022, series 2018)

- a. To oversee the implementation of the LBP Centralized Compliance Management Framework to LLFC

- b. To ensure that oversight on Anti- Money Laundering and Combatting the Terrorism and Proliferation Financing (AML/CTPF) compliance management is adequate.

C. 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 discharge its functions effectively.
- b. Provide functional supervision over the Internal Audit Office (IAO) and Compliance Management Office (CMG).
- 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.

D. COMPOSITION

The Audit Committee shall consist of at least three (3) members of the Board of Directors, who shall all be non-executive directors, majority of whom shall be independent directors including the Chairperson. Provided, further, that the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees. The members of the Audit Committee shall preferably have accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the BSFI. 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.

Appointed/designated members of the Audit Committee who are ex-officio members of the Board of Directors may be represented by their respective alternates to the committee. No member shall simultaneously serve on the Audit Committee of other agencies and/or Trust Committee of Land Bank of the Philippines.

E. 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 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 audit plan shall be endorsed to the Board for approval.
- **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 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 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 Board, for approval.

F. MEETINGS AND PROCEDURES

- a. The Audit Committee shall meet at least four times in a year with authority to convene additional/special meetings, as circumstances require.
- 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. Meeting agendas will be prepared and provided in advance to members at least three (3) days prior to the meeting proper, along with appropriate briefing materials.
- d. 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.
- e. The Chairperson, or in his absence, the Vice Chairperson, shall be the presiding officer during committee meetings.
- f. The Internal Audit Office shall serve as the Secretariat of the Committee.

G. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE¹

- a. **Oversee the financial reporting framework.** The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
- b. **Monitor and evaluate the adequacy and effectiveness of the internal control system.** The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering LLFC's risk profile and strategic direction.
- c. **Oversee the internal audit function.** The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the internal auditor. It shall review and approve the audit scope and frequency. The committee shall ensure that the scope covers the review of the effectiveness of LLFC's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. The committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.
- d. **Oversee the external audit function.** The committee shall be responsible for the appointment, fees, and replacement of the external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.
- e. **Oversee implementation of corrective actions.** The committee shall receive key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies,

¹ BSP Circular no. 969, series of 2017, Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institution

laws, and regulations and other issues identified by auditors and other control functions.

- f. Investigate significant issues/concerns raised.** The committee shall have explicit authority to investigate any matter within its terms and reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.
- g. Establish whistleblowing mechanism.** The committee shall establish and maintain mechanisms by which officers and staff shall, 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 the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

G.1 RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAO AND CMG

- a. Endorse to the Board the appointment or removal of the IAO Heads and Compliance Coordinators.
- b. Review and approve the IAO and LBP-CCM plans and programs and major changes thereof.
- c. Evaluate the performance of the IAO and CMG relative to their plans, programs, and other matters.
- d. Review and approve the performance evaluation/appraisal of the of the IAO Heads and recommends compensation/salary adjustment if needed.
- e. Assess the appropriateness of IAO and CMG scope of plans and programs vis-à-vis their resources.

G.2 SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAO

- a. Responsible for establishing and maintaining an independent, competent, and effective internal audit function commensurate with the complexity of its risk profile.
- b. Review and approve the Audit Committee and Internal Audit's Charter and endorses any amendment/s thereto to the Board for confirmation.
- c. Review and approve an audit program/plan that encompasses audit scope and frequency, policies, processes, procedures, and strategies that would govern IAO, including major changes thereof. It shall ensure that the scope covers the review of the effectiveness of LLFC's internal controls, including financial, operational and compliance controls, and risk management system.
- d. Communicate and interact directly with the IAO Head, internal auditors, and external auditors, including separate or private sessions as appropriate and necessary. It shall also ensure that there is coordination of audit effort between IAO and external auditor (COA) in terms of audit scope, approach, independence, and performance.

- e. Approve/confirm the IAO annual budget if there is any.
- f. Ensure that internal auditors have free access to all corporation's records, personnel, and properties relevant to the performance of their functions.
- g. Ensure that IAO is free from interference in determining the scope of the internal auditing examinations necessary to perform the work and communication of results.
- h. Receive key audit reports and ensure that Senior Management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors, and reporting significant matters to the board of directors.
- i. Assess the discoveries of fraud and violations of laws and regulations raised by the internal audit function.
- j. Evaluate the performance of IAO relative to their audit plans, programs, and other matters.
- k. Ensure that IAO conforms with relevant rules and regulations (BSP, COA and SEC issuances and Philippine Government Internal Auditing Manual) and professional standards, such as, but not limited to, the International Professional Practices Framework issued by the Institute of Internal Auditors, and those standards issued by Information Systems Audit and Control Association Committee on Sponsoring Organization of the Treadway Commission.
- l. Recommend to the board of directors the annual remuneration of the head of the internal audit function and key internal auditors.
- m. Appoint, reappoint, and remove the head of the internal audit function and key internal auditors; and
- n. Recommend and oversee the performance of the internal audit provider if there is any.

G.3 SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER CMG

- a. Adopt measures to ensure the compliance function's standing, authority, and independence from the business activities of LLFC.
- b. Ensure that the compliance program is defined for LLFC and that compliance issues are resolved expeditiously.
- c. Review and approve any update/amendment to the Compliance Manual and Money Laundering and Terrorist Prevention Program (MTPP) and endorse to the Board of Directors for approval.
- d. Oversee the implementation of the LBP-CCM's Compliance Program and MTPP to LLFC.
- e. Ensure that CMG have the right to obtain access to information necessary to carry out its responsibilities and conduct investigations of breaches of the compliance policy.

- f. Review reports submitted by CMG 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.

G.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 are 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 and provide results to the Board of the Directors for confirmation.

H. 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 addressed the issues based on their judgement.
6. Recommend changes in the key officers of internal audit or corporate compliance to Corporate Governance Committee.

I. 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 must be disclosed to the Board.

J. 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 shall be aligned with the best practices and standards. The Audit Committee shall assess its performance through a self-assessment worksheet.

K. REVIEW OF 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.

L. EFFECTIVITY

This revised Audit Committee Charter shall supersede all other issuances and shall take effect immediately upon approval of the Board. (Date approved -June 29, 2023)



MICHAEL P. ARAÑAS
President and CEO

Date: June 29, 2023