




## **INTERNAL AUDIT CHARTER**

# Contents

Page

A. Mission	1
B. Role	1
C. Professionalism	1
D. Organization	1
E. Independence and Objectivity	2
F. Authority	2
G. Scope of work	3
H. Overall Responsibility	5
I. Accountability	6
J. Internal Audit Plan	6
K. Reporting and Monitoring	6
L. Quality Assurance and Improvement Program	7

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>1 of 7</b>

This Charter describes the mission, independence and objectivity, scope and responsibilities, authority, accountability and standards of the Internal Audit Group (IAG) of AyalaLand Logistics Holdings Corp. (ALLHC).

The Chief Audit Executive (the "CAE") shall review this charter at least annually and obtain the approval of the Board of Directors (the "Board") through the Audit and Risk Committee (the "Committee") for any revisions thereto or for any case where external bodies may suggest a change. Suggestions by such external bodies, however, are subject to the recommendation of the CAE and approval of the Board through the Committee.

### **A. Mission**

The mission of the IAG is to provide full support and assistance to the Board and management of ALLHC in ensuring that its operations are conducted according to the highest standards by providing an independent, objective assurance and consulting function and by advising on leading practices. Through a systematic and disciplined approach, the IAG helps ALLHC accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes.

### **B. Role**

The internal audit activity is established by the Board through the Committee or oversight body. The IAG's responsibilities are defined by the Board as part of their oversight role.


### **C. Professionalism**

Internal Audit adheres to the standards of leading professional practices, core principles for the professional practice of internal auditing, and codes of ethics, such as those published by the Institute of Internal Auditors (IIA), the Philippine Institute of Certified Public Accountants (PICPA), the Information Systems Audit and Control Association (ISACA), and the relevant reports and recommendations of the various governing agencies such as the Securities and Exchange Commission.

### **D. Organization**

The IAG reports functionally to the Committee constituted by the Board, and administratively to the Chief Finance Officer (CFO).

The Board through the Committee will approve all decisions regarding the qualifications, performance evaluation, appointment, or removal of the CAE as well as the CAE's annual compensation and salary adjustment. The CAE will communicate and interact directly with the Board through the Committee.

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>2 of 7</b>

The internal audit heads of ALLHC's subsidiaries shall report functionally to the ALLHC CAE and administratively to their respective superiors inside their organizations. The internal audit heads of ALLHC's affiliates shall continue to report functionally to their own company's audit committee. The ALLHC CAE shall exercise oversight on the internal audit activities of affiliates.

### **E. Independence and Objectivity**

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

To maintain objectivity, the IAG is not involved in day-to-day control procedures. Instead, each ALLHC subsidiary or operating/business and functional unit is responsible for their own internal control and efficiency.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Board through the Committee, at least annually, the organizational independence of the internal audit activity.

### **F. Authority**

Internal Audit aims to promote effective controls at reasonable cost. To achieve this, the IAG is authorized, in the course of its activities, to:


- Enter all areas of ALLHC's subsidiary and/or operating/business and functional units and have access to any documents and records considered necessary for the performance of its functions.
- Require all members of staff and Management to supply such information and explanations as may be needed within a reasonable period of time.

Heads of subsidiaries, operating/business and functional units, and/or departments must inform the IAG without delay of any significant incident concerning security and/or compliance with regulations and procedures.

The CAE and staff of the IAG are not authorized to:

- Perform any operational duties for the organization or its affiliates
- Initiate or approve accounting transactions external to the IAG
- Direct the activities of any organization employee not employed by the IAG except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

The existence of the IAG does not diminish the financial and operational responsibilities of the Management for the proper execution and control of its activities.

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>3 of 7</b>

## G. Scope of Work

Consistent with the Internal Audit roles and responsibilities cited in the charter of the Committee, the scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes to ensure:


- Safeguarding of Assets
- Proper identification and management of risks
- The appropriate level of internal control exists within the company to manage and mitigate risk
- Policies, standards, procedures, and controls are adequately documented as needed
- Interaction with the various governance groups occurs as needed
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected
- Programs, plans, and objectives are achieved
- Quality and continuous improvement are fostered in the organization's control process
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving management control, profitability and the ALLHC Group's image may be identified during audits. These will be communicated to the appropriate levels of management. For subsidiaries/affiliates having their own internal audit departments, proper coordination with the respective CAEs shall be made prior to conducting any engagement.

The nature of internal audit activities can be classified as either assurance or consulting services.

**Assurance services** involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. These include:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>4 of 7</b>

- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.

Some examples of assurance services can be described as follows:

- Financial audit
- Revenue audit
- Information systems audit
- Technical audit
- Properties and subsidiaries audit
- Business operations audit

**Consulting activities** are advisory in nature and are generally performed at the specific request of an engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility. These consulting activities include, but are not limited to the following:

- Performing consulting, training and facilitation services related to governance, risk management and control as appropriate for the organization.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.


Some examples of consulting services are as follows:

- Governance, risk and control-related management trainings
- Process design reviews requested by auditees
- Advice on the interpretation, implementation or compliance of a unit to the company's control policies
- Review of department's operating or control procedures
- Membership in cross-functional groups and task forces to provide advice on control, risk management and governance processes.

The CAE and staff of the IAG should exercise due professional care in conducting Formal, Informal, Special and Emergency consulting engagements by understanding the following:

- Needs of management officials, including the timing, and communication of engagement results
- Possible motivations and reasons of those requesting the service
- Extent of work needed to achieve the engagement's objectives
- Skills and resources needed to conduct the engagement
- Effect in the scope of the audit plan previously approved by the Committee
- Potential impact on future audit assignments and engagements
- Potential organizational benefits to be derived from the engagement

On a need basis, the IAG'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 IAG's responsibilities in relation to fraud include the following:

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>5 of 7</b>

- 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 investigations and seeking assistance from/coordination with management, legal counsel, and other specialists, such as human resources and risk management, as appropriate throughout the course of the investigation.


## H. Overall Responsibility

The CAE and staff of the IAG have the responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology including any risk or control concerns identified by management and submit that plan to the Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate, any special task or project requested by management and the Committee that are considered as part of the consulting activity of Internal Audit.
- Conduct fieldwork in a professional and timely manner.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications and establish a formal training and development program that will assist the group in achieving its objectives and meet the requirements of this charter.
- Review and evaluate significant merging/consolidating functions, and new or changing services, processes, operations, and control processes in line with their development, implementation, and/or expansion in relation to risk based audit.
- Issue periodic written reports to the Committee and management summarizing results of audit activities.
- Keep the Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Committee
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Committee of the results.
- 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.
- Ensure there is appropriate mechanism in place for the anonymous submission of employee concerns or complaints on questionable accounting or auditing matters and notify the Committee of the status and disposition of reported complaints.
- Establish a quality assurance program for the IAG by which the CAE assures the operation of internal auditing activities.
- Perform consulting services, beyond internal auditing's assurance services such as advisory on process improvements, to assist Management in attaining its objectives.

To fulfill its responsibilities, the IAG may:

- Assist in identifying and assessing potential risk events to ALLHC's operations.

 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>6 of 7</b>

- Review the adequacy of controls established to assess the adequacy of controls to manage the risks identified by Management; ensure compliance with policies, plans, procedures, and business objectives; and, assess the means of safeguarding assets.
- Assess the reliability and security of financial and management information and the systems and operations (in-house or outsourced) that produce this information.
- Appraise the use of resources with regard to economy, efficiency and effectiveness.
- Follow up recommendations to make sure that effective remedial action is taken.
  
- Carry out ad hoc appraisals, investigations, or reviews requested by the Management and/or the Board

It is also the responsibility of the CAE to ensure that all information gained by all staff of the IAG in the course of audit remains confidential and will not be used or conveyed for purposes outside the scope of approved responsibilities.

### **I. Accountability**

The CAE of IAG, in the discharge of his duties, shall be accountable to the Committee and management to:

- Provide periodically and assessment on the adequacy and effectiveness of ALLHC and its subsidiaries'/affiliates' processes for controlling their activities and managing their 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 ALLHC and its subsidiaries'/affiliates' including potential improvements to those processes information concerning such issues through resolution
- Provide periodically information on the status and results of the annual audit plan and the sufficiency of group resources
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environment, external audit).

### **J. Internal Audit Plan**


The IAG must prepare an annual audit plan. The plan is based on a systematic, disciplined approach that identifies business risks, and on input from the respective Managements of subsidiaries and/or strategic business units. It provides information about the risk assessment, the current order of priority of audit projects and how they are to be carried out. The IAG must coordinate with ALLHC's external auditors to ensure proper coverage and avoid duplication of effort.

The plan shall be presented to ALLHC Management and the Committee for approval. In case of need, adjustments could be made to the plan during the year. They would be approved by the ALLHC Management and the Committee.

### **K. Reporting and Monitoring**

A detailed audit report and a letter to Management will summarize the objectives and scope of the audit as well as observations and recommendations. Reporting of results will include an open process to agree on the facts and the validity of audit recommendations. Appropriate follow-up work will be undertaken to ensure adequate response and action plans to audit recommendations are implemented in a reasonable timeframe.



 <b>LOGISTICS HOLDINGS CORP.</b> INTERNAL AUDIT CHARTER		INITIAL ISSUE DATE <b>FEBRUARY 13, 2017</b>
		REVISION DATE <b>08 August 2019</b>
VERSION NO. <b>1</b>	REVISION NO. <b>1</b>	PAGE NO. <b>7 of 7</b>

Internal Audit will submit an annual report to Management and to the Committee on the results of the audit work including significant risk exposures and control issues.

It is the overall responsibility of the Management to establish a continuous monitoring mechanism to ensure that the improvements over the controls will operate based on the accepted audit recommendations.

**L. Quality Assurance and Improvement Program**

The CAE will maintain a Quality Assurance and Improvement Program that covers all quality aspects of the internal audit activity. This 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 with sufficient knowledge of internal audit practices
- External assessments conducted by a qualified independent party at least every five years

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

In addition, the CAE will communicate to senior management and the Board through the Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments. The details of these processes, including the manner and frequency shall be defined in the Internal Audit Manual.

—end—