



PHILGUARANTEE

Philippine Guarantee Corporation

# **INTERNAL AUDIT CHARTER**

## **I. INTRODUCTION**

This Internal Audit Charter for the Philippine Guarantee Corporation (PHILGUARANTEE) shall provide a framework within which the Internal Audit shall function in the organization. This is a formal document giving and defining purpose, authority, and responsibility of the internal audit activity consistent with the definition of Internal Auditing, the Core Principles, the Code of Ethics and the Internal Auditing Standards for the Philippine Public Sector (IASPPS) as entailed in the Philippine Internal Auditing Framework for the Public Sector. It ensures uniformity and consistency in the Internal Audit functions and enhances good governance across the organization.

To implement the IASPPS, the Head of Internal Audit must establish policies and procedures that will guide the internal audit activities.

## **II. PURPOSE AND MISSION**

The mandate of PHILGUARANTEE's Internal Audit Office (IAO) is provided by Republic Act No. 3456 otherwise known as the "Internal Auditing Act of 1962" as amended by Republic Act No. 4177, Administrative Order No. 278, s. 1992 and Administrative Order No. 70 s. 2003 on Strengthening of the internal control systems of government offices, agencies, government-owned and/or controlled corporations, including government financial institutions, state universities and colleges and local government units.

The purpose of PHILGUARANTEE's IAO is to provide independent, objective assurance and advisory activity designed to add value and improve PHILGUARANTEE's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit office helps PHILGUARANTEE accomplish its objectives by bringing a systematic, disciplined approach to

evaluate and improve the effectiveness of governance, risk management, and control processes.

### **III. PROFESSIONAL STANDARD**

IAO shall adhere to the mandatory elements of Philippine Internal Auditing Standard for Public Sector, including the Core Principles, Code of Ethics and the Definition of Internal Auditing.

The Head of IAO will report annually to senior management and the Board of Directors through the Audit Committee regarding the IAO's conformance to the Code of Ethics and the Standards.

### **IV. ORGANIZATION AND REPORTING STRUCTURE**

The Head of IAO will report functionally to the Board of Directors through the Audit Committee and administratively (i.e., day-to-day operations) to the President and Chief Executive Officer.

To establish, maintain, and assure that PHILGUARANTEE's IAO has sufficient authority to fulfil its duties, the Board of Directors through the recommendation of the Audit Committee will:

1. Approve the Internal Audit Office's Charter;
2. Approve the risk-based internal audit plan;
3. Approve the Internal Audit Office's budget and resource plan;
4. Receive communications from the Head of IAO on its performance relative to its plan and other matters;
5. Approve decisions regarding the appointment and removal of the Head of IAO;
6. Approve the remuneration of the Head of IAO; and

7. Make appropriate inquiries of management and the Head of IAO to determine whether there is inappropriate scope or resource limitations

## **V. AUTHORITY**

IAO will have unrestricted access to, and communicate and interact directly with, the Board of Directors through the Audit Committee, including in private meetings without management present.

The Board of Directors through the Audit Committee authorizes IAO to:

1. 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.
2. Allocate resources after appropriate discussion with the management, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports;
3. Obtain assistance from the necessary personnel of PHILGUARANTEE, as well as other specialized services from within or outside PHILGUARANTEE, in order to complete the engagement.

## **VI. INDEPENDENCE AND OBJECTIVITY**

The Head of IAO will ensure that the IAO 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 Head of IAO determines that independence or objectivity may be impaired in fact or appearance, the



details of impairment will be disclosed to appropriate parties, including the Audit Committee and the Board of Directors. The nature of the disclosure will depend upon the impairment.

Internal auditors shall maintain an impartial and unbiased 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:

1. Assessing specific operations for which they had responsibility within the previous year.
2. Performing any operational duties for PHILGUARANTEE or its affiliates
3. Initiating or approving transactions external to IAO
4. Directing the activities of any PHILGUARANTEE employee not employed by IAO, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

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

Internal auditors will:

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

The Head of IAO will confirm to the Board of Directors through the Audit Committee at least annually, the organizational independence of the Internal Audit Office. The Head of Internal Audit will disclose to the Board of Directors through the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## **VII. 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 Board of Directors through the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for PHILGUARANTEE. Internal audit assessments include evaluating whether:

1. Risks relating to the achievement of PHILGUARANTEE's strategic objectives are appropriately identified and managed.

2. The actions of PHILGUARANTEE's officers, directors, employees, and contractors are in compliance with organization's policies, procedures, and applicable laws, regulations, and governance standards.
3. The results of operations or programs are consistent with established goals and objectives.
4. Operations or programs are being carried out effectively and efficiently.
5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact PHILGUARANTEE.
6. Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
7. Resources and assets are acquired economically, used efficiently, and protected adequately.

IAO may also perform advisory activities (e.g. counsel, advice, facilitation training, and the likes), the nature and scope of which will be agreed with the auditee and are intended to add value and improve PHILGUARANTEE's governance, risk management, and control processes, without the IAO assuming management responsibility

The Head of IAO also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

## **VIII. RESPONSIBILITY**

The Head of IAO has the responsibility to:



1. Submit, at least annually, to senior management and the Board of Directors through the Audit Committee a risk-based internal audit plan for review and approval.
2. Communicate to senior management and the Board of Directors through the Audit Committee the impact of resource limitations on the internal audit plan.
3. Review and adjust the internal audit plan, as necessary, in response to changes in PHILGUARANTEE's business, risks, operations, programs, systems, and controls.
4. Communicate to senior management and the Board of Directors through the Audit Committee any significant interim changes to the internal audit plan.
5. Ensure each engagement of the internal audit plan is executed on a timely manner, 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.
6. Follow up on engagement findings and corrective actions on a timely manner, and report quarterly to senior management and the Board through the Audit Committee any corrective actions not effectively implemented.
7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
8. Ensure the internal audit office collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
9. Ensure trends and emerging issues that could impact PHILGUARANTEE are considered and communicated to senior



management and the Board of Directors through the Audit Committee as appropriate.

10. Ensure emerging trends and successful practices in internal auditing are considered.
11. Establish and ensure adherence to policies and procedures designed to guide the internal audit Office.
12. Ensure adherence to PHILGUARANTEE'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 Board of Directors through the Audit Committee.
13. Ensure conformance of the internal audit Office with the Internal Auditing Standards for the Philippine Public Sector.

## **IX. INTERNAL AUDIT PLAN**

The Internal Audit Office should prepare an Annual Audit Plan, designed to implement the audit strategy, for approval by the Audit Committee and Board of Directors.

The Annual Audit Plan should set out details of the assignments to be carried out in the period covered by the plan. IAO should establish the broad resources and skills required for each assignment, and should set relative priorities for each assignment.

The Annual Audit Plans should be kept under review to identify any amendments needed to reflect changing priorities and emerging audit needs. They should make provision for an element of contingency to accommodate audit assignments which could not have been reasonably foreseen. Material changes to the Annual Audit Plan should be approved by the Board of Directors through the Audit Committee.

## **X. REPORTING**

The Head of IAO will report annually to senior management and the Board of Directors through the Audit Committee regarding:

1. The Internal Audit Office's purpose, authority, and responsibility.
2. The Internal Audit Office's plan and performance relative to its plan.
3. The internal audit Office's conformance with the Code of Ethics and Standards, and action plans to address any significant conformance issues.
4. The Internal Audit Office's organizational independence.

The Head of IAO will report on a timely manner to senior management and the Board of Directors through the Audit Committee regarding:

1. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board of Directors and the Audit Committee
2. Results of audit engagements or other activities.
3. Resource requirements.
4. Any response to risk by management that may be unacceptable to PHILGUARANTEE.

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.

## **XI. MONITORING**

IAO will be responsible for appropriate follow-up on engagement findings and recommendations. IAO will monitor and review management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. All significant findings will remain in an open issues file until cleared.

The Head of IAO should escalate and discuss with senior management and Board of Directors through the Audit Committee management responses and status of management actions on a timely manner or at least on a quarterly basis. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

## **XII. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

IAO 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 IAO's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit office and identify opportunities for improvement. The Head of IAO will communicate to senior management and the Board of Directors through the Audit Committee on the IAO's quality assurance and improvement program, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside PHILGUARANTEE.