

## **INTERNAL AUDIT CHARTER**

*(Approved by the Board of Directors on 21 October 2020)*

### **POLICY STATEMENT**

Internal Auditing is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of ARTHALAND CORPORATION (the “Company”). It is the policy of the Board of Directors, through the Audit Committee and the management of the Company to support the maintenance of the Internal Audit (IA) function.

This Charter safeguards the independence of the Internal Audit function of the company and defines the purpose, authority and responsibilities of the IA department. The Charter also establishes IA’s position within the organization (including the nature of the Internal Audit’s functional and administrative reporting lines), as well as the scope of internal audit activities, and authorizes IA’s access to records, personnel and physical properties relevant to perform its activities and fulfill its objectives and responsibilities.

The Audit Committee and management shall take all the necessary measures to provide the appropriate resources and staffing that would enable the Internal Audit Department to achieve its objectives.

### **MISSION AND PURPOSE**

The mission and purpose of Internal Audit is to enhance and protect the organizational value and assist the company to accomplish its objectives by providing risk-based, independent, and objective assurance, and consulting services designed to add value and improve the effectiveness of the company’s governance, risk management and internal control processes.

### **STANDARDS AND CONDUCT**

Internal Audit will govern itself by adherence to the Mandatory Guidance of the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA), which includes 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. The IIA’s Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the IA’s performance.

### **SCOPE OF WORK**

Internal Audit is authorized by this Charter to conduct independent, objective assurance and consulting/advisory services designed to add value and improve the Company’s operations, by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the control, risk management, compliance, and governance processes.



Assurance Services are objective examination of evidence for the purpose of providing independent assessments to the Board of Directors, management, and outside parties on the adequacy and effectiveness of governance, risk management and control processes for the company. Internal Audit assurance services include evaluating whether:

- Risk relating to the achievement of the company's strategic objectives are appropriately identified and managed;
- The actions of officers, employees and contractors are in compliance with applicable laws and regulations, company policies and procedures, contracts, and governance standards, in consultation with the Legal Department;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Financial and operational information, and the means used to identify, collect, store, classify, measure, analyze and report such information (including IT infrastructure, processes and systems), are reliable, accurate, and preserve the required confidentiality, integrity and accessibility;
- The results of operations or programs are consistent with established goals and objectives;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Governance process related to the making of operational and strategic decisions, the oversight of risk management and control processes, the promotion of appropriate ethics and values, the oversight of organizational performance and accountability, and the coordination of assurance functions, require improvements.

Consulting Services are advisory activities, the nature and scope of which are agreed with management, and which are intended to add value and improve the Company's governance, risk management, and control processes without the Internal Audit assuming management responsibility and ensuring that independence is retained.

The Internal Audit also coordinates, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed to reduce assurance gaps, overlaps and duplication of efforts.

When required, Internal Audit will investigate allegations of corruption and financial misconduct that pose a significant risk to the Company, and will provide oversight to external investigators and/or non-internal audit investigators as necessary

#### **AUTHORITY AND ACCESS**

The Internal Audit will report functionally to the Audit Committee and administratively to the President of the Company. It has unrestricted access to, and will communicate and interact directly with the Audit Committee, including in a private meeting to be held at least once a year without management present. The Internal Audit Head shall report directly to the Chair of the Audit Committee any matter that is believed to be of sufficient magnitude and importance to require immediate attention.

The Audit Committee authorizes the Internal Audit to:



- Have unrestricted access to all functions, records/documents, personnel, and property relevant to the performance of engagements, subject to accountability for confidentiality and safeguarding of records and information;
- Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives, and issue reports; and
- Obtain necessary assistance of personnel in other Unit/Department of the Company where they perform audits, as well as other specialized services from within or outside the Company in order to complete audit and advisory engagements and investigations.

Restriction to above accesses imposed by any employee or management of the Company, which prevents Internal Audit from performing its duties, will be reported immediately to the Audit Committee.

The Internal Audit is not authorized to:

- Perform any operational duties and functions for the Company;
- Initiate or approve accounting transactions outside of the internal auditing functions; and
- Direct the activities of any Company employees not under the Internal Audit Department, except to the extent, such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Audit.

### **INDEPENDENCE AND OBJECTIVITY**

To provide for independence of Internal Audit, it should report functionally to the Audit Committee and administratively to the President of the Company.

All internal audit activities shall remain free from all conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. If Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment shall be disclosed to the Audit Committee.

Internal Audit shall have no direct operational responsibility or authority over any of the activities it reviews. Accordingly, Internal Audit shall not implement internal controls, develop procedures, install systems, prepare records, make management decisions, or engage in any other activity that could be construed as compromising its independence and impairing its judgment.

Internal Audit shall maintain an unbiased mental attitude and exhibit the highest level of professionalism that allows it to perform engagements objectively and in such a manner that it believes in its work product, that no quality compromises are made, and that it does not subordinate its judgment on audit matters to others.

### **DUTIES AND RESPONSIBILITIES**

The Internal Audit's duties and responsibilities shall include the following, notwithstanding any other requirements that may be prescribed by the Audit Committee and the President of the Company:

- Formulate a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting the plan to the Audit Committee for review and approval;



- Implement the Annual Audit Plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee;
- Communicate to senior management and Audit Committee the impact of resource limitations on the Internal Audit Plan;
- Communicate to senior management and Audit Committee any significant interim changes to the Internal Audit Plan. Internal Audit shall review and adjust the plan, as necessary, in response to the changes in the Company's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved Internal Audit Plan will be communicate to senior management and the Audit Committee for approval through period activity reports;
- 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. This includes any special tasks or projects requested by management or the Audit Committee as time and resources allow;
- Evaluate management's action plans to address audit observations, follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented;
- Conduct investigation of suspected fraudulent activities and irregularities within the Company and informing management and Audit Committee of the results. When conducting investigations, Internal Audit may seek assistance from/coordinate with management, legal counsel, and other specialists as appropriate throughout the course of the investigation;
- Perform consulting and advisory services related to governance, risk management and control as appropriate for the Company. Promote an effective system of control at a reasonable cost;
- Provide management with upfront advice and guidance on risks and control aspects of major initiatives, projects, and programs, new policies, systems, processes, and procedures;
- Maintain a constructive relationship with non-Internal audit employees and should be prudent in the used of documents and information acquired in the course of its duties;
- Keep the Audit Committee abreast and informed of emerging trends and best practices in internal auditing; and
- Have the opportunity to fulfil professional continuing education to maintain sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

## **AUDIT REPORTING AND MONITORING**

A written internal audit report and/or memo will be prepared and issued by Internal Audit following the conclusion of the audit engagement and will be distributed to the appropriate management officers as deemed necessary by the Internal Audit Head.

The internal audit report should include management's responses and corrective actions taken or to be taken in regards to the specific findings and recommendations. The

management's responses, whether included in the original internal audit report or provided thereafter should include a timetable for anticipated completion of the action to be taken and an explanation for any corrective action that will be implemented.

The status updates on the action plans shall be monitored by Internal Audit and shall form part of the reports to the Audit Committee and the President.

Audit results are considered confidential information and Internal Audit is responsible for deciding to whom and how audit reports will be disseminated. Audit reports may only be shared with external parties with prior approval by the Internal Audit Head. If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the company, the Internal Audit Head must:

- Assess the potential risk to the company;
- Consult with senior management and/or legal counsel; and
- Control dissemination by restricting the use of the results

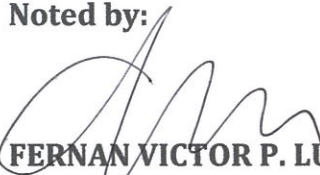
Internal Audit shall also report periodically to Audit Committee and the President regarding:

- Independence of the internal audit activities;
- Conformance with the Institute of Internal Auditor's Code of Ethics and Standards, as well as action plans to address any significant non-conformance issues;
- Performance relative to the audit plan;
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee;
- Any response to risk by management that, in the Internal Audit's judgement, may be unacceptable to the company; and
- Resource utilization and requirements

#### **PERIODIC REVIEW OF THE CHARTER**

The Internal Audit Charter should be assessed annually by the Internal Audit Head, who will reaffirm to the Audit Committee whether the Charter's provision continue to enable the Internal Audit to accomplish its objectives, or whether any changes are warranted. If a question should arise in the interim, the Charter should only be changed with the Audit Committee's approval, and such changes should reflect the generally accepted practice, as defined by the Institute of Internal Auditors.

Noted by:

  
**FERNAN VICTOR P. LUKBAN**  
*Chairman of the Audit Committee*

  
**ANDRES B. STA. MARIA**  
*Member of the Audit Committee*

  
**HANS B. SICAT**  
*Member of the Audit Committee*