

## **INTERNAL AUDIT CHARTER**

### **Purpose and Mission**

The purpose of CBS' Internal Audit Division is provide an independent, objective assurance and consulting services designed to add value and help improve the Bank's internal control processes, such as financial reporting control, information technology control and security, and operational controls. The mission of Internal Audit is to enhance and protect the organizational value by providing risk-based and objective assurance, advice, and insight.

It helps the Bank accomplish its objectives by applying a systematic, disciplined approach to assess / evaluate the effectiveness of Bank operations in terms of risk management, control, and governance processes.

### **Authority, Role, Independence and Objectivity**

Internal Audit Division shall have authority and unrestricted access to all records, documents, personnel and physical properties of the Bank's operating units whenever relevant to the exercise of its assignment.

Internal Audit shall assist the BOD / Bank Management in performing their legal obligations for ensuring proper and reasonable operations of the Bank, and in the management of financial, operational, and regulatory risks. Internal auditors are responsible in providing information about the adequacy and effectiveness of the organization's system of internal control and the quality of performance.

To ensure and provide for independence of the Internal Audit function and objectivity of its personnel, the internal auditors report to the Head of Internal Audit (CAE) who in turn reports functionally to the Board of Directors (BOD) through the Audit Committee, and administratively to the President. The Head of the Internal Audit shall annually confirm to the Board the organizational independence of the internal audit activity.

To further reinforce IAD's independence and objectivity, the following shall be observed:

1. The internal audit activity shall remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to exhibit necessary independent and objective mental attitude. They must be free to report audit results, findings, opinions, appraisals and other information to the appropriate level of management.
2. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They 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.
3. Internal auditors should not engage in activities, which they are normally expected to review and evaluate. They must be independent of the activities audited and from day-to-day internal control processes. They should not participate in any activities or relationship that may be in conflict with the interest of the Bank.

### **Scope of Work**

In order to fulfill its mission, the IAD's scope of work shall include the following:

1. Examination and evaluation of the adequacy and effectiveness of the internal control systems;
2. Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
3. Review of the management and financial information systems, including the electronic information system and electronic banking services;

4. Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
5. Review of the systems and procedures of safeguarding assets;
6. Review of the systems of assessing capital in relation to the estimate of organizational risk;
7. Transaction testing and assessment of specific internal control procedures;
8. Review of the compliance system and the implementation of established policies and procedures;
9. Perform other audit procedures as needed in carrying out its function as Internal Audit of the Bank.

IAD may also perform consulting services, with full disclosure in the reporting process, as long as consistent with the mission of IAD and would not necessarily impair IAD's objectivity and without the Internal Auditors assuming Management's responsibility. Such consulting services will generally be related to assessing the impact of changes being considered or implemented in the CBS' risk management, control, and governance processes.

### **Accountability**

The CAE, in the discharge of his/her duties, shall be accountable to the Management and the Audit Committee to:

- a. Develop and execute a risk-based internal audit plan that focuses on effectively reviewing and monitoring CBS' key risks and related controls. Such plan shall be presented to the Audit Committee for approval.
- b. Periodically review the internal audit charter and presents it to senior management and the Board thru Audit Committee for approval.
- c. Issue an audit report for each audit conducted summarizing significant findings, recommendations and the responses and/or actions taken or committed to be taken with planned target dates of the business unit audited. Results of the audit shall be timely presented to the Committee.
- d. Conduct follow-up audits to check and ensure that committed corrective measures have been taken to address the audit findings.
- e. Coordinate with other control and monitoring units (Legal, Risk Management, Compliance, Security) to ensure smooth running of the control framework of the Bank, and with external auditors to avoid duplication of work and efforts.
- f. Develop & maintain a quality assurance and improvement program & communicate the results to Audit Committee including the ongoing and periodic internal assessments as well as external assessments conducted at **least every five (5) years**
- g. Maintain a professional Audit Personnel with sufficient knowledge, skills and professional experience to meet the IAD's requirements. Otherwise, obtain competent advice and assistance from external service providers if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **Standards**

The IAD will be guided by and strive to meet the International Standards for the Professional Practice of Internal Auditing (*Standards*) of the Institute of Internal Auditors, Core Principles, Code of Ethics and the Definition of Internal Auditing. Also, in line with carrying IAD's function, it shall likewise adhere to the internal audit standards as prescribed by the Bangko Sentral ng Pilipinas per Circular 499 Series of 2005, including subsequent amendments thereto.

This Internal Audit Charter shall be reviewed periodically to keep it updated, appropriate, and prudent in consideration of the changes in circumstances and business in general.