

## Section 8 INTERNAL AND EXTERNAL AUDITORS

### Subject 1 Internal Audit Functions

The Company shall have in place an independent internal audit function, which shall be performed by the Internal Audit Department through which the Board, management and stockholders of the Company shall be provided with reasonable assurance that the Company's key organizational and procedural controls are appropriate, adequate, effective and complied with.

The Chief Audit Executive responsible for the internal audit activities shall report functionally to the Board, through the Audit and Governance Committee.

### Subject 2 Guidelines on Organizational and Procedural Controls

The minimum internal control mechanisms for management's operational responsibility shall center on the President, being ultimately accountable for the Company's organizational and procedural controls.

As such, Management should formulate, through the Internal Audit Department and under the supervision of the Audit and Governance Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines

- i. The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- ii. An effective system of internal organizational and procedural controls that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and stakeholders should be maintained, based on the following factors:
  - a. The nature and complexity of business and the business culture;
  - b. The volume, size, complexity of the transactions;
  - c. The degree of risk;
  - d. The degree of centralization and delegation of the authority;
  - e. The extent and effectiveness of information technology; and
  - f. The extent of regulatory compliance
- iii. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;

- iv. The corporation should consistently comply with the financial reporting requirements of the Commission;

### **Subject 3 Selection / Appointment / Resignation / Dismissal of External Auditors**

The Board, through the Audit and Governance Committee, may recommend a duly accredited External Auditor, who shall be nominated for election or appointment by the stockholders as may be required but the term of which shall in no case exceed three (3) consecutive years.

The reason(s) for the resignation, dismissal or cessation from service and the date thereof of the External Auditor shall be reported in the Company's annual and current reports. Said report shall include a discussion of any disagreement with said former External Auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

### **Subject 4 Functions of, and Restrictions on External Auditors**

The External Auditor shall enable an environment of sound corporate governance as reflected in the financial records and reports of the Company. The External Auditor shall undertake an independent audit and provide an objective assurance on the way in which the Company's financial statements have been prepared and presented. If the External Auditor believes that the statements made in the Company's annual report, information or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

The External Auditor of the Company shall not at the same time be engaged as the internal auditor thereof.

When the External Auditor is tasked to perform non-audit work, the Company shall ensure that said non-audit work shall not be in conflict with its functions as the Company's External Auditor. "Non-audit work" refers to other services offered by the External Auditor to the Company that are not directly related and relevant to its statutory audit functions or that may compromise the independence and objectivity of the external audit.

The Company's external auditor shall be rotated or the handling partner shall be changed every three (3) years or earlier.