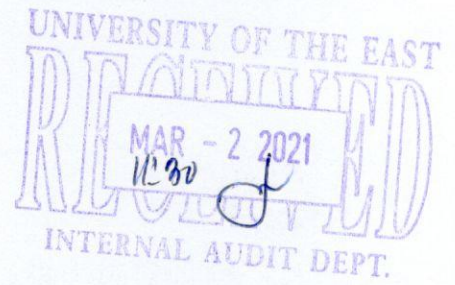




UNIVERSITY OF THE EAST
Philippines



INTERNAL AUDIT

Memorandum

FOR: **THE AUDIT COMMITTEE OF THE BOARD**

DATE: January 21, 2021

SUBJECT: **INTERNAL AUDIT CHARTER**

In line with the Securities and Exchange Commission Memorandum Circular 24 Series of 2019, "Code of Corporate Governance for Public Companies and Registered Issuers", the Internal Auditor submits the attached University of the East Internal Audit Charter.

For approval of the Audit Committee of the Board.


BOBBY RJ V. PAKINGAN
Internal Auditor

Att:

UNIVERSITY OF THE EAST INTERNAL AUDIT (IA) CHARTER SUMMARY

In compliance with Securities and Exchange Commission Memorandum Circular 24 Series of 2019, "Code of Corporate Governance for Public Companies and Registered Issuers", the UE IA Charter was prepared to formally define the IA's purpose, mission, responsibilities, powers and authority within the University. It sets out the nature of services that the Internal Audit provides that will help the University to achieve its objectives. It includes the following:

- Scope of IA activities which covers significant risks to be identified, related operations, reporting, information, resources and concerned stakeholders.
- Professionalism of IA that covers adherence to IA standards, government regulations and UE policies and procedures.
- IA authority granted by the Board of Trustees thru Audit Committee to unrestricted access to all functions, records, property and personnel to carry out IA activities.
- Organizational reporting relationship of IA which separates its functional reporting to the Audit Committee and administrative reporting to Chairman and Chief Executive Officer.
- Appointment and termination of IA Head/Chief Audit Executive to be executed by Audit Committee.
- Affirming independence of the IA department and objectivity of each IA personnel when performing activities. Not having operational responsibility or authority over activities audited (e.g. implementing controls, approving transactions, etc.).
- IA primary function to assist the Audit Committee in fulfilling its oversight responsibilities by providing assurance (objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes), consulting (advisory and related client service activities) and other services to add value and improve UE operations.
- IA sole responsibility for the planning, implementation and reporting of the audit engagements.
- Reporting, communication and coordination of IA of its activities to Audit Committee, Senior Management and other internal and external providers of assurance and consulting services (e.g. external audit firm, etc.).
- The requirement of periodic assessment of IA and communication of its results to identify opportunities for improvement of IA. Reassessment of IA charter every year or as deemed necessary for update and enhancement.

**UNIVERSITY OF THE EAST
INTERNAL AUDIT CHARTER**

1.0 POLICY STATEMENT

It is the policy of the University of the East (the "University") to maintain an independent and objective internal audit function to provide the Board of Trustees, through the Audit Committee and Senior Management, with information and assurance on the governance, risk management and internal control processes of the University.

2.0 OBJECTIVE

This policy was prepared to define the Internal Audit's purpose, mission, responsibilities, powers and authority within the University. This policy sets out the nature of services that the Internal Audit provides that will help the University to achieve its objectives.

3.0 DEFINITION OF TERMS

Audit Committee	A committee consisting of at least three (3) members of the Board, who shall have accounting and finance backgrounds, one (1) of the whom shall be an independent trustee and another with audit experience.
Board of Trustees (the "Board")	The governing body elected by the stockholders that exercises the corporate powers of the University, conducts all its business and controls its properties.
Governance	The combination of processes and structures implemented by the Board to inform, direct, manage and monitor the activities of the University toward the achievement of its objectives.
Internal auditing	An independent, objective assurance and consulting activity designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Internal Auditor/ Chief Audit Executive	The highest position in the University responsible for internal audit activities. If internal audit activities are performed by outside service providers, he/she is the person responsible for overseeing the service contract, the overall quality of these activities and follow-up of engagement results.

Internal controls	A system established by the Board, the Management and all levels of personnel to manage risks and provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management of corporate information; and compliance with applicable laws, regulations, and the University policies and procedures.
International Professional Practices Framework (IPPF)	The conceptual framework that organizes the authoritative guidance promulgated by The Institute of Internal Auditors (IIA), a trustworthy, global, guidance-setting body. The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and recommended guidance.
Risk	The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
Risk Management	A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.
Senior Management	Compose of University officers, with rank of Vice President and up, appointed by the Board at the highest level of management to manage the day-to-day activities of the University to achieve agreed-upon goals within a framework of acceptable University behavior.

4.0 PURPOSE AND MISSION

The purpose of the University's Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. The mission of the University's Internal Audit is to enhance and protect the University's value by providing risk-based and objective assurance, advice and insight. The Internal Audit helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

5.0 SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal audit activities encompasses, but is not limited to, objective examination of evidences for the purpose of providing independent assessments to the Board through Audit Committee and Senior Management on the adequacy and effectiveness of governance, risk management and control processes of the University. Internal audit assessments include evaluating whether:

1. Risks relating to the achievement of the University's strategic objectives are appropriately identified and managed.
2. The actions of the University's officers, personnel, contractors and other stakeholders are in compliance with the University's policies, procedures and applicable laws, regulations and standards.
3. The results of the University's operations or programs are consistent with established goals and objectives.
4. The University's 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 the University.
6. The University's information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
7. The University's resources and assets are acquired economically, used efficiently and protected adequately.

6.0 POLICIES

I. Professionalism

The Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Definition of Internal Auditing, Core Principles, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. This mandatory element constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit will adhere to other Internal Auditing practices set by the Philippine government regulators (e.g. Securities and Exchange Commission, etc.) and University's policies and procedures.

II. Authority

The Internal Auditor will have unrestricted access to and communicate and interact directly with the Audit Committee and Senior Management, including in private meetings without the presence of the Senior Management.

The Board through the Audit Committee authorizes the Internal Audit to:

- Have full, free and unrestricted access to all functions, records, property and personnel pertinent to carrying out any engagement, with strict accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives and issue reports.

- Obtain assistance from the necessary personnel of the University, as well as other specialized services from within or outside the University, in order to complete an engagement, if needed.

III. Organizational Structure

The Internal Auditor will report to the following:

- Functionally, to the Board, through the Audit Committee; and
- Administratively, (i.e. day-to-day operations) to the Chairman and Chief Executive Officer.

The organizational structure is designed to allow the Internal Audit to be independent and to effectively accomplish its purpose.

To establish, maintain and assure that the University's Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the Internal Audit's charter.
- Approve the risk-based internal audit plan.
- Receive communications from the Internal Audit regarding its performance relative to its plan and other matters.
- Approve decisions regarding appointment and removal of the Internal Auditor.
- Make appropriate inquiries to Senior Management and the Internal Auditor to determine whether there are inappropriate scope or resource limitations.

IV. Independence and Objectivity

The Internal Auditor will ensure that the Internal Audit remains free from all conditions that threaten the ability of internal audit personnel to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. If the Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal audit personnel will maintain an unbiased mental 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 audit personnel will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal audit personnel will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the University or its related parties.
- Initiating or approving transactions external to the Internal Audit.
- Directing the activities of any University personnel not employed by the Internal Audit, except to the extent that such personnel have been

appropriately assigned to auditing teams or to otherwise assist internal auditors.

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

Internal audit personnel will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid undue influence by their own interests or by others in forming judgments.
- The Internal Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit.

The Internal Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

V. Services

Internal Audit's primary function within the University is to assist the Audit Committee in fulfilling its oversight responsibilities. Consistent with its purpose and mission, the Internal Audit provides the following services to the University:

1. Assurance

Internal Audit provides an objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes for the University. This service includes process review, financial performance, compliance, system security and other assurance services.

2. Consulting

Internal Audit provides advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve the University's operations. The nature and scope of which will be agreed with the audit client, provided the internal audit department does not assume management responsibility. This service includes counsel, advice, facilitation and training.

3. Other Services

Internal Audit will conduct such other services as may be requested by the Audit Committee and Senior Management, with certain requests of the latter subject to further clearance from the Audit Committee depending on the materiality of such requests.

VI. Responsibility

Internal Audit shall be solely responsible for the planning, implementation and reporting of the audit engagements. For this purpose, Internal Audit shall:

1. Provide an independent risk-based assurance service to the Audit Committee and Senior Management, focusing on reviewing the effectiveness of the governance, risk management and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information and (4) coordinating the activities and information among the Audit Committee, external and internal auditors and Senior Management;
2. Develop and implement a flexible annual audit plan using appropriate risk-based and process-focused methodologies, which takes into consideration any risk or control concern identified by Senior Management and submit that plan to the Audit Committee.
3. Evaluate and assess significant operations, merging or consolidating functions and new or changing services, processes, operations and control processes coincident with their development, implementation and/or expansion, including as appropriate any ad hoc appraisal, inspection, investigation, examination or review requested by Audit Committee or Senior Management.
4. Issue periodic reports to the Audit Committee summarizing the status and results of audit activities, particularly significant issues noted relating to the adequacy, efficiency and effectiveness of controls, processes and activities of the University.
5. Render a report on Internal Audit's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved, including significant risk exposures and control issues, governance issues and other matters needed or requested by the Audit Committee.
6. Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
7. Coordinate internal and external audit efforts for the purpose of providing optimal audit synergies and coverage to University at a reasonable overall cost.
8. Maintain sufficient number of professional audit personnel with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this policy.
9. Provide professional development opportunities to keep staff members informed about improvements and current developments in internal auditing standards and techniques.

VII. Reporting and Communication

The Internal Auditor will report periodically to the Audit Committee and Senior Management, ensuring independence and objectivity is observed at all times to the latter when providing information, regarding:

- Internal Audit's purpose, authority and responsibility.
- Internal Audit's plan and performance relative to its plan.
- Internal Audit's conformance with The IIA's Code of Ethics and the Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee or Senior Management.
- Results of audit engagements or other activities.
- Status of action plans implemented by management to issue/s raised by Internal Audit.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the University.

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

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.

VIII. Periodic Assessment of Internal Audit Performance

The Internal Auditor should periodically assess whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Internal Audit to accomplish its objectives. The result of this periodic assessment (internal and external assessments) and any arising revisions should be communicated and approved by the Audit Committee. The Internal Auditor is accountable and responsible for overall conformance with the applicable standards, policies and regulations.

The Internal Audit will maintain a quality assurance and improvement program that covers all aspects of its operations. The program will include an evaluation of the Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit and identify opportunities for improvement.

IX. Implementation

The Internal Auditor is hereby authorized to issue relevant policies, procedures and guidance consistent with the provisions of this Charter, as appropriate. This Charter shall be re-assessed every year or as deemed as necessary for update and possible enhancement.

References:

- *Securities and Exchange Commission Memorandum Circular No. 24 Series of 2019 Code of Corporate Governance for Public Companies and Registered Issuers Recommendation nos. 2.9, 3.2, 12.2*
- *The Institute of Internal Auditors (IIA) Definition of Internal Auditing, Mission of Internal Audit, Core Principles of Internal Auditing, Code of Ethics, International Professional Practices Framework, Attribute Standards (1110, 1111, 1112, 1120, 1130, 1210, 1220, 1310, 1320, 1322) and Performance Standards (1321, 2100, 2110, 2120, 2130, 2010, 2020, 2030, 2040, 2060, 2600)*
- *University of the East 2020 Manual on Corporate Governance*
- *University of the East Amended Manual on Corporate Governance per Board Resolution No. 2017-07-40, 20 July 2017*
- *University of the East Organizational Chart per Board Resolution No. 2015-07-58, 16 July 2015, as amended per Board Resolution No. 2020-06-39*

(APPROVED by the Board's Audit Committee at its meeting held on January 21, 2021 and confirmed by the Board of Trustees at its regular meeting held on January 21, 2021)