









SM Prime Holdings, Inc.


Internal Audit Charter

Effective 20 February 2017

INTERNAL AUDIT CHARTER APPROVAL SHEET

The undersigned approves the Internal Audit Charter which establishes the purpose, authority and responsibilities of SM Prime Holdings, Inc. - Internal Audit Department (SMPH-IAD)

NAME	DATE	SIGNATURE
Henry T. Sy, Jr. Board Chairman		
Jose L. Cuisia, Jr. Vice-Chairman / Independent Director		
Gregorio U. Kilayko Independent Director		
Joselito H. Sibayan Independent Director		
Hans T. Sy Member		
Herbert T. Sy Member		
Jorge T. Mendiola Member		
Jeffrey C. Lim Member		

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This Charter establishes the purpose, authority, and responsibilities of the SM Prime Holdings, Inc. Internal Audit Department (SMPHI - IAD).

I. INTRODUCTION

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of SM Prime Holdings, Inc. and its Management Companies (or collectively, the Company). It assists the Company in accomplishing its vision, mission and objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

II. NATURE OF ASSURANCE AND CONSULTING ACTIVITIES

As part of the Internal Audit Department's mandate to provide value adding services to the Company, it undertakes projects which can be categorized under any of the two types:

1. Assurance Services – An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, due diligence engagements, and investigations¹. The internal auditor determines the nature and scope of the assurance engagement. An assurance engagement ends with the communication of the assessment opinion or conclusion arrived at the interested users by the internal auditor.
2. Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed to by the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. The client determines the nature and scope of the advisory engagement with agreement from the internal auditor.


III. ROLE

1. The Internal Audit Department is established by the Board of Directors (the Board) through its Audit Committee (AudCom). The Internal Audit Department's responsibilities are defined by the AudCom as part of their oversight role.
2. The Mission of the Internal Audit Department is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

IV. PROFESSIONALISM

1. The Internal Audit Department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditor's (IIA) International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing - the Standards*). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit Department's performance.

¹ Independent evaluations of allegations generally focused on improper activities including misuse of Company resources, fraud, financial irregularities, significant control weaknesses, and unethical behaviour or actions.

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2. 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 Department will adhere to applicable laws, rules and regulations, as well as to relevant internal policies and procedures, including the Internal Audit Department's standard operating procedures manual.

V. AUTHORITY

The Internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorized to:

1. Gain full, free, unrestricted and timely access to any and all records, physical properties, and personnel pertinent to carrying out any engagement.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
3. Obtain necessary assistance from personnel within units of the Company where an engagement is being conducted, as well as other specialized services from within or outside the Company.
4. Have free and unrestricted access to Senior Management, and the AudCom.


All employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities.

VI. ORGANIZATION

1. The Chief Audit Executive is the head of the Internal Audit Department and shall be responsible for the department's operations, including any portion outsourced to an external service provider, ensuring it adds value to the organization.
2. The Chief Audit Executive will report functionally to the AudCom and administratively (i.e., day to day operations) to the President.
3. The Board will approve decisions on the appointment and removal of the Chief Audit Executive, and evaluate its performance on annual basis.
4. The Chief Audit Executive will communicate and interact directly with the AudCom in regular Board meetings as well as special and private meetings.

VII. INDEPENDENCE AND OBJECTIVITY

1. The Internal Audit Department will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
2. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
3. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors 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.
4. The Chief Audit Executive will confirm to the AudCom, at least annually, the organizational independence of the Internal Audit Department.

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VIII. RESPONSIBILITY

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

1. Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
2. Evaluating the systems established to ensure adherence with those policies, plans, procedures and the Code of Conduct, as well as compliance with contractual obligations, other commitments, laws, and regulations, which could have a significant impact on the organization.
3. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
4. Evaluating the effectiveness and efficiency with which resources are employed.
5. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
6. Evaluating business units and processes if these are generally in synchrony with prevailing industry practices, using leading public and private examples as benchmarks.
7. Monitoring and evaluating governance processes.
8. Monitoring and evaluating the effectiveness of the organization's risk management processes.
9. Using the work of external auditors and other service providers, as appropriate, to ensure optimal audit coverage at a reasonable overall cost.
10. Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
11. Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
12. Reporting periodically on the Internal Audit Department's purpose, authority, responsibility, and performance relative to its plan.
13. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the AudCom.
14. Evaluating specific operations at the request of the AudCom or management, as appropriate.
15. Obtaining sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
16. Arranging and providing ongoing staff training as appropriate.
17. Apprising the AudCom of emerging trends and successful practices in internal auditing.

IX. INTERNAL AUDIT PLAN

1. At least annually, the Chief Audit Executive will submit to Senior Management and the AudCom an Internal Audit Plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to Senior Management and the AudCom.
2. The Internal Audit Plan will be developed based on a prioritization of the audit universe using a risk-based methodology, aligned with the organization's goals and including the input of Senior Management and the AudCom. It shall include regular audits, consulting activities and special audits as appropriate.

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3. Any significant deviation from the approved Internal Audit Plan will be communicated to Senior Management and the AudCom through periodic activity reports.

X. REPORTING AND MONITORING

1. A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the AudCom.
2. The internal audit report may include 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.
3. The Internal Audit Department will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared. Said file will be kept up-to-date with relevant information, including data on agreed recommendations and resolution of management acceptance of risks, by means of tracking tools.

XI. PERIODIC ASSESSMENT

1. The Chief Audit Executive will periodically report to Senior Management and the AudCom on the Internal Audit Department’s purpose, authority, and responsibility, as well as performance relative to its plan and its conformance with the Code of Ethics and the Standards. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Senior Management and the AudCom.
2. In addition, the Chief Audit Executive will communicate to Senior Management and the AudCom on the Internal Audit Department’s quality assurance and improvement program, including results of ongoing and periodic internal assessments at least annually as well as results of external periodic assessment at least every five years.