

INTERNAL AUDIT CHARTER

INTERNAL AUDIT DEPARTMENT
PUREGOLD GROUP OF COMPANIES

I. POLICY

It is the policy of the Company to provide Internal Auditing as an independent appraisal activity established to provide independent, objective assurance and advisory services designed to add value and improve the Company's operations. It helps the Company accomplish its objectives through systematic approach to evaluate and help improve the effectiveness of risk management, control and governance process.

II. OBJECTIVES

The Internal Audit Department's objective is to determine whether the Company's system of risk management, governance, internal controls, policies and procedures are adequate and functioning in a manner to help ensure, among others:

1. Risks are appropriately identified and managed.
2. Significant financial, managerial and operational information is accurate, reliable and timely.
3. Employees' action are in compliance with the policies;
4. Resources are acquired economically, used efficiently, and protected adequately.
5. Quality and continuous improvements are fostered in the Company's procedures and control process.
6. Programs, plans, and objectives are defined, communicated and achieved.

III. AUTHORITY & INDEPENDENCE

In accomplishing its activities, authorization is granted to the officers and staff of Audit Department to:

1. Have unrestricted access to all departments, offices, activities, records, information, properties and personnel, relevant to the performance of audit function.
2. Determine scope of work, set frequencies, select subjects, allocate resources and apply the techniques required to accomplish audit objectives.
3. Obtain the necessary assistance of personnel in various departments / offices of where they perform audits.
4. Internal Audit Department shall be independent of the activities audited. The internal auditors have no direct responsibilities over any activities, process or operation they review, to maintain Auditor's objectivity and independence. Auditor's responsibility over certain transactions pertains primarily on checking the authorization and validity of transaction, after the procedures or controls were applied by the main process owners.

IV. ACCOUNTABILITY

1. The Internal Audit Department, in the discharge of his duties, shall be accountable to and reports directly to the Audit Committee (see Annex I) with administrative reporting to the Chairman and President.
2. Submit an assessment on the adequacy and effectiveness of the Company's processes for ensuring controls on activities and managing its risks in all the areas of operations on regular basis.
3. Report significant issues related to the processes for controlling the activities of the Company together with recommendations for improvements to those processes.
4. Maintain an impartial, unbiased attitude and avoid conflicts of interest.
5. Coordinate with other department and provide oversight of other control and monitoring functions.

V. RESPONSIBILITIES

1. Develop a flexible audit plan using an appropriate risk-based methodology and submit that plan to the Audit Committee for review and approval. Provide periodic information on the status and results of the annual audit plan and the sufficiency of Department resources.
2. Determine the adequacy and effectiveness of the Company's systems of internal accounting and financial reporting controls.
3. Report major issues and significant changes impacting the adequacy of Company's internal controls specifically relating to material control weaknesses.
4. Evaluate the quality of performance of the various organizational components of the organization in carrying-out their assigned responsibilities. Review existing operations or programs to determine results are consistent with those expected.
5. Review development of new systems to determine progress, results, and testing are consistent with established goals and objectives
6. Perform value-added process analyses and provide advice to management and to identify opportunities for cost savings and making recommendations for improving cost efficiencies.
7. The IAD helps the management to "anticipate and prevent" risks, as much as to "find and fix" the errors.
8. Assist in the investigation of significant suspected fraudulent activities and notify the Executive Office and Senior Management of the results.
9. The Officers and staff of Audit Department have responsibility to:
 - a. Follow the guidelines and methodology given in the Internal Audit Manual.
 - b. Exercise due professional care, prudence and competence in carrying out audit assignments.
 - c. Maintain independence integrity and objectivity.
10. The internal audit process, however, does not relieve departmental heads/ chief managers of their responsibility for the maintenance and improvement of controls in their respective areas.
11. In determining the areas for review or audit, the IAD should identify and prioritize areas according to the level of risks.

VI. FUNCTIONS

The scope of internal audit functions is divided into three (3), as follows:

Financial Audit

- Aim to assess whether controls over record keeping and reporting are adequate and effective, especially on sales.
- Aim to evaluate whether accuracy, reliability, timeliness, and completeness are attained.

Part of Organization being Evaluated: Accounting, Finance and Treasury Functions. Includes Sales Audit in the stores.

Scope and Frequency:

- ☐ Selected accounts depending to volume of transactions and extent of risks.
- ☐ Review of controls over financial reporting and processing.
- ☐ Daily sales audit for stores.

Operations Audit/Risk-Based Audit

- To provide audit programs to assess the efficiency and effectiveness internal controls using the Risk-Based Audit methodology.
- To evaluate compliance with policies, procedures, methods and standards.
- To determine control weaknesses and provide guidelines for procedure documentation or enhancement
- To evaluate if controls are in place that eliminates opportunity for damage, loss, fraud or irregularities.
- To determine deviations and loss resulting from non-compliance.
- To appraise units or functions effectiveness and efficiency.

Part of Organization being Evaluated: Store Operations and HO

Scope and Frequency: Selected areas or functions depending to volume of transactions and extent of risks. Audit Planning Memorandum per Store/Subject will be issued to direct the Team.

Computer Information System Audit

- To evaluate internal controls in the computerized systems and identify control weaknesses, risks and deviations.
- To identify the nature and extent of risks to financial reporting posed by the use of information technology
- To review new systems/software development and ensure coordinated and proper implementation
- To identify risks of fraud, errors, irregularities, accidental and deliberate damage.

Part of Organization being Evaluated: Computerized Systems users and units.

Scope and Frequency: Systems pre- and post implementation. Quarterly Audit Planning Memorandum will be issued to direct the Team.

VII. STRUCTURE, JOB LEVELS & RESPONSIBILITIES

Senior Manager, Audit: Reporting to the Audit Committee, Chairman and President. Responsible for the over-all audit directions and program. Develops and directs audit goals, objectives and plans. Ensures quality audit work that conforms to the standards. Establishes and improves department structure. Provides adequate training programs and resources to officers and staff. Coordinates and reports projects and undertaking with the Chairman, President, Dept. Heads and Store Manager.

Audit Managers / Assistant Audit Managers: Responsible for the over-all and specific engagement or functional directions and programs. Assists the Senior Manager in directing and ensuring proper execution and administration of projects and plans. Helps establish audit goals, objectives and plans per engagement. Leads audit investigation that relates to fraud and irregularities. Ensures timely and quality works. Coordinates and reports projects and undertaking with the Chairman, President, Dept. Heads and SOM.

Audit Officers: Reporting directly to Audit Managers. Administers the internal audit activities for the assigned cluster, functions and/or units. Develops and execute comprehensive program for the assigned functions or projects. Initiate planning and ensures proper audit strategies and approach, execution, follow-through and/or implementation of projects, findings and/or procedures. Closely coordinates results to Dept Heads and Store Managers. Supervises and mentors the auditors under him/her.

Senior / Junior Auditor / Audit Assistant : Reporting functionally to Managers and/or Officers, depending on areas of clusters or functions or areas of concerns. Executes and implements audit plan and projects according to functional team, engagement or store cluster. Responsible for the review of assigned activities or stores/cluster. Directly supervises audit staff. Plans, conducts and directs on-going audit activities of stores or projects. Coordinates with AM, AAM or AO issues and concerns. Reviews audit working papers and assesses the level of risks of findings and issues, rank them accordingly. Initiates initial discussion of findings to auditees and Dept heads and/or Store Managers. Prepares/reviews Audit Reports.

Audit Associates (Staff): Reporting to respective cluster leaders (with open-line communication with the AM, AAM, AO). Assigned to perform detailed audit works. Assists in the planning. Assists or prepares audit program and procedures. Prepares Audit Reports and ensures that audit engagement is properly supported (audit working paper), well-planned and executed. Ensures that the working papers contain information on which audit conclusions and recommendations are based upon. Recommends enhancements in the procedures. Ensures quality work that conforms with the standards. Communicates with auditees and line managers the initial audit findings.

VIII. REPORTING ACCOUNTABILITY

Annual Audit Plan will be submitted to the Audit Committee, containing the schedules of projects, activities and required resources. The planned activities will be discussed to department head or Store Manager to ensure cooperation and efficient conduct of audit.

Audit Notification will be submitted to Store Manager/Dept Head of store/departments to be audited prior to the conduct of audit to discuss objectives, procedures and expectations

IAD Executive Report will be submitted to the Executive Office that indicates the summary of activities, projects and findings of the IAD. Summarized and presented as per risk impact. Immediate issues and concerns will have to be coordinated with the Chairman/President promptly. He will be updated from time-to-time of the status of audit.

Other of summary reports done monthly or quarterly are: Cash Count Activities, Compliance Audit Summary, Fixed Asset Count Summary, Quality Assurance Summary.

Monthly IAD Status Report (per Store/per Audit Group/ per Cluster) will be submitted to Regional and Senior Area Managers that indicates audit undertakings and findings in the store/department level.

Written Audit Reports will be issued by the department following the end of each audit or engagement and will be distributed for comment or discussion. A “wrap-up” meeting will be conducted, as appropriate, to discuss with the head of auditee units the findings and their response. The department head or manager receiving the audit report may respond within the specified time containing the resolution, action plans and/or timetable. The report (depending on the level of risks and significance of finding) will be submitted to Executive Office.

ANNEX 1:***AUDIT COMMITTEE'S OVERSIGHT ROLE OVER
INTERNAL AUDIT DEPARTMENT***

The Audit Committee is expected, through the provision of checks and balances, to support the corporate governance process. The Audit Committee is responsible in assisting the Board of Directors in overseeing the financial reporting process, systems of internal control, audit process, and monitoring of compliance with applicable laws and regulation.

Specifically, it shall be responsible for the following:

- A. Financial Reporting***
- B. Internal Audit ****
- C. External Audit***
- D. Internal Controls, Compliance and Risk Management***

Internal Audit *

1. Review and approval of Internal Audit Charter and subsequent revisions thereto.
2. Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include scope, resources and budget necessary to implement it.
3. Review reports of internal auditors, ensuring that management is taking corrective actions in a timely manner, including addressing internal control and compliance issues.
4. Review of Internal Audit's periodic reports and annual report. Periodic reports shall highlight the status of projects in accordance with the audit plan approved by the Committee, as well as any unplanned projects. Such reports shall include a summary of key findings and recommendations, including the status of implementation.
5. Review with the Internal Auditors the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology control, and responsiveness of the management in correcting audit-related deficiencies. Discuss policies regarding risk assessment and risk management.

6. Ensure that the internal audit function is organizationally independent from authority operations.
7. Ensure that the Internal Auditors have free and full access to all the Company's records, properties and personnel relevant to and required by its function and that the internal audit activity to fulfill shall be free from any interference in determining its scope, performing its work and communicating results.

(Excerpt from the Audit Committee Charter)