

LIFE & HEALTH HMP, INC.

INTERNAL AUDIT MANUAL

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I. ORGANIZATION OF INTERNAL AUDIT MANUAL

In accordance with Circular Letter 2020-71, Revised Code Corporate Governance for Insurance Commission Regulated Companies, the Board of Directors (BOD) should have in place an independent internal audit (IA) function that provides an independent and objective¹ assurance, and consulting services designed to add value and improve the Company's operations. The BOD will oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, BOD, and shareholders.

International Standards on Professional Practice of Internal Auditing (ISPPIA or Standard/s) 2040² also mandates that the Chief Audit Executive (CAE) must establish policies and procedures to guide the internal audit activity. This is to ensure that internal audit policies and procedures are aligned with the ISPPIA and the IA Charter³.

The Internal Audit Manual (IA Manual) was developed to comply with the said requirements and to provide the detailed responsibilities of the Internal Audit Department (IAD) of Life & Health HMP, Inc. (the Company).

¹ Standard 1100 – Independence and Objectivity: The internal audit activity must be independent and internal auditors must be objective in performing their work.

² Standard 2040 – Policies and Procedures: The CAE must establish policies and procedure to guide the internal audit activity.

³ Standard 1000 – Purpose, Authority, and Responsibility: The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the international Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The CAE must periodically review the internal audit charter and present it to senior management and the board for approval.

II. MANAGEMENT OF THE INTERNAL AUDIT FUNCTION⁴

In managing the IA function of the Company, the CAE ensures that it adds value to the Company by objectively providing relevant assurance and offering suggestions to enhance the Company's governance, risk management, and control processes.⁵

The IAD is effectively managed when:

- It achieves the purpose and responsibility included in the IA Charter.
- It conforms with the ISPPPIA.
- Its individual members conform with the Code of Ethics and the ISPPPIA; and
- It considers trends and emerging issues that could impact the Company.

Successful management of IAD can be achieved through efficient and effective execution of planning, communication and approval, resource management, coordination, and reporting, to accomplish the IAD's desired goals and objectives.

⁴ Standard 2000 – Managing the Internal Audit Activity: The CAE must effectively manage the internal audit activity to ensure it adds value to the organization.

⁵ Standard 2100 – Nature of Work: The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

A. Planning⁶

The IA plan is intended to ensure that the IA coverage adequately examines areas with the greatest exposure to key risks that could affect the Company's ability to achieve its objectives.

The IA plan is flexible enough to allow the CAE to review and adjust it as necessary in response to changes in the Company's business, risks, operations, programs, systems, and controls.

Planning procedures is discussed in detail in Section III of this Manual.

B. Communication and Approval⁷

The CAE must communicate the IAD's plans and resource requirements, including significant interim changes, to Senior Management and Audit Committee for review and approval.

The CAE itemizes the audits that comprise the IA plan and then assesses the types and quantity of resources that would be needed to accomplish each audit engagement. This is done through estimates based on experience with a particular engagement or comparison to a similar engagement.

Upon determining the resources needed to accomplish the IA plan's priorities against the available resources, the gap or impact of resource limitations may be ascertained. The CAE discusses this with the

⁶ Standard 2010 - Planning: The CAE must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

⁷ Standard 2020 – Communication and Approval: The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The CAE must also communicate the impact of resource limitations.

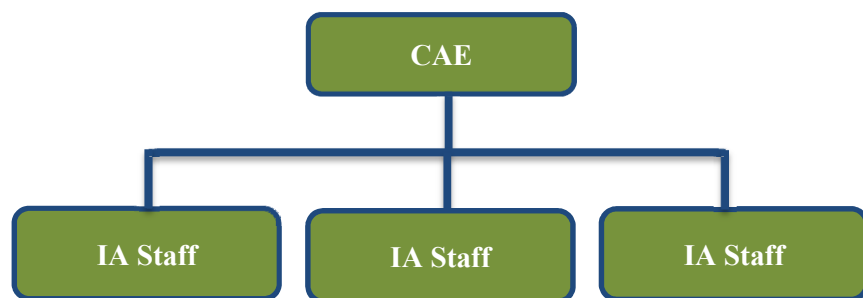
Senior Management to address concern and gain feedback and insights before presenting it to the Audit Committee for approval.

The proposed IA plan includes:

- A list of proposed audit engagements (and specification regarding whether the engagements are assurance or consulting in nature).
- Rationale for selecting each proposed engagement (e.g. risk rating, time since last audit, change in management, etc.)
- Objectives and scope of each proposed engagement; and
- A list of initiatives or projects that result from the IA strategy

During presentation to the Audit Committee, the CAE discusses the proposed IA plan and the risk assessment on which it is based, indicating the risks that will be addressed, as well as any risks that cannot be addressed due to resource constraints.

C. Resource Management⁸



The IAD is composed of the CAE and a minimum number of IA staff who shall assist in carrying out and performing audit tasks.

⁸ Standard 2030 – Resource Management: The CAE must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The CAE gains a deeper understanding of the resources available against the Audit Committee-approved IA plan. The CAE also carefully considers the number of IA staff and productive work hours available to implement the plan within the Company's schedule constraints. Productive work hours generally exclude factors such as paid time off and time spent on training and administrative tasks.

To fill gaps related to the IA staff's knowledge, skills, and competencies, the CAE could provide training for existing staff, request an expert from within the Company to serve as a guest auditor, hire additional staff, or hire an external service provider to complement the existing skills and proficiency of IAD.

The CAE allocates an appropriate portion of the approved budget to IAD for training, technology, or additional staffing to achieve the IA plan.

Staffing

Appointment of CAE

The Human Resource Department (HRD) shall seek individuals who possess strong management, leadership skills, and relevant experience who may qualify as candidates for CAE. These prospective candidates shall undergo the Company's normal hiring process administered by the HRD.

Annex A.1 provides for the qualification standards and functions of the CAE.

The Audit Committee shall review the qualifications of the shortlisted CAE. After careful deliberation, the Audit Committee, in coordination with the Corporate Governance Committee, shall recommend the

appointment of the CAE to the BOD for their approval in which a Board Resolution shall be issued to support the appointment.

Annually, the Audit Committee shall have in place a formal evaluation of the CAE to assess and provide feedback about his or her performance (**Annex M**).

Termination of CAE

The BOD, through the Audit Committee, in coordination with the Corporate Governance Committee, shall oversee the termination of the CAE. This includes determination and identification of issues and reasons that contributed to the CAE's termination.

Appointment of IA Staff

The CAE communicates with HRD the required qualification standards and functions of IA Staff as set on **Annex A.2**.

The HRD shall scout for probable candidates for the position. Candidates shall be evaluated by the HRD in coordination with the CAE as part of the Company's hiring process. The CAE shall shortlist qualified IA Staff candidates and endorse them to the Audit Committee. The HRD shall process the appointment of qualified IA Staff.

Annually, the CAE shall perform a self-assessment of the IAD's performance. The Audit Committee shall also conduct an annual evaluation of the IAD to assess and provide feedback about their performance.

Termination of IA Staff

The IA Staff shall undergo the termination process administered by the HRD. The CAE shall advise the Audit Committee accordingly.

Training

Initially, new staff members will be oriented about various rules and regulations governing the Company's operations, The IIA's Code of Ethics, ISPPA, IA Manual, and other relevant resources related to the conduct of internal auditing.

The IAD will run an annual training budget and regularly take internal auditors for training seminars relevant to their job and grade. Therefore, the internal auditors will attend seminars and training as appropriate.

Professional proficiency⁹ is the responsibility of each internal auditor. In compliance with Standard 1230¹⁰, they should possess a body of specialized knowledge and should maintain a recognized and relevant professional certification, continuous process of education to sustain professional growth in the field of internal auditing.

Training Records

Training records should be maintained for each IA staff. Details on the skills requirements for each position should be included in the training records. These records are essential in the assessment of future training programs and as a basis for selecting short lists for promotion.

Training Program

Development of the training program entails careful evaluation of the skills requirements and training needs.

⁹ Standard 1200 – Proficiency and Due Professional Care: Engagements must be performed with proficiency and due professional care.

¹⁰ Standard 1230 – Continuing Professional Development: Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

IAD should prepare training plans and programs to facilitate learning and development of internal auditors. The plans and programs will be endorsed to the Audit Committee for their approval. Upon approval, IAD will coordinate and communicate the approved training programs and plans with the HRD.

For possible training courses for IAD, please refer to **Annex B**.

Staff Mentoring

Mentoring is another tool to develop and train IA Staff. Mentoring often takes place when an IA Staff seeks advice from more experienced personnel.

A mentoring environment should also be promoted within the IAD. This will give way to the enhancement and development of auditing skills. The CAE shall encourage open communication among the members of the IAD, including the discussion and resolution of any performance issues that may arise.

Staff Performance Evaluation

Personnel performance is continuously monitored by reviewing work performed and providing immediate feedback for support. At the end of each engagement, a debriefing meeting is held to identify areas of personal improvement. Semi-annual evaluations are held with each IA Staff using the evaluation instrument corresponding to each position.

D. Coordination and Reliance¹¹

¹¹ Standard 2050 – Coordination and Reliance: The CAE should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

The CAE identifies the various roles of existing assurance and consulting service providers in the Company.

- Internal service providers include oversight functions that either report to Senior Management or are part of Senior Management. Their involvement may include areas such as environmental, financial control, health and safety, IT security, legal, risk management, compliance, or quality assurance.
- External assurance providers may report to Senior Management or external stakeholders, or they could be hired by and report to the CAE, in accordance with Standard 2070¹².

Once the providers of assurance and consulting services have been identified, the CAE considers the type and amount of information that may be shared with them, in accordance with the Company's confidentiality requirements.

The CAE meets with each of the providers to gather sufficient information so that the Company's assurance and consulting activities may be coordinated. Within the limitations of the Company's confidentiality requirements, the parties share the objectives, scope, and timing of upcoming reviews, assessments, and audits; the results of prior audits; and the possibility of relying on one another's work.

The CAE may choose to rely on the work of other providers such as to assess specialty areas outside of the IAD's expertise or to enhance risk coverage beyond the IA plan. However, if the IAD relies on the work of another service provider, the CAE retains ultimate responsibility for IA conclusions and opinions. Thus, it is essential for the CAE to:

¹² Standard 2070 – External Service Provider and Organizational Responsibility for Internal Auditing: When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

- Evaluate objectivity by considering whether the provider has, or may appear to have, any conflicts of interest and whether they have been disclosed.
- Consider independence by examining the provider's reporting relationships and the impact of this arrangement.
- Confirm competency by verifying whether the provider's professional experience, qualifications, certifications, and affiliations are appropriate and current.
- Assess due professional care by examining elements of the practice the provider applies to complete the work; and
- Seek to gain an understanding of the scope, objectives, and results of the actual work performed to determine the extent of reliance that may be placed on the provider's work. The CAE determines whether additional work or testing is needed to obtain sufficient evidence to support or increase the level of reliance desired. If additional work is needed, the IAD may retest the results of the other provider.

E. Reporting to Senior Management and the Audit Committee¹³

Communicating effectively with Senior Management and the Audit Committee is an essential responsibility of the CAE. The CAE usually understands the reporting-related expectations of Senior Management and the Audit Committee, as stated in the Audit Committee Charter.

To maintain and track consistent and effective communication with Senior Management and the Audit Committee, the CAE considers using a checklist of all reporting requirements with topics as follow:

- IA Charter
- Organizational independence of the IAD
- IA plans, resource requirements, and performance
- Results of audit engagements
- Quality Assurance and Improvement Program (QAIP)
- Conformance with the Code of Ethics and the ISPPIA
- Significant risk and control issues, and Management's acceptance of risk

F. Measuring and Controlling the Performance of IAD

The CAE has the responsibility for developing and maintaining a QAIP¹⁴ that includes internal and external assessments¹⁵.

¹³ Standard 2060 – Reporting to Senior Management and the Board: The CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

¹⁴ Standard 1300 – Quality Assurance and Improvement Program: The CAE must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

A QAIP is designed to enable an evaluation of the IAD's conformance with the Definition of Internal Auditing and the ISPPIA, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the IAD and identifies opportunities for improvement

Internal assessment¹⁶ includes:

- *Ongoing monitoring*. This is an integral part of the day-to-day supervision, review, and measurement of the performance of IAD; and
- *Periodic reviews* performed through self-assessment or by other persons within the Company, with sufficient knowledge of the IA practices.

The results of ongoing monitoring of the IAD's performance, which is part of the internal assessment process, must be reported at least annually¹⁷.

External assessment¹⁸ of the IAD is conducted at least once every five years, or as the need arises, by a qualified, independent reviewer or

¹⁵Standard 1310 – Requirements of the Quality Assurance and Improvement Program: The quality assurance and improvement program must include both internal and external assessments.

¹⁶Standard 1311 – Internal Assessments: Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

¹⁷Standard 1320 – Reporting on the Quality Assurance Improvement Program: The CAE must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

review team. The CAE discusses with the Audit Committee the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Once the external assessment validates that the IAD conforms with the ISPPIA, the IAD may use the statement or continue to use the statement “Conforms with the International Standard for Professional Practice of Internal Auditing” as long as internal assessments continue to support such a statement and until the next external assessment.¹⁹²⁰

Any internal or external assessment may uncover impairments to independence or objectivity²¹, scope restrictions, resource limitations, or other conditions that may affect the IAD's ability to fulfill its responsibilities to stakeholders. Such nonconformance should be reported to the Audit Committee when identified. The CAE should evaluate the nonconformance and determine whether it impacts the overall scope or operation of the IAD, and how much it may affect the

¹⁸Standard 1312 – External Assessments: External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The CAE must discuss with the Board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

¹⁹Standard 1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”: Indicating that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing is appropriate only if supported by the results of the quality assurance and improvement program.

²⁰Standard 2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”: Indicating that engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” is appropriate only if supported by the results of the quality assurance and improvement program.

²¹Standard 1130 – Impairment to Independence or Objectivity: If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

IAD's ability to fulfill its professional responsibilities and/or expectations of stakeholders. If determined to be significant, the CAE should disclose it to the Senior Management and the Audit Committee either during a board meeting, private sessions with the Committee members, one-on-one meetings with the Chairman of the Audit Committee, or by other appropriate methods.²²

The CAE should explain the rating conclusion(s) of the external assessment to Senior Management and the Audit Committee, as well as the impact from the results.

²² Standard 1322 – Disclosure of Nonconformance: When nonconformance with the Code of Ethics or the Standards impacts the overall scope or operations of the internal audit activity, the CAE must disclose the nonconformance and the impact to senior management and the board.

III. INTERNAL AUDIT PROCESS

The IAD uses a Risk-Based Audit (RBA) in the conduct of its audit activities.

An RBA is an audit approach that focuses on the areas with the highest risks to the Company. Audit areas are determined by assessing the likelihood of the relative risk of loss or error that may occur in each area and the possible impact of the risk or error. Those identified as high probability and high value must be given more attention and appropriate allocation of audit resources.

The audit process is divided mainly into four phases:



A. Planning

Audit Universe

The audit universe is the starting point for the IA plan and includes all things auditable. It is the overall scope of the IA and is the totality of auditable processes and functions.

Components to consider in the process of defining the audit universe include key strategic and operational objectives and associated existing and emerging risks, key processes, critical control areas, and materiality. The IAD identifies the audit universe and revisits it from year-to-year to keep it up to date.

Having an audit universe enables the IAD to be clear about the extent of audit coverage each year. It also provides a degree of rigor and transparency around areas not being audited and helps inform and support decisions over the IAD's resourcing requirements.

Risk Assessment and Measurement

The IAD should generally understand the Company's current risk management environment and the corrective actions in place to address prior risks. It is also important that the IAD knows how the Company identifies, assesses, documents, and provides oversight for risks.

The CAE shares information and coordinate activities with other internal and external providers of assurance and consulting services to ensure appropriate coverage and minimize duplication of efforts.

The CAE should work together and collaborate with the risk management function of the Company. This would help the CAE to organize and update its audit universe, and link the critical risks to specific business processes and Company objectives. The CAE should obtain the documentation of all phases of the risk reporting process, determine whether risk reporting accurately communicates the status of risk exposure in the Company, and risk information is communicated fluidly at all levels throughout the Company.

In accordance with Standards 2120²³, the IAD should consider the maturity of the Company's risk management practices and determine to what extent the IAD will rely on Management's assessment of risk.

²³ Standard 2120 – Risk Management: The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

The IAD has to identify the risk and verify the internal controls placed on it. Risks are then classified and measured based on likelihood, impact, and Company's risk appetite, and categorized into:

- a. Critical – if the risk occurred, it would cause the Company's failure
- b. Major – if the risk occurred, it would cause significant cost on the Company. Goals may not be achieved.
- c. Moderate – if the risk occurred, it would cause noticeable cost but goals would still be achieved.
- d. Minor – if the risk occurred, it would cause small cost and goals would still be achieved.
- e. Negligible – if the risk occurred, it would have no effect on the Company.

Risks could then be prioritized and addressed in sequence, with great focus on the critical ones. Minor and negligible risks may be postponed or not included in the current IA plan as these have little or no significance.

Risk assessment procedures are detailed on the Risk Management Policy and Framework Policy Manual.

In determining whether risk management processes are effective, IAD's assessment should consider whether:

- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the Company's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the Company.

Upon identifying the critical / key risks and the effectiveness of the risk management system, the IAD could now decide on their audit strategy, to be documented in an IA Plan.

The IAD shall re-evaluate risks on an annual basis to ensure that priority risks of the Company are being addressed.

IA Plan

The IAD prepares a risk-based IA plan that covers a period of three to five years and is updated on an annual basis. This plan involves the identification and documentation of the auditable areas within the audit universe, and the prioritization of these areas for review based on a risk assessment methodology and results of the previous audits (internal or external).

The audit areas to be included in the IA Plan are obtained by the IAD from the following sources:

- Results of risk assessment.
- Mandates from the Audit Committee or BOD.
- Recommendations from Management.
- Carry-over audits; and/or
- Results of previous audits

The IAD employs professional assessment and due care in scoping the audit engagements to be included in the IA Plan.

In determining the timing and resources to be utilized in the planned audit activity, the IAD considers the following factors:

- Planning, scoping, and coordination.
- Reporting to the Management and Audit Committee.
- Follow-up activities.
- Business processes being reviewed; and
- Anticipated resource mix and related impact to total resource requirements.

The IA Plan (**Annex C**) shall include the following information:

- Prioritized risks areas identified such as likelihood and impact to the Company, and Management requests.
- Associated IA area, if applicable.
- Indicative summary scope.
- Resources allocated for each major components of the IA Plan; and
- Proposed timetable for each audit components.

The IA Plan is presented to the Audit Committee for consideration, before submitting to the Audit Committee each year for review and approval. Upon approval, the plan is executed by IAD on the following calendar year.

The IA Plan is a dynamic document that changes in response to changes in the Company's business, risks, operations, programs, systems, and controls. The CAE shall present any change and its justification to the Audit Committee for their review and approval.

IAD shall monitor the IA plan to assess whether:

- Processes are in place to identify risks;
- Appropriate resources are utilized to audit and/or monitor risks; and
- A commitment to reinforcing the need for Management to execute plans to mitigate risks is demonstrated by the Audit Committee and Senior Management.

Audit Engagement Planning²⁴

Audit engagement planning requires familiarization with the objectives, governance activities, processes, risks, and controls of the subject of audit, and development of strategy and approach of conducting the audit.²⁵ It also involves proper briefing and assignment of work to the IA staff so that the audit is performed in an efficient and timely manner.

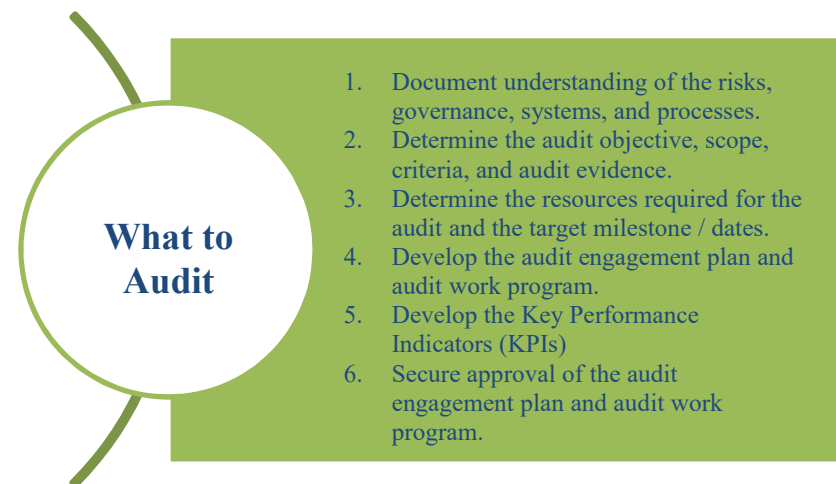
Factors needed to improve the effectiveness of planning are:

- Ensuring that the audit is well-designed to meet the objectives of the IA Plan.
- Obtaining the cooperation of the process owners.
- Emphasizing that the purpose of the audit is to add value and improve their operations, and manage the risks of the Company.
- Assigning knowledgeable and competent auditors with relevant experience; and
- Estimating the cost of audit and the skills that the auditors should possess.

²⁴ Standard 2200 – Engagement Planning: Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations. The plan must consider the organization’s strategies, objectives, and risks relevant to the engagement.

²⁵ Standard 2201 – Planning Considerations: In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity’s objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.



1. Document Understanding of the Risks, Governance, Systems and Processes

Audit engagement planning commences in an understanding of the Company’s goals and strategies, concept of governance, key risks, business processes, and controls and focusing on what areas will be audited. This step involves selection of key risk areas, governance concerns, specific internal controls, and focusing on the degree of compliance with laws, regulations, and policies of the specific systems or processes for evaluation, evaluation of the control effectiveness, and whether operations are conducted economically, efficiently, ethically, and effectively (4Es).

The audit engagement plan should be based on a sound understanding of the governance processes within the Company, the Company’s risk appetite, risk tolerance, and risk culture, internal control system, and operating and support systems and processes, which shall be performed through business process analysis.

Understanding the business process will help in identifying the risks associated with it and in measuring and prioritizing the risks. The IAD should spend their initial days in the engagement in learning in detail how the data are being captured manually or electronically, to analyze the data and come out with the risk parameters.

It is important for IAD to understand the critical risks that could hinder the Company's ability to achieve its objectives, and the controls²⁶ that have been implemented to mitigate risks to an acceptable level.

IAD should also learn how governance activities consider risk when setting strategy inasmuch as risk management relies on effective governance.²⁷

In business process analysis, key steps must be documented to ensure that the IAD understands how the process operates. The use of flowcharts and narrative notes are the most common ways of documenting system / process flows. The IAD may also use recording of interviews with process owners to document their understanding of the processes under audit. These help the IAD to document all the key

²⁶ Standard 2130 – Control: The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

²⁷ Standard 2110 – Governance: The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- .
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

controls, indicating which ones will be relied upon and which ones are absent but should be in place.

a. Process Understanding

Process understanding is commonly performed through interviews and discussions with the Company's key personnel who performs the process or closely familiar with the process. The IA staff may also request the permission of the process owner to record the interview as part of audit documentation.

The IAD documents their understanding using narratives and / or flowcharts. Once documented, the IAD confirms with the process owner the correctness of process understanding by asking the process owner to affix their signature in the process documentation. For recorded interviews, the IA staff properly protects and archives the file as part of their work papers.

b. Assessment of Existing Processes and Controls

The IAD looks at the current processes and how it is managed, then compares it against standards or benchmarks.

The benchmarks being used by IAD are as follow:

- Company's policies and procedures,
- IC issuances and other regulations covering the operations of the Company, and
- Published leading industry best practices

c. Identify Performance Improvement Observations

The IAD identifies the gap between the current state and the standard or benchmark practice and analyzes them to bring about ways to address those as opportunities for improvement.

2. Determine the Audit Objective, Scope, Criteria, and Evidence

Individual audits within a particular IA plan should be based on defined audit objectives, scope, and criteria. These should be consistent with the overall audit plan objectives.

a. Determine Audit Objective²⁸

Based on information gathered and analyzed during the understanding of the activities, the objective and scope of the audit can be defined. An audit objective is what the audit aims to accomplish. This is critical in establishing the scope, criteria, evidence, and approach of the audit. It is normally expressed in terms of what questions the audit is expected to answer about the performance of an activity. Audit objectives should be linked to critical risks and consistent with the achievement of the Company's goals.

Determining the audit objectives involves the following activities:

- i Preliminary gathering of documents / information,
- ii Identifying the focus of the audit based on risk assessment, and
- iii Determining the audit strategy:
 - a. Type of assurance activities the IAD is expected to give; and
 - b. Type of consulting services that IAD is expected to provide, such as when Management suggest consulting assignments to facilitate Management's efforts to improve their risk management processes.

²⁸ Standard 2210 – Engagement Objectives: Objectives must be established for each engagement.

b. Determine the Audit Scope²⁹

Audit scope is the framework or limits of the audit. It is normally defined by stating the major processes / operating systems / support systems or key controls the audit intends to cover and the relevant timeframes.

The IAD could look for the answers to these questions:

- i Are the control components sufficient to safeguard the assets?
- ii Do they provide accurate and reliable accounting data?
- iii Do they adhere to Company policies?
- iv Are they in compliance with laws, rules, and regulations?
- v Do they ensure effectiveness, efficiency, economy, and ethicality of operations?
- vi Is the Company appropriately managing risks that may impact its strategic and operational objectives?

c. Determine Audit Criteria and Evidence

Audit criteria are reasonable standards against which existing conditions are assessed. These are expectations of the activities as to what it should be. Audit criteria should be reliable, objective, useful, and complete standards of performance against which the achievement of audit objectives can be assessed.

To be able to come up with sound criteria, auditors must:

- i Gather / Identify the standards (laws, regulatory policies, etc.) for audit evaluation.
- ii Set reasonable and attainable standards of performance, statutory or Company policies for evaluation; and

²⁹ Standard 2220 – Engagement Scope: The established scope must be sufficient to achieve the objectives of the engagement.

- iii Identify pieces of audit evidence required by law and standards and the approaches to be utilized in obtaining them.

d. *Selection and Determination of the Audit Methodology*

Audit methodology depends on the defined audit objectives, scope, criteria, and audit evidence, as well as duration and location of the audit. It is a general statement describing the activities that will be undertaken in conducting the audit.

It generally involves on-site methods and remote audit methods which consider the extent of involvement between the auditor and the auditee.

i *Audit Sampling*

Audit sampling is a scientific method of selecting the transactions to be subjected to audit. It promotes efficiency and economy in the audit process. It is used when it is not practical or cost effective to examine all available information during an audit e.g., voluminous records / transactions to justify the examination of all items in the population. Sampling of a large population is the process of selecting or testing less than 100% of the items within the total available data set (population) to obtain and evaluate evidence about some characteristics of that population, to form audit findings. The assumption is that the sample selected is representative of the population.

Audit sampling involves the following activities:

- Establishing the objectives of the sampling.
- Selecting the extent and composition of the population to be sampled.

- Selecting the sampling method.
- Determining the sample size to be taken.
- Conducting the sampling activity; and
- Compiling, evaluating, reporting, and documenting results.

When sampling, consideration should be given to the quality of the available data, as sampling insufficient and inaccurate data will not provide a useful result.

The objective of audit sampling is to provide a reasonable basis to the auditor to draw conclusions about the population from which the sample is selected. However, a sampling error may arise if the samples selected are not a good representative of the population. Hence, sampling error is minimized by increasing the sample size.

Audit sampling can use either a statistical or a non-statistical sampling technique when designing and selecting the audit sample, performing tests of controls, and evaluating the results from the sample.

Types of Sampling are discussed in **Annex D**.

ii *Substantive Tests on the Samples*

Performing substantive tests on the samples selected is a comprehensive analysis by using ratios, analytical procedures, inquiries, confirmation, and other tools and techniques. It is the execution of the audit procedures enumerated in the audit engagement plan on samples selected. The procedures seek to provide evidence as to the various control attributes / features established during the planning stage of the audit e.g., existence, occurrence, completeness, validity, adequacy, efficiency, effectiveness,

economy, etc. Where necessary and possible, this process fully quantifies the audit elements such as criteria, cause, and conditions, which include the effects or consequences, of transactions covered in audit.

3. *Determine the Resources Required for the Audit and the Target Milestones / Dates*

Careful planning involves the determination of the overall resource requirements to accomplish the planned audits. This involves assessing the current staff capability / capacity; technological resources (e.g., computers, software); financial resources (budget requirements), among others.³⁰

Target milestones / dates for the completion or accomplishment of critical elements during the audit process should be established to keep track of the progress of the engagement and check on the quality of the outputs.

4. *Develop the Audit Engagement Plan and Audit Program*

a. *Audit Engagement Plan*

An audit engagement plan (AEP) and audit work program (AWP) must be prepared by the lead internal auditor or Auditor In-Charge (AIC) for all audits and should be approved by the CAE before the start of the fieldwork. Any substantial adjustments should be promptly approved.

³⁰ Standard 2230 – Engagement Resource Allocation: Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

AEP (**Annex E**) is a document that provides the main guidance of the whole audit process to achieve the audit objective in an efficient and effective way. It provides an integrated description of the auditee and the audit by serving as a guide for the whole audit. The AEP will document the results of all the planning tools which would necessarily contain the following:

Element	Information
Introduction	A brief description or background information of the internal controls and current risk management , i.e., the plan of the Company and all the methods and measures adopted within the Company to ensure that resources are used consistent with laws, regulations, and managerial policies; resources are safeguarded against loss, wastage, and misuse; financial and non-financial information are reliable, accurate and timely; significant risks are identified and addressed, and operations are economical, efficient, ethical, and effective
Audit Objectives	What the audit aims to accomplish. Audit objective must be consistent and connected with the risks and objectives of the Company.
Audit Scope	Framework or limits of the audit.
Audit Criteria	Set of reasonable and attainable standards of performance, statutory or Company policies, laws, and regulations. Criteria are standards against which adequacy of performance and conditions can be assessed.
Audit Methodology	Statement of activities describing the activities that will be undertaken in conducting the audit.
Resources or Inputs	Statutory policies, Company policies, government regulations, established objectives, systems and procedures, stakeholders' needs and expectations, manpower, materials, equipment, and timeliness

b. *Audit Work Program*³¹

AWP (**Annex F**) is the list of procedures, or steps, to be performed during the fieldwork phase of the review. The procedures in the AWP should be sufficiently comprehensive to ensure that the audit objectives are met. However, the program should not be so rigid as to prohibit flexibility when unanticipated events arise.

Each AWP should include:

- i A statement of the objectives.
- ii The work steps required to test the effectiveness of the existing controls or make a recommendation to require management to establish and implement controls where needed.
- iii A space for referencing the related audit work papers and the initials of the auditor performing the work step; and
- iv The specified time frames.

The creation of AWP is on the assumption that the internal controls to be audited are operating effectively. If an internal control is known by the IAD to be not operating effectively or if it has been determined and agreed to by the Management that a control is not designed properly, IAD should include it in the IA findings.

The AWP should be completed and approved at the end of the planning phase and before the start of any fieldwork. Any adjustments made to the program should be approved by the CAE, prior to implementation. An approved copy of the program should be maintained with the work papers.

³¹ Standard 2240 – Engagement Work Program: Internal auditors must develop and document work programs that achieve the engagement objectives.

5. *Develop the Key Performance Indicators (KPIs)*

KPIs are performance measures that are utilized to assess the outputs / outcomes contributing to the overall efficiency and effectiveness of the Company. In evaluating performance, KPIs are employed to gauge the IAD's accomplishments and to determine whether:

- Audit objectives are met as reflected in the audit findings and recommendations.
- Findings and recommendations are based on facts, substantial evidence and in compliance with relevant laws, rules, and regulations.
- Findings and recommendations promote risk mitigation and adequacy of internal control; and
- High standards of ethics and efficiency are being observed.

6. *Approval of the AEP and AWP*

The AEP and AWP are submitted by the AIC to the CAE for review and approval prior to the commencement of the audit execution. The CAE will evaluate the documents to assess the relevance, significance, auditability, and other factors affecting the conduct of the audit.

After the documents have been approved, Management should be informed about the approved AEP and AWP. The AEP should be discussed with Management, but the AWP should **not** be shared.

B. Execution³²

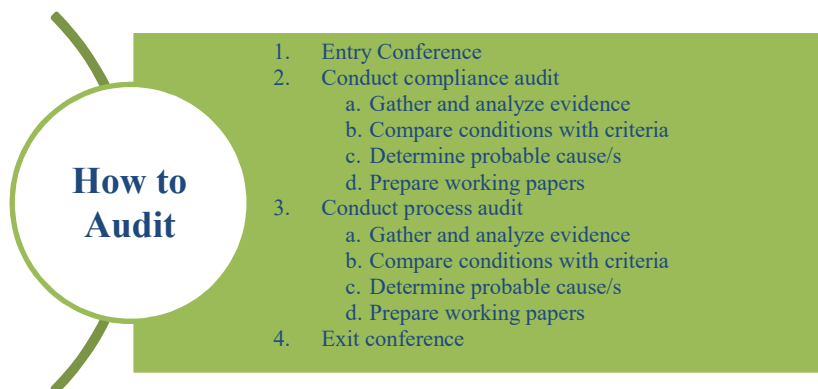
Execution of the audit is initiated with an entry conference to discuss the focus, requirements, and timeliness of the audit.

³² Standard 2300 – Performing the Engagement: Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

It involves performing the audit techniques and procedures enumerated in the AWP to gather data and pieces of evidence, to achieve the stated audit objective/s. During audit execution, if the auditor finds a need to revise the AWP, the revision should be submitted to the CAE for approval.

The CAE uses the AWP to supervise and monitor the progress of the audit and to check whether the team is generating sufficient and appropriate pieces of substantial evidence.³³

At any point during the audit, when significant risks / issues arise, the IAD will prepare a report to the auditee and its area management, Senior Management and the Audit Committee to communicate findings, issues, and problems that may affect the conduct of the audit and may expose the Company to considerable risks.



1. Entry Conference

³³ Standard 2340 – Engagement Supervision: Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

An audit starts with the issue of a notification letter (**Annex G**). The head of the area to be audited (the ‘auditee’) is contacted by the CAE in writing before the audit is scheduled to start and notified of the audit process.

The entry conference sets the tone of the audit. It is scheduled with area management and key personnel to discuss the purpose, objectives, and scope of the audit, and the expected start and completion dates of the field work. Input from the area management is welcomed at this stage, particularly with reference to any known concerns or areas of potential internal control weakness. Matters arising from the entry conference must be recorded through an entry conference note and should be considered during the conduct of the engagement planning.

2. Discuss and Observe Monitoring of Controls

The aim of this activity is to determine that the controls used by Management to ensure that the risk management is working are designed to achieve the objectives for which it was established and to show that they are effectively working as designed.

Critical points in the business process are examined to ensure that they have relevant and effective controls in place. The IAD designs tests procedures to cover the critical points and validate the exceptions.

Assessed risks should be measured against the Company’s risk appetite and should be determined with appropriate action as follow:

- If inadequate controls – inform Management and recommend design.
- If design is inadequate – include in audit findings the assessment of risk against the risk appetite.
- If risk has high impact and / or with moderate to strong likelihood – proceed to compliance and process audit.

3. *Assess Risk Communication*

The IAD should ascertain whether risk information in the area being audited is immediately identified, evaluated, communicated, and documented. Examine risk-related ethics and compliance investigations to determine whether retaliation for communicating risk information is a problem. The IAD may use surveys, interviews, or other methods to ascertain employee's participation in communication programs and their level of understanding of their area's and the Company's risk management objectives.

4. *Conduct Compliance Audit*

Compliance audit is the evaluation of the extent or degree of compliance with laws, regulations, Company policies, and operating processes in the Company, including compliance with accountability measures, ethical standards, and contractual obligations.

When there is compliance, effectiveness of risk management and control is determined. If there is no compliance, the probable cause for such non-compliance is determined. The IAD identifies the standards as specified in the Company's mandate and objectives or laws / rules / regulations and compares whether the operations conform to the identified standards.

The steps in the conduct of Compliance Audit are as follow:

- a. Gather and analyze substantial evidence³⁴ to establish the condition that the auditee is in.
- b. Link the observations to the related risks and test the controls in place to mitigate the risks.
- c. Compare conditions with criteria and draw conclusion.

³⁴ Standard 2310 – Identifying Information: Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

- d. Determine the probable cause/s. It must be noted that to come up with the determination of probable cause/s, the IAD must be able to establish, not only the facts and circumstances, but also the 'whys', 'whats', and 'hows' of the non-compliance.³⁵
- e. Prepare the work papers.³⁶
- f. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs – Criteria, Condition, Conclusion, and Cause.
- g. Communicate audit findings to the auditee or area management and obtain their comments.³⁷

5. *Conduct Process Audit*

Process audit is designed to evaluate the 4Es of systems / processes selected for audit and aims to evaluate effectiveness of controls and risk management. This step involves the documentation of the process or system under audit, identification of the control procedures, verification, and validation if such control procedures are complied with and are working effectively in managing risks faced by the Company. Progress is discussed with area management, usually as individual objectives are finished, and particularly regarding any audit concerns throughout the audit period.

The steps in the conduct of Process Audit are as follow:

- a. Gather and analyze substantial evidence to establish the condition, including consequence, effects, or impact.

³⁵ Standard 2320 – Analysis and Evaluation: Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

³⁶ Standard 2330 – Documenting Information: Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

³⁷ Standard 2400 – Communicating Results: Internal auditors must communicate the results of engagements.

- b. Link the observations to the related risks and test controls in place to mitigate the risks.
- c. Compare conditions with criteria and draw conclusion. This refers to conclusion of facts which is defined as an inference drawn from the subordinate or evidentiary fact.
- d. Determine the root cause/s. Root cause is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it. The determination of root cause through varying techniques is an essential audit methodology that will assist auditors in analyzing pieces of audit evidence to come up with appropriate recommendations.
- e. Prepare the work papers.
- f. Integrate audit findings and prepare the highlights of the audit findings in terms of the 4Cs.
- g. Communicate the audit findings to the auditee or area management and obtain their comments.

Audit objectives of process audit can be achieved using different techniques, the extent of which may range from observation, inquiry, to detailed controls assessment and testing.

The types of controls testing procedures are the following:

- a. *Test of Design (TOD)* – are associated with internal control design and may be primarily performed during business process analysis. Depending on the results of the risk assessments, these procedures are typically targeted at those business processes where numerous controls could potentially be realigned to improve process efficiency and how well the process and procedures meet its stated objectives assuming that each internal control is operating effectively.

- b. *Test of Operating Effectiveness (TOE)* – confirms whether key internal controls identified during business process analysis are in existence and are operating as intended.

Other audit techniques are discussed in **Annex H**.

6. *Communicate Audit Findings*

Throughout the engagement, individual audit findings should be documented, discussed, and reported to the auditee or Management through progress meetings, The IAD should:

- a. Define the objectives, risks, and scope and report within that scope, unless other issues of substance are identified.³⁸
- b. Identify all criteria.
- c. Report significant matters – positive or negative.
- d. Describe the context and background of the reported matter only as far as necessary to provide an understanding of the issue. This should specify the risks identified and the effectiveness or deficiency of controls placed by Management to mitigate the risks.
- e. State initial finding/s, Management comments, and IAD's response, if any.
- f. Present the audit finding/s in a manner that is concise, fair, and objective;³⁹ and
- g. State the recommendations so that they indicate what needs to be done but not how to do it. The IAD could get insights from the auditee in developing the most feasible recommendations.

When audit recommendations are made, a written Management response to each recommendation is required. The response should

³⁸ Standard 2410 – Criteria for Communicating: Communications must include the engagement's objectives, scope, and results.

³⁹ Standard 2420 – Quality of Communications: Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

include an agreement or disagreement with the audit findings and potential recommendation. The auditee should coordinate the development of these responses with the Management.

Reporting procedures are discussed on the next section of this Manual. Management comments should be taken into consideration to arrive at workable recommendations and obtain the auditee's commitment towards performing remedial actions – as a manifestation of progressive attitude towards the audit findings.

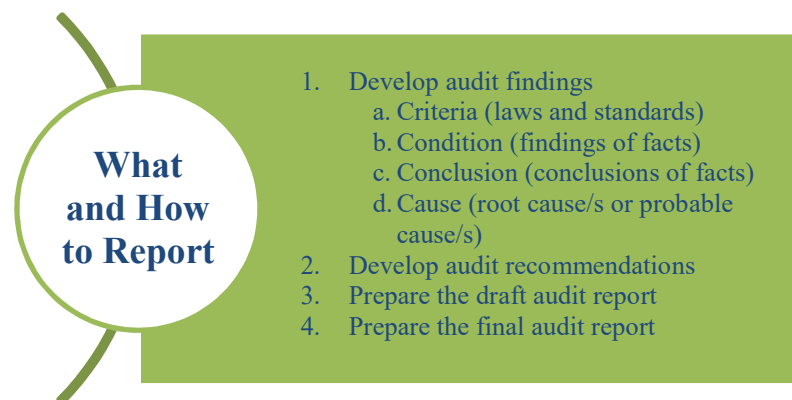
Written responses from the auditee and/or area management are due within seven business days from the time the report was received. In cases where a fully developed action plan requires further study and analysis, the area management may indicate this in their action plan. The auditee or area head to whom audit recommendations have been directed are responsible for ensuring that corrective action is taken. If a plan for action is reported, a reasonable date or timeline for implementation is to be included. This response should be provided to the attention of the CAE and to the Senior Management. When area management declines to respond to a recommendation, a written statement to that effect should be provided.

If the area management and IAD do not reach agreement on the recommendations, the unresolved issues will be provided to Senior Management for additional discussion and final decision. In this instance, a written statement of intent to resolve or acceptance of risk must be documented in the audit file.

The responses are incorporated into the audit report and sent to the Management for final review and concurrence before the report is issued as a final document.

C. Reporting

Audit reporting represents the culmination of the audit execution and the associated analysis and considerations made during the audit. The audit report sets out the findings in appropriate format and provides the pieces of evidence gathered to arrive at the audit findings and the recommendations. The audit report is designed to assist Management in measuring its own performance, particularly with respect to the reliability of established internal controls and effectiveness of managing their risks.



1. Develop Audit Findings

The audit findings can be developed by analyzing the pieces of evidence gathered for each of the audit elements. Evidence should be sufficient and appropriate, competent, and relevant. IAD generally gathers evidence from internal sources, which may require verification from external sources. All the information gathered to support the IA effort, and the conclusions drawn, should be considered audit evidence

which may be categorized as analytical, documentary, physical, or testimonial.

- *Analytical Evidence* – includes computations, comparisons, reasoning, and the separation of information into components
- *Documentary Evidence* – consists of letter, contracts, accounting records, invoices, etc.
- *Physical Evidence* – is obtained by direct inspection or observation of activities, property, or events. It may take form of memoranda, photographs, charts, or other summary documentation which recapitulates the subject matter of the inspection.
- *Testimonial Evidence* – is obtained from others through statements received in response to inquiries or through interviews. The statements critical to the audit will be corroborated through independent verification when feasible.

Audit findings provide answers to the audit objectives and should be rational and based on specific standards and criteria.

Audit findings compare the conditions (factual and evidentiary conditions such as the current state / practices and their effects) with the audit criteria and determine the causes. Once an audit finding has been identified, two complementary forms of assessment take place: the assessment of the significance of the findings and the determination of the probable cause/s and the root cause/s. All audit findings should be formulated based on the 4Cs.

Priority system in reporting should also be followed:

- 1st Priority : Mitigation needed within thirty days
- 2nd Priority: Mitigation needed within sixty days
- 3rd Priority: Mitigation needed within ninety days.

2. Develop Audit Recommendations

Much of the work of internal audit is judged on the quality of the final audit report, including its analyses, findings, and recommendations. The recommendations provide courses of action as the basis for improving governance processes, risk management, and internal controls.

Risk mitigation methods should be considered when developing recommendations:

- Risk Reduction – Reducing the risk by implementing one or more countermeasures.
- Risk Sharing – Sharing the risk with another entity.
- Risk Transference – Transferring the risk to another entity.
- Risk Avoidance – Modifying or ceasing the risk-causing activity.

Workable recommendations are clear, based on science of facts, conditions, and evidence and on practicable, incontestable, and workable solutions that can stand alone and address the issue/s at hand. It is better that the IAD gets insight from the auditee in developing a workable recommendation.

Audit recommendations are remedies to avoid the occurrence of risks (preventive action) or avoid recurrence (corrective action) of control weaknesses and incidences.

The issues to consider in developing recommendations are as follow:

- a. Recommendations are submitted to the Management as the official primarily responsible. The recommendations should identify the critical risks, probable / root cause of the gaps or deficiencies / breakdowns. The IAD should recommend courses of realistic action wherein the responsible units will

take preventive (avoid occurrence) and corrective (avoid recurrence) measures.

- b. Recommended realistic courses of action indicate what needs to be done to mitigate the risks, not how to do it. The ‘how’ of it is the responsibility of the concerned unit and / or Management.
- c. The circumstances that aid or hinder the Company in achieving the criteria should be identified.
- d. The feasibility and cost of adopting a recommendation against its benefits.
- e. Alternative courses for remedial actions.
- f. Effects of the recommendation (positive and negative).
- g. Potential undesired outcomes and new risks that may arise if the recommendation is not implemented accordingly.

3. Prepare the Final Audit Report

The final report (**Annex I**) should be issued along with an executive summary that is prepared and addressed to the Senior Management and the Audit Committee.

Both the final report and the executive summary should be submitted by the AIC to the CAE for review / approval. If no changes are needed, the CAE will review both documents and sign them.

The final report will be presented to the Senior Management and Audit Committee who decides on the distribution based on the recommendation of the CAE.⁴⁰

All final audit reports are deemed confidential. The IAD takes appropriate measures to ensure their limited distribution to those

⁴⁰ Standard 2440 – Disseminating Results: The CAE must communicate results to the appropriate parties.

individuals with a legitimate business need for possessing the information contained therein.

It is also important to consider the audience during the reporting process. Different audiences will have differing information needs. The Audit Committee is usually concerned with issues that are significant to the Company as a whole, whereas Management required more detail.

Guidance around the needs of certain target audiences is presented in **Annex J**.

If, in any case, that the CAE becomes aware of an error or omission in the final report, he or she may consider the following questions to help determine its significance⁴¹:

- Would the error or omission change the results of the engagement?
- Would the error or omission change someone’s mind about the severity of the findings?
- Would the error or omission change a conclusion?
- Would the error or omission change an opinion?
- Would the error or omission change a recommended action?

If the answer to any of the above questions is “yes”, then it may be determined that the error or omission is significant. The CAE then ensures that corrected information is received by all parties who received the original communication.

⁴¹ Standard 2421 – Errors and Omissions: If a final communication contains a significant error or omission, the CAE must communicate corrected information to all parties who received the original communication.

The CAE should find the cause of the error or omission to prevent a similar situation from happening again, and to determine whether the cause needs to be included in the communication to Senior Management and the BOD.

4. Issue an Overall Opinion⁴²

The CAE should consider how an overall opinion will relate to the strategies, objectives, and risks of the Company. The CAE further considers whether the opinion will solve a problem, add value, and/or provide Management or other stakeholders with confidence regarding the condition in the Company. If so, the CAE determines which audit engagements would be relevant to the overall opinion, including those completed by other internal and external assurance providers.

An overall opinion should be based on aggregate engagement conclusions along with results reported from outside entities such as independent third parties or regulators. The scope statement should specify the time period, activities, limitations, and other variables that describe the boundaries of the overall opinion.

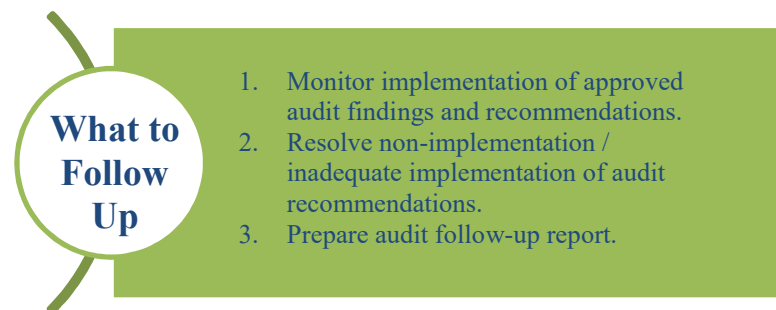
The CAE should issue an overall opinion, using clear and concise language, and articulates how the opinion relates to the strategies, objectives, and risks of the Company. If the overall opinion is unfavorable, the CAE must explain the reasons supporting this conclusion.

D. Follow-Up

⁴² Standard 2450 – Overall Opinions: When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Six months following the completion of each audit, the IAD shall review the effectiveness of actions taken by Management to resolve any previously reported deficiencies. The IAD shall validate and monitor the corrective actions taken by Management to mitigate and/or resolve the identified risks.⁴³

It aims to increase the probability that recommendations will be implemented. IAD will verify that items reported as resolved are implemented during the follow-up review process. IAD will issue individual, follow-up review reports on the verification of implemented recommendations. If a significant number of the items reported as resolved are not resolved, this will be communicated to Senior Management for follow-up action.



What to Follow Up

1. Monitor implementation of approved audit findings and recommendations.
2. Resolve non-implementation / inadequate implementation of audit recommendations.
3. Prepare audit follow-up report.

1. Monitor Implementation of Approved Audit Findings and Recommendations

It is a sound practice to monitor the implementation of approved recommendations to avoid the occurrence (preventive measures) and recurrence (corrective measures) of control weaknesses / incidences

⁴³ Standard 2500 – Monitoring Progress: The CAE must establish and maintain a system to monitor the disposition of results communicated to management.

after a reasonable period from the date the final report is submitted to the area head. The benefits of IA report recommendations are reduced, and deficiencies remain, if recommendations are not implemented within the specified timeframe.

It is Management's responsibility to implement approved findings and recommendations, but the IA is in a good position to monitor the progress of implementation of the recommendations.

2. *Resolve Non-Implementation / Inadequate Implementation of Audit Recommendations*

In the event of non-implementation of recommendation or inadequate action, the IAD recommends appropriate legal and / or Management remedies for non-implementation of recommendation and inadequate preventive / corrective actions.

3. *Prepare Audit Follow-up Report*

Results of the audit follow-up should be recorded and reported to update the Senior Management and the Audit Committee of the status of actions on the approved recommendations. The reasons for the lack of action or non-completion of action on any recommendation should be documented and further action considered on significant recommendations that have not been acted upon. The report in the form of a memorandum order / letter should:

- a. Describe the results of the auditor's analysis of actual against projected benefits for the period under review.
- b. Summarize the extent of implementation of the approved recommendation.
- c. Highlight cases where auditee's performance in implementing recommendations have been particularly inadequate; and
- d. Describe the actions that the auditor intends to take in relation to inadequate auditee's actions.

The CAE is responsible for scheduling follow-up activities as part of the annual audit plan and the current audit schedule. The budget hours allocated for follow-up will be estimated and included in the audit planning process.

IAD will determine if corrective action taken is achieving the desired results, or that Management has assumed the risk of not taking corrective action on reported findings.

Management is responsible for deciding the appropriate action to be taken in response to reported audit findings.

Management has an ethical responsibility to address the recommendations agreed upon in the Management response section of the original audit report. IAD is responsible for assessing Management action for timely resolution of the issues reported.

A formal follow-up report or memorandum will be issued in draft form and distributed to the original audit report recipients, as applicable. The status of corrective action or Management's waiver of resolution will be included in the report. Once the draft report, or memorandum is issued, procedures outlined for issuing audit reports should be followed.

During the follow-up, the IAD will also perform procedures to determine if any non-reportable items that existed during the original audit have been satisfactorily resolved. If these matters have not been resolved, a reportable condition may be included in the follow-up audit report. If the conditions still exist because of the follow-up review, the CAE will elevate the concerns to the Senior Management and the Audit Committee.⁴⁴

⁴⁴ Standard 2600 – Communicating the Acceptance of Risks: When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matters with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board.

IAD will issue inventories of open recommendations quarterly to remind Management of the open items. Management is expected to review the list and communicate progress on items due / overdue or delays in progress for items not yet due to IAD within ten (10) business days. IAD will maintain an inventory of items reported by Management as resolved. Open recommendations will be reviewed periodically with the Senior Management and the Audit Committee.

IV. SPECIAL AUDIT

Special audit is an audit conducted upon request by the BOD, Audit Committee, or the Senior Management. It usually focuses on specific accounts or transaction and may include fraud and other procedures and processes requested by Senior Management or Audit Committee. Special or fraud audit may be initiated due to audit findings that indicate suspected fraud or it could also be initiated from information provided by a whistleblower.

Upon knowledge about the possible fraud or misconduct, Management may request IAD to verify and gather evidence of the existence of the alleged fraud. The whistleblower may go directly to the IAD, to any member of the BOD or to any officer of the Management to report possible fraud or misconduct within the Company.

Because of the sensitivity and the potential litigation exposure of the Company, all audits of known or suspected fraudulent activities shall be conducted thoroughly with confidentiality.

The purpose of these audit procedures is to establish a standardized methodology for the IAD to follow when investigating, processing, and reporting findings of known or suspected misappropriation and similar irregularities. These procedures may be used in the audit of fraudulent activities or financial irregularities in the Company.

A. Responsibilities

The IAD grants the request of the Management to conduct a preliminary assessment of a suspected fraudulent activity in the Company. A notice of incident shall be issued to the Audit Committee to inform them of the preliminary assessment to be undertaken. The IAD shall consult and coordinate any audit activities with the Audit

Committee, the Senior Management, and members of Management as appropriate.

To avoid damaging the reputation of innocent persons suspected of wrongful conduct, and to protect the Company from potential civil liability, the results of preliminary audits by the IAD will be kept confidential except with the Audit Committee, the Senior Management, or other members of Management who are authorized to know such results to perform their assigned duties and responsibilities.

The IAD shall participate in fraud audit by gathering and obtaining evidence to support and ascertain the existence of fraud. Copy of the evidence and report shall be provided to HRD at the end of the audit for subsequent legal proceedings, if necessary.

The IAD may be asked to take part in legal proceedings as a witness, as necessary or as required by the appropriate courts.

B. Preliminary Audit

The IAD shall initiate a preliminary audit of any reported or suspected misconduct to verify that there is substance in fact to the suspected irregularity and whether the Company has sustained any actual losses. In conducting this preliminary audit, the IAD shall gather sufficient information to identify the Company function, activity, department involved; the individual/s involved; and the estimated magnitude of any loss.

During the preliminary audit, the IAD may, where appropriate:

- Identify each account or set of related accounts that were or could be used in or affected by the misappropriation.
- Identify the types of transactions / documents used to make entries, adjustments, and/or inquiries against each account and who may initiate and authorize such transactions/documents.

- Determine the source of funds involved in the fraudulent activity.
- Determine whether the Company's function, activity, department involved has experienced unusual or unexplained losses in the recent past.
- Determine the types of questionable activities that have occurred, may be occurring, or could occur, how the possible irregularities were committed, all likely means of conducting the alleged activities, and the level of personnel potentially involved.
- Determine the degree of reliance which should be placed on existing internal controls, and the extent of testing required.
- Develop a detailed audit program that will promote effective and efficient attainment of the audit objectives; and
- Conduct a preliminary meeting with the Audit Committee, the Senior Management, and other members of Management as appropriate.

If the preliminary findings indicate that the available evidence has no substance in fact, the audit shall be terminated, and the appropriate members of Management will be notified of the decision.

If the preliminary findings show the evidence to be of sufficient strength to justify continued audit or immediate action, a complete audit shall be conducted by the IAD. The CAE shall always inform and obtain approval of the Audit Committee about it.

C. Complete Audit

With proper approval of the Audit Committee, the audit may be continued to further substantiate the size and type of loss and/or to identify the responsible individuals.

During this phase, the IAD must select the specific auditing procedures that in his assessment are necessary to successfully complete the audit. To facilitate a successful result, the IAD may, among other things:

- Prepare a flowchart of transactions and documents identified during the preliminary audit and identify key basic control points throughout the flow.
- Collect all the necessary documents, records, files, and correspondence that will be examined
- Copy and catalogue all documents to develop audit work papers on which to make notations and cross-references.
- Examine and evaluate the documentation collected, looking specifically for errors, irregularities, alterations, missing documents, and how the documents were processed.
- Evaluate the effectiveness of existing internal controls; and
- Coordinate with the HRD to facilitate efficiency in conducting the audit.

D. Disposition

The IAD shall directly communicate the results of the special audit undertaken to the Audit Committee. These reports shall be deemed confidential, and the IAD shall take appropriate measures to ensure its limited distribution to those individuals with a legitimate business need for possessing the information contained therein.

The IAD shall also communicate and coordinate the results of the fraud audit conducted to the BOD and the Management as they are primarily responsible for resolving fraud incidents. The BOD through the Corporate Governance Committee shall oversee the actions to be taken by the Management to address the incident and ensure that it is at the best interest of the Company.

As the final responsibility for matters involving a misappropriation of the Company's assets rests with the Management, copies of the Special Audit Reports shall also be provided to the relevant members for the Management to facilitate them in taking the necessary measures to address and resolve the fraud incident.

V. WORK PAPERS

Audit evidence can be physical, testimonial, documentary, or analytical. The type and source of test evidence obtained and used to complete testing are documented in the relevant working papers.

Work papers include all documents and papers collected or prepared during a given audit. It provides the basis and support for the conclusions reached by the IAD. This enables an independent reviewer to arrive at the same findings and recommendations by reviewing the working papers.

Each test procedure in the work papers should link back to the specific scope of the IA engagement. Upon completion of the test work, the AWP may be referenced to the relevant working papers, signed, and dated by the IA staff who performed the test procedures and the AIC and / or CAE who reviewed the work papers.

A. Qualities of Good Work Papers

All work papers prepared by the IAD shall be in good form with proper attention to layout, design, and legibility, with complete headings, explanations of sources, and verification of work performed. All work papers, including schedules, analyses, documents, flowcharts, and narratives should be filed in a standard department binder and archived in electronic folders. The following factors describe a good work paper:

- **Complete** – Work papers must be able to “stand alone.” This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each audit area.
- **Concise** – Work papers must be confined to those that serve a useful purpose.

- **Uniform** – All work papers should be of uniform size and appearance. Smaller papers should be fastened to standard work papers, and larger papers should be folded to conform to size restrictions of the binder.
- **Neat** – Work papers should not be crowded. Allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. At the same time, keep work papers economical. Forms and procedures should be included only when relevant to the audit or to an audit recommendation. Also, try to avoid unnecessary listings and scheduling. All schedules should have a purpose, which relates to the audit procedures or recommendations.

B. Work Paper Techniques

Descriptive Headings / Footers

All work papers should include the Company’s name, the area / system / process being audited and the title or brief description of the work paper in the page heading. At the bottom of the page, next to the index reference number, the auditor should also include their initials, the date the work paper was completed, and a space for AIC and/or CAE’s approval.

Tick Marks

The auditor makes frequent use of a variety of symbols to indicate work that has been done. These symbols are commonly referred to as tick marks. As these tick marks have no special or uniform meaning by themselves, an explanation of each tick mark should be made on the schedule on which it appears. If necessary, a separate tick mark sheet can be prepared and attached at the first part of the work paper.

Indexing and Cross-referencing

The IAD uses a standard numbering and indexing system (**Annex K**) for all work papers through numbering them, filing them serially in each section, and cross-referencing them. Work paper indexing should coincide with the AWP.

Cross-referencing within work papers should be complete and accurate to facilitate smooth transition of work and to help IAD locate and trace back figures faster.

Carry Forward

The IAD should make full use of the work papers developed in the prior audit. Flowcharts, system descriptions, and other data may still be valid. Those papers, which remain useful, should be made part of the current work papers. They should be updated with current information, renumbered, referenced, and initialed and dated by the current auditor.

C. Types of Work Paper

Electronic

For electronic work papers, a separate directory should be created for each audit. Subdirectories should be used for each separate section of the audit. Any manual work papers produced should be maintained in binders, fully cross-referenced into the electronic files and vice-versa.

Interviews

Most verbal information is obtained through informal or formal interviews conducted either in person or by telephone. Formal interviews are most desirable because the interviewers know they are providing input to the audit; however, impromptu interviews, or even casual discussions, can often provide important information. The IAD may request from the auditee permission to record the interviews as part of their evidence gathering.

Any verbal information which is likely to support a conclusion in the audit work papers should be documented. Interviews are useful in identifying problem areas, obtaining general knowledge of the audit subject, collecting data not in a documented form, and documenting the auditee's opinions, assessments, or rationale for actions. Interview notes should contain only the facts presented by the person interviewed, and not include any of the IAD's opinion. Proper archiving of recorded interviews should be done.

In preparing interviews for work papers, consider the following suggestions:

- Be sure to include the name, department, and position title of all persons from whom information was obtained. This includes data gathered during casual conversations.
- Indicate when and where the meeting occurred.

- Organize notes by topic wherever possible.
- Identify sources of information quoted by interviewee

Observations

What IAD observed can serve the same purposes as interviews. If observations can be used to support any conclusions, then they should be documented. They are especially useful for physical verifications.

Observations used as supporting documentation should generally include:

- Time and date of the observation.
- Where the observation was made.
- Who accompanied the auditor during the observation?
- What was observed? When testing is involved, the work papers should include the sample selections and the basis of the sample.

Findings

All audit findings should be documented in the work papers. Findings should be summarized on an Issue Tracking Monitoring Sheet (**Annex L**) whether they are to be included in the audit report. All findings should be documented immediately by the auditor discovering the situation.

The Issue Tracking Monitoring Sheet takes the form of a color-coded summary of the outstanding issues, as follow:

- Green:** Recommendation is fully implemented.
Yellow: Implementation of the recommendation is in progress and a revised date for completion has been agreed.
Red: Recommendations are either:

- a) not in progress, or
- b) not fully implemented and 'past due' following a second or later follow-up review. To the extent that past due issues give rise to special concern, a progress report to the Senior Management may be required from the area head.

D. Work Paper Organization

All work papers should be placed into an expandable type of binder. The sequence of work papers should be according to the work paper file index.

E. Security and Control of Work Papers

Ownership

The audit work papers are owned by the IAD.

Physical Control / Access

- Work papers are the IAD's property and should be kept under their control. Work papers may contain confidential data as well as data related to IA concerns and development of recommendations that should be considered confidential.
- Access to electronic work papers should be controlled via security controls (passwords, shared file controls, etc.), and portable computers should be subject to careful physical security measures. IAD should maintain close control of any manual work papers and supporting documents during the audit. When not in use, they should be kept in a locked file or otherwise secured so they are not readily available to persons unauthorized to use them.
- The AIC should obtain approval of the CAE prior to releasing work papers to external parties.

F. Retention of Work Papers

Work papers will be retained for ten years from the date of the final audit report. The most recent set of work papers for each engagement will be maintained in IAD's files. All prior work papers are to be filed in sealed boxes and maintained at the Company's warehouse / archiving facility. Disposal of the audit work papers shall be approved by the CAE with the concurring approval of the Audit Committee.

VI. IAD MANAGEMENT

A. Audit Monitoring

As and when the audit progresses, the AIC should monitor the progress of the audits under his responsibility and fill in the Issue Tracking Monitoring Sheet.

B. Time Reports

The time report lists all projects worked on during the month and the number of hours worked. It also includes all general administrative time such as training, staff meetings, special research assignments, etc., and leave hours such as vacation and sick leaves. It is the responsibility of the IA staff to complete Time Report at the end of each day and submit for review by the appropriate AIC at the end of each month.

Time reports should be reviewed by the appropriate AIC and submitted to the CAE by the fifth day of each month.

C. Progress Reports

It is the responsibility of each AIC to complete a monthly progress report at the end of each day and submit for review by the CAE every fifth of the following month.

AIC should also prepare a quarterly report of all audit activities carried out during the period and submit to the CAE by the seventh day of the month following the end of the quarter

D. IAD Meetings

The IAD shall hold quarterly audit staff meetings. The meetings shall be scheduled and called by the CAE. At the meeting, audit assignments shall be discussed and any other problem encountered by auditors in the course of their work. The minutes of such meetings shall be recorded and confirmed at the next meeting. All members of staff shall receive a copy of the minutes.

E. Decision Making Procedures

To enhance the efficient running of the IAD, there is need to have a clear communication system. The following decision-making procedures shall be followed:

- The CAE shall constitute an internal committee in which all AIC will be members.
- The CAE shall be the chairman to this committee which shall hold meetings on need basis.
- The committee will deliberate on issues relating to administration, operations, and functions of the IAD. The final authority, however, is vested on the CAE. The AIC shall also hold meetings with their unit staff at least monthly to communicate decisions made in such meetings.

F. Performance Evaluations

Evaluation of Internal Auditors – Audit Committee

Work performance of the IAD is evaluated by the Audit Committee annually. They shall monitor and evaluate the performance of the IAD through **Annex N**.

Evaluation of Internal Auditors – Self Assessment

Performance evaluation of staff should take account of the time budget, quality of work and attitude towards work.

The CAE shall do semi-annual reviews and prepare a documented evaluation of the IA staff's performance (**Annex O**). Strengths and weaknesses should be noted and be supported by specific instances. In this way, the IA staff should receive the most objective assessment and at the same time focus on specific areas for improvement.

The evaluation will be based on the IA staff's overall performance and the quality of the work that was accomplished. Some of the items considered when making the evaluation for auditors are:

- The ability to identify and raise quality issues in an audit
- Good and well-reasoned audit recommendations
- Audit completion dates versus the promised completion dates
- Communication skills
- Report writing skills.

If the CAE identifies weaknesses, an action plan shall be developed to assist in making the necessary improvements to achieve a satisfactory level of performance. Training needs shall also be identified to address areas to be strengthened.

Evaluation of IA Services Management

Ongoing monitoring activities should be incorporated into daily operations of the IAD. This will provide assurance that the processes in place are working effectively to ensure quality is delivered on an engagement-by-engagement basis. A management assessment (**Annex P**) must be performed every after engagement and results shall be

compiled, summarized, and submitted to the Audit Committee annually.

It is also important that performance is measured over time to identify trends, and that performance is measured against both qualitative and quantitative factors.

KPIs include measurements of the IAD accomplishment per audit engagement, such as:

- a. Timely completion of each audit engagement.
- b. Benefits exceed the cost of audit.
- c. Cost of audit is within the approved budget.
- d. Number of audit findings approved by the Audit Committee.
- e. Number of recommendations implemented by the auditee.
- f. Number of audit support activities undertaken.
- g. Internal audit staff satisfaction; and
- h. Overall contribution made by the IAD.

G. Periodic Review of IA Manual

Minor Amendments

Minor amendments (e.g., to reflect changes in position titles or nomenclature of organizational units) which do not otherwise affect the policy content can be incorporated in another amendment to the document soon.

New Policy / Major Amendments

To enhance the IA Manual, a periodic review will be undertaken annually to ensure they are still current. The need to amend the IA Manual may be prompted by feedbacks from within the Company, IC's IA implementation insights; changes in laws, policies, guidelines,

and regulations; external quality assessors, and requisites for enhancing work practices.

When submitting a new or significantly revised policy statement to the Audit Committee, it must be accompanied by a statement outlining:

- a. The rationale for the preparation or review of the policy.
- b. Impact of implementation (including obvious resource implications, effects on staffing and other issues, changes to delegations for decision-making); and
- c. Policies or provisions to be rescinded.

At the end of the review, a Revision History Table (**Annex Q**) will be completed and made part of the IA Manual.

VII. GLOSSARY

Add Value. The internal audit function adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control. Present if Management has planned and organized (designed) in a manner that provides reasonable assurance that the Company's risks have been managed effectively and that the Company's goals and objectives will be achieved efficiently and economically.

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, and due diligence engagements.

Audit Committee. Made of members of the Company's Board of Directors (BOD) delegated to assist the BOD in fulfilling its oversight responsibilities with respect to financial reporting process, internal control system throughout the Company, audit process, and monitoring compliance with laws and regulations and code of conduct.

Audit Universe. The collective grouping of auditable components – sometimes also called auditable areas, units, or entities – that support the development of the internal audit plan and help to identify appropriate internal audit coverage that the chief audit executive (CAE) can then prioritize.

Auditee. The person responsible for the subject of the audit. The auditee for each audit is the area head with overall responsibility for the business area being reviewed.

Board of Directors. The highest-level governing body charged with the responsibility to direct and/or oversee the organization's activities and hold Senior Management accountable.

Charter. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive. Chief Audit Executive (CAE) describes the role of a person in a senior position responsible for effectively managing the internal audit function in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.

Code of Ethics. The Code of Ethics of The Institute of Internal Auditors (The IIA) are principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance. Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Compliance Audit. Review of the degree of adherence with laws, regulations, Company policies and operating procedures of government, including compliance with accountability measures and ethical standards and contractual obligations. It is a necessary "first step" to, and part of management and operations audits.

Conflict of Interest. Any relationship that is, or appears to be, not in the best interest of the Company. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively

Consulting Services. Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value, and improve the Company's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control. Any action taken by Management, the BOD, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment. The attitude and actions of the BOD and Management regarding the importance of control within the Company. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: •

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes. The policies, procedures (both manual and automated), and activities that are part of a control framework,

designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Engagement. A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Expert. Person who is knowledgeable in a specialized field, that knowledge being obtained from either education or personal experience. He/she is one who by reason of education or special experience has knowledge respecting a subject matter about which persons having no training are incapable of forming an accurate opinion or making a correct deduction.

Four Cs in Audit Findings. Stands for criteria, condition, cause, and conclusion.

• **Criteria** are the standards against which a condition is compared; standards can be laws, rules, regulations, policies, orders, guidelines, procedures, plans, targets, best practices, etc.

• **Condition** is a fact, backed up by a substantial evidence (includes consequence, effects, or impact); this is also referred to as the "finding of facts" which is defined as the written statement of the ultimate facts essential to support the audit findings.

• **Cause** refers to the probable cause, in case of compliance audit, or root cause, in case of management audit or operations audit. Relatedly, a finding of probable cause needs only to rest on evidence showing that more likely than not the act/s or omission/s of the person responsible had caused the non-compliance which may warrant the conduct of administrative proceeding by the disciplining authority. Root cause is a structured investigation that aims to identify the true

cause of the control weaknesses or incidences and the actions necessary to eliminate it.

- **Conclusion** is the evaluation of the criteria and the conditions that could either result in compliance or non-compliance with laws, regulations and policies, as supported by substantial evidence; control effectiveness; determination of adequacy or inadequacy of controls; determination of the efficiency, effectiveness, ethicality, and economy of agency operations; this is also referred to as the “conclusion of facts” which is defined as an inference drawn from the subordinate or evidentiary facts.”

Four Es of Operations. Stands for efficient, effective, economical, and ethical.

- **Efficient** refers to “doing things right” given the available resources/inputs and within a specified timeframe. This is about delivering a given quantity and quality of outputs with minimum inputs or maximizing outputs with a given quantity and quality of inputs.

- **Effective** refers to “doing the right things”. Effective operations mean that operating units can deliver their major final outputs and outcomes and able to achieve the expected results and contribute to the achievement of the sectoral and societal goals.

- **Economical** refers to the performance of functions and tasks using the least number of resources/inputs within a specific timeframe. It implies that the resources/inputs should be acquired at the right cost, at the right time, at the right place, in the right quantity and of the right quality.

- **Ethical** refers to conformity with the norms of conduct and ethical standards as contained in the Code of Ethics

Engagement Opinion. The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Fraud. Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance. The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment. Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence. The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Internal Audit. The evaluation of management control and operations performance and the determination of the degree of compliance with laws, regulations, managerial policies, and contractual obligations. It is the appraisal of the plan of organization and all the coordinate methods and measures to recommend courses of action on all matters relating to management control and operations audit.

Internal Audit Annual Plan. It contains the coverage of the audit for a given calendar year and approved by the President. The plan should outline the deficiencies in internal control and vulnerability being addressed, audit title, specific audit area, type of audit, summary

description of the audit, expected benefit, priority, and resources to be used, estimated duration, and cost, and proposed timing of the audit, among others.

Internal Audit Department. A department that provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Objectivity. An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion. The rating, and/or other description of results provided by the CAE, addressing, at a broad level, governance, risk management and/or control processes of the Company. An overall opinion is the professional judgment of the CAE based on the results of several individual engagements and other activities for a specific time interval.

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.

VIII. ANNEXES

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Annex A.1 – Qualifications and Functions of CAE

Chief Audit Executive	
Education	Bachelor's Degree in Accounting or Internal Audit
Experience	4 years of relevant experience in Internal Auditing
Training	40 hours of training in Internal Auditing,
Eligibility	Certified Public Accountant and Certified Internal Auditor would be an advantage
Skills	<ul style="list-style-type: none"> • Intellectual, interpersonal, communication, and information technology skills. • Clear understanding of the internal audit's contribution to effective governance. • Ability to develop plans and programs to contribute to the achievement of mandated objectives. • Strong management acumen and the ability to anticipate and assess management control. • Ability to build a strong network and credibility with the BOD and Senior Management; and • Consistent observance of ethical principles
Functions	<p><i>Administrative functions</i></p> <ol style="list-style-type: none"> 1. Submits work and financial plan. 2. Submits annual procurement report. 3. Submits accomplishment reports; and 4. Submits performance evaluation, targets, and ratings of staff <p><i>Operational functions</i></p> <ol style="list-style-type: none"> 1. Develop the IA Plan using an appropriate risk-based methodology, taking into consideration the relevant risks and controls identified by the Management and submit the plan to the Audit Committee for review and approval. 2. Implement the IA Plan, as approved by the Audit Committee, including, and all appropriate, special activities or projects requested by the Management and the Audit Committee. 3. Maintain professional audit staff with sufficient knowledge, skills, experience, and professional certification as required by this Manual. 4. Issue audit report to the appropriate recipients to communicate the audit findings, recommendations, and Management action plans. 5. Follow up on the outstanding Management action plans to

	<p>ensure significant risks and major deficiencies identified are given appropriate attention and remediate by the person responsible on a timely manner.</p> <ol style="list-style-type: none"> 6. Prepare and present quarterly audit reports for the Audit Committee summarizing the results of the IA activities. 7. Investigate on the suspected fraudulent activities within the Company and inform the Management and the Audit Committee of the results. 8. Serve as a resource to the Company in identifying the need for and characteristics of an adequate internal control systems. 9. Keep the Audit Committee informed of the emerging trends and best practices in the conduct of internal auditing and provide recommendations for the revision of the IA Charter and IA Manual as deemed necessary. 10. Assist the Audit Committee in any other way in the discharge of its duties and responsibilities; and 11. Ensure that the IAD complied with the highest standards on the conduct of the IA activity.
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Annex A.2 – Qualifications and Functions of IA Staff

Internal Audit Staff	
Education	Bachelor's degree relevant to the job (Accounting or Internal Audit)
Experience	At least 2 years of relevant experience involving Internal Auditing
Training	16 hours of training in Internal Auditing
Eligibility	Certified Public Accountant and Certified Internal Auditor would be an advantage
Skills	<ul style="list-style-type: none"> Basic Technical Skills: analytical skills, use of audit programs and IA questionnaires, creation of satisfactory working papers, and report writing Professional Skills: knowledge of accountancy, auditing, and relevant laws and legislation, Code of Conduct, and IA Standards Specialist Technical Skills: computer audits Investigatory Skills: fraud and financial misconduct Soft Skills: interpersonal and communication skills which include interviewing techniques Management and Organizational Skills: audit techniques, and how to lead and manage an audit team as well as IA planning and control Business Knowledge: understanding of the Company's operations, structure, rules, regulations, and protocols Commitment to Learning: exhibits passion for learning and continuing education.
Functions	<ol style="list-style-type: none"> Assist in the process of audit planning and budgeting. Execute the IA plan prepared by the CAE. Assist the CAE in the preparation of the regular updates or reports to be presented to the Audit Committee. Assist the CAE in the coordination of the IA activities. Follow the guidelines and methodology provided in the IA Manual. Exercise due professional care in carrying out audit assignments. Adhere to the professional standards and Code of Ethics for internal auditors; and In the absence of the CAE, communicate directly with any member of the Audit Committee or BOD as regards to an alleged fraud that may call for a special audit.

Annex B – Possible Training Courses for IAD

Course	Level	Objectives	Contents	Target Audience
Orientation	Introductory / Basic	<ul style="list-style-type: none"> To familiarize the audience in the operations of a Health Maintenance Organization (HMO) To give an overview of the IA function and its importance in the Company 	<ul style="list-style-type: none"> HMO Operations IAD <ul style="list-style-type: none"> - Manual - Professional Standards - Structure - Reporting Structure - Duties and Responsibilities 	<ul style="list-style-type: none"> New Entrants in the Company IA Staff
General Audit Techniques	Intermediate	To provide guidance to the IA Staff a range of skills required to undertake their tasks effectively.	<ul style="list-style-type: none"> Definition of Internal Auditing Materiality Internal Audit Procedures Sufficient and Appropriate Audit Evidence Sampling and Testing Use of Audit Programs and Internal Control Questionnaires Flowcharting Analysis of Financial 	<ul style="list-style-type: none"> IA Staff

			Systems and Accounts	
			<ul style="list-style-type: none"> • Audit Filing and Working Papers • Audit Documentation 	
Audit Management	Advanced	To provide the Management with the skills required in managing the IA function	<ul style="list-style-type: none"> • Audit Planning • Audit Execution • Audit Reporting • Audit Follow-Up • Audit Review • Audit Documentation • Audit Standards 	CAE
Specialized Audit	Advanced	To provide the members of the IAD with skills in handling specialized audit projects	<ul style="list-style-type: none"> • Contract Compliance • Fraud and Financial Misconduct • Operational Audits • IT-related Audits 	<ul style="list-style-type: none"> • CAE • IA Staff

Annex C – IA Plan Template

[Company Letterhead]
INTERNAL AUDIT PLAN
FY [Year]

Engagements	Type of Service	Risk Level	AIC	Quarter	Budget Man-days	Report to the Audit Committee
Operation Audits						
Total man-days						
IT Audits						
Total man-days						
Compliance Activities						
Total man-days						
Special Audits						
Total man-days						

Annex D – Types of Sampling

Sampling is a scientific method of selecting the transactions to be subjected to audit. It promotes efficiency and economy in the audit process. Sampling allows the auditor to test less than 100% of the population to form audit findings. The assumption is that the sample selected is representative of the population. It is the auditor's responsibility to design and perform audit procedures to obtain sufficient audit evidence to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Audit sampling can use either a statistical or a non-statistical sampling technique when designing and selecting the audit sample, performing tests of controls, and evaluating the results from the sample.

- a. Statistical sampling involves determining the sample size objectively, selecting the samples from the population randomly and evaluating the sample results mathematically to draw conclusion about the population. Statistical sampling approach must be used if the auditor wishes to infer or extrapolate sample results to draw conclusion about the entire population.
- b. Non-statistical sampling approach relies solely on the auditor's professional judgment, and the auditor uses his or her own experience and knowledge to determine the sample size and the method for selecting the samples from the population. Non-statistical sampling (e.g., judgmental samples) may not be objective and the results of such sampling normally pertain only to the sampled items and cannot be extrapolated over the population.

1. Statistical Sampling

In a statistical sampling, the sampling plan should be based on the audit objectives and what is known about the characteristics of overall population from which the samples are to be taken.

Statistical sampling design uses a sample selection process based on probability theory. Attribute-based sampling is used when there are only two possible sample outcomes for each sample (e.g., correct/incorrect or pass/fail). Variable-based sampling is used when the sample outcomes occur in a continuous range.

The sampling plan should take into account whether the outcomes being examined are likely to be attribute-based or variable-based. For example, when evaluating conformance with rules and regulations, an attribute-based approach could be used. When examining the occurrence of say, incidents, or the number of security breaches, a variable-based approach would likely be more appropriate.

When a statistical sampling plan is developed, the level of sampling error that the auditor is willing to accept is an important consideration. This is often referred to as the acceptable confidence level. For example, a sampling error of 5% corresponds to an acceptable confidence level of 95%. A sampling error of 5% means the auditor is willing to accept the error that 5 out of 100 (or 1 in 20) of the samples examined will not reflect the actual values that would be seen if the entire population was examined.

There are several things that the IA should be aware of when using statistical sampling. Some of them are indicated hereunder.

- Use statistical sampling only when necessary to satisfy an objective.
- The IA must be able to define and know the characteristics of the population to effectively use statistical sampling in testing.

- The IA must ensure that every item in the population has an equal chance of being selected as part of the sample.
- The IA must ensure that the population does not have manipulated patterns in it that would affect the randomness of selection.
- Use an error rate that is reasonable.
- If there are defined strata of data within the population, stratify it and sample from within the strata.

In general, there are some basic steps that are common to the statistical testing process. They are as follows:

- Determine the objectives of the test.
- Define the population.
- Define acceptable levels of sampling risk (i.e., 5%, 10%, etc.).
- Calculate the sample size using tables, formulae, or software applications.
- Select the sampling approach (i.e., random, stratification, etc.).
- Pull the actual sample and evaluate; and
- Document the sample results and approach.

The size of the sample will generally be impacted by the sample size (the larger the population, the larger the sample is likely to be), the acceptance risk (the smaller the accepted risk, the larger the sample will likely be), and the population variability (the more dispersed or variable the population is, the larger the sample will likely be).

Statistical / Probability Sampling Methods

Strategy	Description	Some Strengths	Some Limitations
Simple random sampling	<p>It is the simplest method of drawing a statistical sample. It is the basis of all other sampling designs.</p> <p>There is moderate variation among the values / characteristics of the items in the population and can be sampled from a single list of sampling units.</p> <p>Every case/item in the population has an equal chance of being selected.</p>	<p>Allows you to select cases / items while ensuring there is no selection bias. Useful if you have no characteristics or basis on which to choose another approach and have no time to screen cases to identify others better suited to your job.</p>	<p>Allows you to select cases/items while ensuring there is no selection bias. Useful if you have no characteristics or basis on which to choose another approach and have no time to screen cases to identify others better suited to your job.</p>
Stratified Sampling	<p>Population is divided into two or more subgroups (strata or subpopulation) and use simple random sampling to select for each part (stratum). An estimate is determined separately for each stratum, and these are combined to form an estimate for the entire population. A stratum is a subpopulation from the total population.</p> <p>When defining strata and setting boundaries, internal auditor should keep certain rules:</p>	<p>A stratified sample can be used to:</p> <ul style="list-style-type: none"> • Obtain equal precision with smaller sample or tighter precision with the same sample size. • Reduce the cost of a sample for a given precision. • Obtain separate estimates for the groups in the individual strata, if such estimates would be useful for comparison purposes; and 	<p>Internal auditors should be able to identify every case / item of the population and classify each into one, and only one, strata. Hence, stratified sampling is challenging when internal auditors cannot confidently classify every item of the population into a stratum. Also, finding an exhaustive and definitive list of an entire population can be challenging.</p>

	<ul style="list-style-type: none"> Each sampling unit can be included in one and only one stratum. The strata must not overlap; and The sampling unit in each stratum should be as much alike as possible in relation to the characteristic being measured. 	<ul style="list-style-type: none"> Give special emphasis to certain groups within the population, say, with those with great error potential. 	Overlapping of item/s within stratum can be an issue if there are items that fall into multiple strata. Consequently, those that are in multiple strata are more likely to be chosen and as a result, would be a misrepresentation or inaccurate reflection of the population.
Systematic Sampling	Cases/items in the population are chosen according to a predetermined strategy (e.g., every X case), which include stratification.	Ensures selection from the range of possible cases throughout the population. Can be used when you have no list of cases from the population.	May result in a biased sample if systematic patterns correspond to your selection strategy.
Cluster Sampling	Cluster sampling is the selection of groups of sampling units (or clusters) rather than selection of individual sampling units directly. If clusters are large, the internal auditor may select a random sample of units within the selected cluster. This is referred to as two-stage cluster sampling.	Easy and convenient	There is a possibility that case/items are different from one another, decreasing its effectiveness

2. Non-Statistical Sampling Method

Judgement-based sampling

This type of sampling involves the selection by the auditor of items for his/her sample based on some types of methodology to select items that exhibit some types of features. This method purposefully biases the sample; thus, the results of the testing cannot be extrapolated to the larger population.

Judgement-based sampling relies on the knowledge, skills, and experience of the audit team. For judgement-based sampling, the following can be considered:

- previous audit experience within the audit scope.
- complexity of requirements (including legal requirements) to achieve the objectives of the audit.
- complexity and interaction of the organization's processes and management system elements.
- degree of change in technology, human factor, or management system.
- previously identified key risk areas and areas of improvement.
- output from monitoring of management systems.

A drawback to judgement-based sampling is that there can be no statistical estimate of the effect of uncertainty in the findings of the audit and the conclusions reached.

Non-Statistical / Non-Probability Sampling Methods

Strategy	Description	Some Strengths	Some Limitations
Purposeful sampling	A relatively small number of cases are selected to be illustrative of program operations under a variety of conditions	Can help in interpreting other data; can provide anecdotes and illustrations about program operations under a variety of conditions; does not require a complete population list.	Data collected are anecdotal and firmer conclusions could only be drawn using more rigorous data collection sampling methods. Moreover, it cannot provide many insights into the effects of any one set of conditions
Convenience Sampling	Cases are selected that are most easily and quickly accessed.	Often requires fewer resources since little preparation is required; does not require a complete population list.	The sample represents only one segment of population.
Stratified Purposeful Sampling	This is a specific type of purposeful sampling. Cases are selected from within major sub-groups, or strata, of the population, to capture major variations, although commonalities may emerge when data are analyzed.	Allows you to make qualified comparisons between different sub-groups of a population and to discuss issues each subgroup faces; need not have a complete population list.	The increase in the number of criteria / strata will require a greater number of cases for sampling.

Annex E – Audit Engagement Plan Template

[Company Letterhead]
AUDIT ENGAGEMENT PLAN
As of [Date]

System / Process:
Type of Audit:
I. Introduction
II. Audit Objectives
III. Audit Scope
IV. Audit Criteria
V. Audit Methodology
VI. Resources/Inputs

Prepared by:

Auditor In-Charge / Date

Approved by:

Chief Audit Executive/ Date

Annex F – Audit Work Program Template

[Company Letterhead]
AUDIT WORK PROGRAM
Program No. [Index]

System / Process:
Type of Audit:

I. Audit Objectives

--

II. Audit Scope

--

III. Audit Procedures

--

Prepared by:

Auditor In-Charge / Date

Approved by:

Chief Audit Executive/ Date

Annex G – Notification Letter Template

Notification of Commencement

[Date]

[Auditee
[Position]
[Department]

Name]

Re: Audit of [Area / System / Process]

Dear [Auditee Name]:

In accordance with the Internal Audit Plan approved by the Audit Committee, we will be conducting a review of the [system / process] commencing on [date of commencement].

Attached is the draft scope memorandum which sets out the details of the audit. In anticipation of this review, we have set up a meeting on [date of meeting – before commencement] to further discuss logistics and planning.

Should you have any issues or concerns, please do not hesitate to contact me at the following number [contact number].

Sincerely Yours,
[Name of CAE]
Chief Audit Executive

Annex H - Other Audit Techniques

Technique	Description	Factors to Consider
Interviews	A conversation between the IAD (interviewer) and the subject of audit / auditee (interviewee) where questions are asked by the IAD to the auditee to obtain information	<p>The following factors contribute to a successful interview:</p> <ul style="list-style-type: none"> • Determining the areas to be covered in advance and the questions to be asked • Scheduling an appropriate time and place • Establishing a rapport with the interviewee • Explaining the purpose of the interview and how the results will be used • Asking questions • Listening to the responses • Wrapping up or closing the interview • Notes on the interview should be prepared as soon as possible afterwards
Questionnaires	An information gathering technique consisting of a series of questions and other prompts for the purpose of gathering information relating to a particular area or function.	<p>The IAD should consider the following in designing the questions to be used:</p> <ul style="list-style-type: none"> • Should avoid ambiguity, vagueness, and confusion • Should not lead in obvious response or answers • Should require narrative responses • Should be designed within the capabilities of

		the respondent.
Flowcharting	Flowcharts are two-dimensional graphic representations of an operation in terms of the flow of activities through a process.	It helps visualize the process and facilitate an analysis of the operation and assist in identifying inefficiencies, overlaps, and duplications / missing procedures and control weaknesses. Flowcharts are valuable when documenting a complicated flow of documents or processes.
Narrative Notes	Narrative notes provide a step-by-step description of the Company's major operations.	<p>This technique is used to identify key control activities. Information in the narrative notes is obtained from interviewing personnel and reviewing the Operations Manual and other documentations.</p> <p>An effective narrative note should contain significant parts of the processes, including its control points, the names and designation of the process owner and the timing involved.</p>
Walkthroughs	This involves following one or two transactions or activities step-by-step through the process from beginning to end.	A walkthrough test confirms the accuracy of the auditor's documentation of the process. Walkthroughs are more effective in understanding the process than a general review of manuals and operating procedures.
Analytical Procedures	Analytical procedures involve the study, comparison, and evaluation of relationships between financial and non-financial data at a point in	<p>Three general steps in performing analytical procedures:</p> <ul style="list-style-type: none"> • Develop an expectation for an account balance or

	time and the trend in those relationships over a period.	<ul style="list-style-type: none"> item Compare the expected amount to the recorded balance Determine the nature and extent of further audit testing based on the difference between the recorded an estimated balance.
Data Analysis	The act of transforming data with the aim of extracting useful information and facilitating conclusion.	
Physical observation	Personal observations reveal what is going on, and whether what is purported to exist corresponds to reality.	Involves touring facilities / site visits, reviewing processes, flow of materials and documents.

Annex I – Audit Report Template

[Company Letterhead] AUDIT REPORT

- I. Table of Contents
- II. Executive Summary
- III. Audit Findings
 - a. Criteria
 - b. Condition
 - c. Conclusion
 - d. Cause
- IV. Management Comments and IAD Response
- V. Monitoring and Feedback on Prior Year's Recommendations
- VI. Audit Recommendations
- VII. Appendices

Prepared by:

Auditor In-Charge / Date

Approved by:

Chief Audit Executive/ Date

Annex J - Information Needs of Certain Target Audiences

Audience	Needs	Suggested Communication
Audit Committee and Senior Management	<ul style="list-style-type: none"> • Focused, concise information on the key issues from an entity level perspective • Timely notification of critical issues • Comfort that Management is taking reasonable actions 	<ul style="list-style-type: none"> • Executive Summary of the IA Report • Audit Committee Annual Report • Audit Committee Periodic Report • Status Reports
Process Owner	<ul style="list-style-type: none"> • Information to assess whether the process is operating well • Timely notification of significant issues • Comfort that Management is taking reasonable action 	<ul style="list-style-type: none"> • IA Report • Issue Resolution Tracking Summary
Area Management	<ul style="list-style-type: none"> • Timely notification of process and control issues • Commitment to the recommendation • Sufficient information to implement the recommendation • Action plan 	<ul style="list-style-type: none"> • Summary of issues document (used during the process of the IA) • IA Report • Issue Resolution Tracking Summary
External Auditor (With appropriate approvals required)	<ul style="list-style-type: none"> • Sufficient information to identify areas where the external auditor can rely on IAD's work • Focused, concise information on the key issues from an entity level perspective • Timely notification of critical issues • Comfort that Management is taking reasonable action 	<ul style="list-style-type: none"> • Audit Committee Annual Report • Audit Committee Periodic Report • Status Reports • IA Report

Annex K – Work Paper File Index

[Company Letterhead] WORKPAPER FILE INDEX

Department / Business Unit:	Process:
Prepared by:	Reviewed by:
Date:	

A. Planning

A-1.	Understanding	
	A-1.1	Departmental Organizational Structure
	A-1.2	List of Employees (with designation) / Contact Person & Contact No. / Email
	A-1.3	Previous Audit Report
	A-1.4	Previous Process Flowchart/Business Process Document (for recurring audit)

B. Execution

B-1.	Notification Letter	
B-2.	Walkthrough Document	
B-3.	Process Flowchart (if initial audit)	
B-4.	Internal Audit Program	
	B-4.1	Test of Control
	B-4.2	Test of Operating Effectiveness
B-5	Communication (E-mails/Minutes)	

C. Reporting

B-1.	Draft Audit Report	
B-2.	Final Audit Report	
	B-2.1	Audit Grade

D. Follow-up

D-1.	Issue Tracking Report	
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E. Administrative Matters

E-1.	Liquidation of Expenses (if any)	
E-2.	Man-hours	

Annex L – Issue Tracking Monitoring Sheet

Summary of Internal Audit Issues - FY20XX/Audit							
Order Code	Status	Issue	No. of Issues				
Green		Issue Closed					
Yellow		Management action - ongoing					
Red		Management action - not yet started					
Blue		Issue / recommendation not taken by auditee (with communication)					

Annex M – Evaluation of CAE – Audit Committee

This checklist must be completed by Audit Committee.

Independence, Objectivity, and Ethics

How well does the CAE display the following attributes?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> • Demonstrates objectivity in his or her actions and provides verbal and written reports that are clear, complete, and free from bias. 			
<ul style="list-style-type: none"> • Communicates issues accurately and timely, even when there is opposition and conflict in doing so. 			
<ul style="list-style-type: none"> • Provides a balanced perspective on topics such as organizational risks and exposures and can maintain positions in meetings even when they may be contrary to popular and forceful opinion. 			
<ul style="list-style-type: none"> • Open and direct in his or her communication with the Audit Committee and candidly expresses opinions in executive sessions. 			
<ul style="list-style-type: none"> • Have no direct authority to perform operational duties for the organization that conflict with the scope of work of the IAD. 			

Comments:

Intellectual Curiosity

How well does the CAE display the following attributes?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> Monitors the Company and its surroundings regularly, and provides proactive audit responses to changes in the risk environment. 			
<ul style="list-style-type: none"> Incorporates the latest 			

developments and new ideas related to governance, risk management, and internal controls into his or her practice where appropriate.			
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Comments:

Quality Focus

How well does the CAE display the following attributes?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> Ensures that work is performed in accordance with all elements of the ISPPA. 			
<ul style="list-style-type: none"> Facilitates the monitoring of quality by both continuous and periodic, internal, and external quality assurance initiatives and addresses performance gaps through monitored action plans. 			
<ul style="list-style-type: none"> Incorporates feedback from the Audit Committee, as appropriate, to improve the quality of IA services provided. 			
<ul style="list-style-type: none"> Routinely collects critical feedback from stakeholders to improve IA service and ensure stakeholder expectations are continuously assessed and met. 			
<ul style="list-style-type: none"> Has appropriate professional credentials and actively encourages all IA staff to attain and maintain such qualifications. 			

Comments:

Solid Business, Technical, and Process Knowledge

Does the CAE demonstrate his or her skills thru the following?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> Adequate audit coverage that is aligned with the Company goals and documented in annual and long-term IA plans. 			
<ul style="list-style-type: none"> IA plans that are developed and documented using a risk-based methodology to ensure they are focused on the right areas, performed on the right cycle, and with the right scope. 			
<ul style="list-style-type: none"> Has a thorough understanding of the business and related risks and ensures resources are deployed to maintain appropriate risk coverage throughout the year. 			
<ul style="list-style-type: none"> Requests appropriate Audit Committee and Senior Management input to the IA plan. 			
<ul style="list-style-type: none"> Works effectively with the external auditor and other stakeholders to ensure sufficient and efficient risk coverage. 			
<ul style="list-style-type: none"> Plans are monitored and amended as the business environment and risks change, and the Audit Committee and Senior Management are appropriately informed of such amendments. 			
<ul style="list-style-type: none"> Allocates time for special projects and advisory services as requested by Senior Management and/or the Audit Committee or BOD after appropriate consideration of the risks involved. 			
<ul style="list-style-type: none"> Holds himself/herself accountable for achieving planned IA coverage. 			
<ul style="list-style-type: none"> No major control issues come to 			

light after audit work that indicates deficiency in the scope or quality of the audit.			
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Comments:

Communication and Listening

Does the CAE demonstrate this or her skills thru the following?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> Requests regular, concise communications with the Audit Committee, either through formal meetings, executive sessions, or access to Audit Committee members for private conversations. 			
<ul style="list-style-type: none"> Provides a balanced perspective on topics such as organizational governance, risk, and internal control issues. 			
<ul style="list-style-type: none"> When issues requiring action are identified, CAE works with Senior Management to facilitate effective solutions and encourage appropriate corrective action in a timely manner. 			
<ul style="list-style-type: none"> Candidly expresses opinions to Senior Management and can maintain positions in meeting even when they may be contrary to popular opinion. 			
<ul style="list-style-type: none"> Holds regular meetings with other stakeholders for purposes of debriefing, sharing information, and ensuring ongoing coordination. 			

Comments:

People Management

Does the CAE demonstrate this or her skills thru the following?	Strong	Adequate	Needs Improvement
<ul style="list-style-type: none"> Maintains adequate resources to discharge responsibilities and manages turnover to appropriate levels. 			
<ul style="list-style-type: none"> CAE has available, or acquires, resources with the professional proficiency and business knowledge required to execute the audit plan. 			
<ul style="list-style-type: none"> Effectively uses expertise of other departments as necessary, such as legal, compliance, fraud, and IT. 			
<ul style="list-style-type: none"> Supports IA staff who rotate into and out of Management and line positions to promote the importance of control awareness in all aspects of the Company 			
<ul style="list-style-type: none"> Optimizes reliance on and coordination with the external auditors, resulting in appropriate audit coverage at a reasonable cost while minimizing duplication of effort. 			
<ul style="list-style-type: none"> Provides staff with appropriate performance evaluations. 			

Comments:

	Strong	Adequate	Needs Improvement
How would you assess CAE's overall performance?			

Overall Comments:

Name:
 Position: (Audit Committee Chairman)

Signed:
 Date:

Annex N – Evaluation of Internal Auditors – Audit Committee

This checklist must be completed by Audit Committee prior to feedback from other areas of the Company.

Understanding

How well does the Internal Audit demonstrate that it?	Strong	Adequate	Needs Improvement
• Recognizes its accountability to the Audit Committee;			
• Has a strong understanding of the responsibilities and operation of the Audit Committee;			
• Understands the expectations of the Committee and the Chairman;			
• Understands the Company's business and risk environment?			
Does internal audit consistently demonstrate a realistic and commercial view of the business?			

Comments:

Charter and Structure

Do the terms of reference for internal audit define?	Yes	No
• Roles and responsibilities, including those in relation to other internal functions;		
• Expectations of Management;		
• Scope of internal audit work;		
• Access to information.		
Has internal audit's terms of reference been reviewed within the last two years?		

Comments:

	Strong	Adequate	Needs Improvement
Evaluate internal audit's current terms of reference considering the Company's current needs.			
Evaluate internal audit's current terms of reference considering the Company's future needs.			
Assess the structure of internal audit in terms of enhancing its:			
Objectivity			
Understanding of the Company's business issues:			
Ability to respond to business needs.			

Comments:

Skills and Experience	Strong	Adequate	Needs Improvement
How well does internal audit's staffing reflect its roles and responsibilities?			
Assess the staff mix and competencies of the internal audit team.			
Evaluate internal audit's independence from the activities it audits			

Comments:

Communication	Strong	Adequate	Needs Improvement
Evaluate internal audit's responsiveness to request from the Audit Committee, including requests for special investigations.			
Evaluate internal audit's frankness and openness with the committee.			
Evaluate internal audit's handling of difficult or arguable issues.			

Over the last 12 months, has the Chairman of the Audit Committee been fully briefed on significant findings or developments prior to Audit Committee meetings?			
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Comments:

	Strong	Adequate	Needs Improvement
Evaluate internal audit's process to monitor the status of open matters / recommendations.			

Comments:

Performance

This section should be developed to focus on the Key Performance Indicators (KPIs) set for the IAD.

In that way has internal audit added value to the Company?

	Strong	Adequate	Needs Improvement
How would you assess internal audit's overall performance?			

Overall Comments:

Name: _____ Signed: _____
Position: (Audit Committee Chairman) Date: _____

Annex O – Evaluation of Internal Auditors – Self - Assessment

This checklist must be completed by the CAE.

Understanding

Evaluate IAD's understanding of:	Strong	Adequate	Needs Improvement
The responsibilities and operation of the Audit Committee:			
The Company's business			
The Company's control framework			

Comments:

Charter and Structure

Do the terms of reference for internal audit define in sufficient detail, for the purpose of directing internal audit?	Yes	No
Roles and responsibilities, including those in relation to other internal functions;		
Expectations of Management;		
Scope of internal audit work;		
Access to information		

Comments:

	Strong	Adequate	Needs Improvement
Evaluate internal audit's current terms of reference considering the Company's current needs.			
Evaluate internal audit's current terms of reference considering the Company's future needs.			
Assess the structure of internal audit in terms of enhancing its:			
Objectivity			
Understanding of the Company's business issues:			
Ability to respond to business needs.			

Comments:

Skills and Experience	Strong	Adequate	Needs Improvement
How well does internal audit's staffing reflect its roles and responsibilities?			
Assess the staff mix and competencies of the internal audit team.			
Evaluate internal audit's independence from the activities it audits			

Comments:

Communication	Strong	Adequate	Needs Improvement
Evaluate internal audit's responsiveness to request from the Audit Committee, including requests for special investigations.			
Evaluate internal audit's frankness and openness with the committee.			
Evaluate internal audit's handling of difficult or arguable issues.			
Over the last 12 months, has the Chairman of the Audit Committee been fully briefed on significant findings or developments prior to Audit Committee meetings?			

Comments:

	Strong	Adequate	Needs Improvement
Evaluate internal audit's process to monitor the status of open matters / recommendations.			

Comments:

Performance

This section should be developed to focus on the Key Performance Indicators (KPIs) set for the internal audit team.

In that way has internal audit added value to the Company?

	Strong	Adequate	Needs Improvement
How would you assess internal audit's overall performance?			

Overall Comments:

Name: _____ Signed: _____
Position: _____ Date: _____

Annex P – Management Assessment

This checklist should be completed by area heads.

	Strong	Adequate	Needs Improvement
Evaluate the sufficiency of internal Audit's resources to adequately deliver the services outlined in its Audit plan in the timeframes identified			

	Yes	No
Does the structure of internal audit appear to facilitate a proper understanding of the association's business issues?		
Does Internal Audit's staffing appear to adequately reflect its roles and responsibilities?		
In your assessment, is the internal audit methodology robust and does it reflect the latest thinking in Internal Audit?		

Comments:

Work Program	Yes	No
Are there regular discussions between internal and external audit strategies, assessment of risks and the implications of audit findings/ audit work?		
Has progress against plan been monitored jointly by internal and external auditor regularly throughout the year		
Did you receive copies of all internal relevant audit reports issued by Internal Audit?		
Were copies of internal audit reports received on a timely basis?		
Are internal audit reports of a standard comparable to best practice in other associations?		
To the best of your knowledge, are there any major areas of risk or concern that internal audit did not appear to cover?		

Overall Comments:

Name:
Position:

Signed:
Date:

Annex Q - Revision History Table

Version	Approval Date	Author	Description

IX. LIST OF ACRONYMS

IAD	Internal Audit Department
BOD	Board of Directors
IA	Internal Audit
ISPPIA	International Standards on Professional Practice of Internal Auditing
CAE	Chief Audit Executive
HRD	Human Resource Department
QAIP	Quality and Assurance Improvement Program
RBA	Risk-Based Audit
AEP	Audit Engagement Plan
AWP	Audit Work Program
AIC	Audit In-Charge
KPIs	Key Performance Indicators
TOD	Test of Design
TOE	Test of Operating Effectiveness
The IIA	The Institute of Internal Auditors