

MABUHAY VINYL CORPORATION

INTERNAL AUDIT CHARTER

Role

Mabuhay Vinyl Corporation (MVC) supports Internal Audit as an independent activity designed to add value and improve the Corporation's operations. It helps Management and various operating units accomplish their objectives by conducting a systematic approach in the evaluation and improvement of the effectiveness of risk management, internal control, and compliance with approved and latest policies and procedures.

This Charter formally establishes the purpose, authority and responsibility of the Corporation's internal audit function. It was prepared to provide and support an effective internal audit consistent with the requirements under section 2.4 of MVC's Manual on Corporate Governance.

Objective

The primary objective of Internal Audit is to provide independent and objective review of operational, administrative and other controls designed to add value and improve operations. It helps the corporation accomplish its vision, mission, values and goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of internal controls, governance processes and risk management.

In meeting this objective, Internal Audit staff are generally expected to operate in accordance with the **Philippine Standards on Auditing (PSA)** and **International Standards for the Professional Practice of Internal Auditing (IIA)**. In addition, Internal Audit shall adhere and practice MVC's various policies and procedures as applicable, its Code of Business Conduct and Manual on Corporate Governance. They are also expected to abide by the **Code of Ethics for CPAs** and apply the same and the aforementioned to specific internal auditing conditions at MVC.

Authority and Independence

The authority of the Audit Committee emanates from section 2.1.7.4 of the Manual on Corporate Governance of MVC while the authority of Internal Audit is derived from Section 2.4 of the same manual.

The Board of Directors (BOD) shall create an Audit Committee which shall be composed of not less than three (3) Directors including two (2) Independent Directors one of whom shall act as the Chairman thereof, to be appointed by the BOD; and shall serve for a period of 1 year or until successor/s shall have been duly appointed. Each member shall have adequate understanding at least or competence at most of the company's financial management systems and environment.

The BOD, upon the recommendation of the Audit Committee, shall appoint an Internal Auditor who shall establish and manage MVC's internal audit to provide the BOD, management, and stockholders reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

The Audit Committee shall meet at least once a year but may meet more should the need arises or it is the desire of the majority to meet more often but no more than once every two (2) months. The head of Internal Audit is administratively under the President but is operationally responsible and will report to the Audit Committee

The Head of Internal Audit shall have the right of direct access to all officers and staff of the Corporation.

In conducting their activities, Internal Audit staff shall be entitled to unrestricted access to all of the Corporation's activities, records, property, personnel and information, which they consider necessary to

properly accomplish their function. Every possible assistance should be provided by other staff to facilitate the progress of audits.

The Head and staff of Internal Audit are authorized to:

- have full and free access to the Audit Committee.
- allocate and use resources, establish frequencies, select subjects, determine scope of work, and apply the process or methods necessary to achieve audit objectives.
- obtain the assistance of staff of the Corporation where they perform audits, as well as other services as needed.
- demand replies and corrective actions to audit findings

The existence of Internal Audit does not diminish the financial and operational responsibilities of corporation's management for the proper execution and control of their activities, including responsibilities for the periodic conduct of system appraisals.

Scope

The scope of internal auditing is to determine whether the organization's network of control, governance processes and risk management, as designed and represented by management, is adequate and functioning efficiently and effectively. It includes the examination and evaluation of the adequacy and effectiveness of the Corporation's system of accounting, administrative and organizational controls, the efficiency of operations and the quality of performance in carrying out assigned responsibilities. It consists among others:

- Assisting in the review of processes in place
- Reviewing the reliability, accuracy, and integrity of significant financial, operating and other management information and the means used to identify, measure, classify and report such information.
- Evaluating the systems established to ensure compliance by the Corporation and its employees with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Appraising management how Corporate resources are employed, and identifying opportunities for improving operating performance.
- Reviewing operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations and programs are being carried out as planned.
- Co-ordinating audit efforts with the Corporation's External Auditors to the extent possible.
- Interaction with various and other governance groups as needed
- Participation in the planning, design, development and implementation of various administrative and operating systems, to determine whether
 - adequate controls are incorporated in the system;
 - satisfactory system testing is performed at appropriate intervals;
 - system documentation is complete and accurate; and
 - the needs of users are taken into consideration.
- Undertaking special investigations, independent reviews in the areas of fraud control, risk management, safety and security, and any other areas of focus as approved or requested by the Chairman of the Audit Committee or President.

The scope of Internal Audit does not include

- exercising executive or managerial authority or functions except those which relate to the Internal Audit function;
- performing any operational duties for the Corporation or its controlled entities.
- initiating or approving accounting transactions external to Internal Audit
- directing the activities of any staff member not under the Internal Audit, except to the extent such staff have been appropriately assigned to audit teams or to otherwise assist the Internal Auditors, and
- involvement in any daily operations of the Corporation or its daily internal checking functions.

Detection, Investigation, Reporting Management of Fraud

The Head of Internal Audit is responsible in:

- assisting management and operations managers in strengthening internal controls;
- the conduct of necessary initial reviews;
- communicating incidents, findings and recommendations for action to the Audit Committee;

The Internal Audit will perform sufficient tests to identify the weaknesses in financial and operating procedures, which may permit fraud and evaluate the impact of noted weaknesses with respect to other activities of the Corporation. In addition, the Audit will recommend improvements to correct the weaknesses and incorporate appropriate tests in future audits to disclose the existence of similar weaknesses in other areas of operation.

Internal control is not the responsibility of the Internal Audit, but is subject to audit review. Internal Audit is not solely responsible for the detection and prevention of all errors, irregularities or fraudulent activities that may occur within the Corporation. All members of the Corporation's management team share that responsibility, as does each employee in the performance of their duties.

Accountability

The Head of Internal Audit, in the discharge of his/her duties, will be accountable to the President and the Audit Committee to:

- Periodically provide information on the status and results of the Annual Audit Plans and Programs and the adequacy of Internal Audit resources to satisfactorily perform its Work Plan.
- Cooperate with and provide assistance to other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Planning

Annually, an Audit Plan and Program shall be prepared by Internal Audit and submitted to the Audit Committee and President for inclusion to the Annual Business Plan of the Corporation.

Audit Plan and Program

The Audit Work Plan shall be sufficiently comprehensive to ensure a complete and effective review of the Corporation's activities on a cyclical basis and allow flexibility to accommodate special tasks and projects requested by the Audit Committee, the President and management in general.

Identification and prioritization of audit areas/projects are to be based on an assessment of risk pertaining to the achievement of the Corporation's objectives. In assessing the degree of risk relating to individual areas, the following factors should be considered:

- risk management plan
- materiality - flow of funds and custodianship of assets
- significance in terms of the Corporation's goals and activities
- assessed effectiveness of controls in the manual and computerized systems, if possible

- importance in terms of sensitivity and public accountability
- coverage, timing and findings of the previous external and internal audit reviews.

Annual Audit Work Plan

In formulating the Annual Audit Plans and Programs, Internal Audit will consult with the:

- Audit Committee
- President
- Vice Presidents
- Other senior corporate officers

in determining the extent, scope and risks associated with activities to be reviewed to ensure proper audit coverage with minimum of duplication of efforts. Reference will also be made to the Risk Management Plans in determining the Annual Work Plan.

If at any time during the year, Internal Audit is requested to undertake a special assignment or there is a change in the risk assessment of the operations such that an amendment to the approved Plan is required, Internal Audit will revise the Audit Plan and:

- consult with the President and/or Audit Committee Chairman as appropriate;
- submit a revised Annual Audit Plans and Programs with an explanation for the change, to the next meeting of the Audit Committee, for its approval.

An individual audit program is to be prepared for each audit review, with the plan being approved by the Head of Internal Audit.

Documentation

Audit working papers contain the principal evidence to support the Internal Audit report and they provide the basis for review of Internal Audit work.

Internal Audit is to employ audit methodologies, which require the production of working papers (or maintenance of computer files in the computer, as applicable) and answer sheets documenting:

- planning;
- examination and evaluation of the adequacy and effectiveness of internal controls;
- the audit procedures employed, the information obtained and the conclusions reached;
- review;
- reporting; and
- follow up.

Consultation

Prior to the commencement of audits, the Head of Internal Audit shall arrange for the Manager of the activity under review to be advised as to the purpose, scope and expected timing of the audit work. During the conduct of the review, Internal Audit staff are expected to consult, orally and/or in writing, with relevant officers to:

- ensure information gathered is accurate and properly interpreted
- allow Management to reply or comment whenever practicable to ensure the formation of a balanced judgement
- ensure recommendations are cost effective, practical and doable, and
- keep Management informed on the progress of the audit.

Reporting

A written report will be prepared and issued by Internal Audit at the conclusion of each audit, and will be distributed as appropriate. The report will normally indicate;

- the objective(s) of the audit

- the scope of the audit
- acknowledgement of good practice and remedial action already in progress
- audit findings, including identification of the condition, criteria, cause and effect when practicable
- recommendations, including solutions as far as is practicable
- comments and replies of the relevant managers/staff, including agreement as to the proposed course(s) of actions and applicable timeline(s). These comments and replies to findings/observations are expected to be received by Internal Audit within one week from the time the finding sheets were released to the relevant manager/staff. The manager of the activity/department reviewed is expected to indicate the action taken or proposed action with regard to specific recommendations, and applicable time frame(s).

Should there be no reply made to the formal audit report, the contents of the same shall be considered to be final and agreements as to the proposed course(s) of actions are expected to be put in place at their applicable time/date.

Once every two or three months, a summary of audit reports released and finalized will be referred to the Audit Committee.

Follow up reviews are to be undertaken within six months from the conclusion of the audit or even shorter to establish if agreed courses of actions were put in place.

Competence

The Head of Internal Audit shall maintain a team of staff that ideally collectively possess the necessary knowledge, skills and disciplines for the achievement of the Internal Audit objectives. In particular, the Head of Internal Audit has to;

- ensure that staff possess appropriate qualifications, experience and exposed to audit of various operating units, and
- encourage and facilitate the continuing professional development of staff.

Quality Control

The Head of Internal Audit will maintain a process of review of the internal audit work to provide reasonable assurance that its work conforms with the relevant standards and requirements of this Charter. The review process is to be ongoing and includes adequate supervision of work performed. To the extent possible, the review process shall comply with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

Amendment of Charter

The Head of Internal Audit is responsible for the regular review of the Internal Audit Charter. Amendment to the Charter is subject to the approval of the Audit Committee and President.

Approved by:



Dr. Jose Juliano
Chairman, Audit Committee



Edwin Ll. Umali
President & Chief Operating Officer