

## **Background**

The establishment of the Internal Audit Charter within John Hay Management Corporation is based on Administrative Order no. 278 and Administrative Order no. 70 the objective of which is the strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned and/or Controlled Corporations, including Government Financial Institutions, State Universities and Colleges and Local Government Units. The Department of Budget and Management Circular Letter No. 2008-05 dated 14 April 2008 provides the guideline in the organization, staffing and reporting line of Internal Audit Office. The DBM Circular Letter no. 2011-5, using the Philippine Government Internal Audit Manual as a tool in performing Internal Audit functions.

On November 21, 2018, the Commission on Audit (COA) issued Circular No. 2018-003, prescribing the use of the Internal Auditing Standards for the Philippine Public Sector and Internal Control Standards for the Philippine Public Sector.

The Internal Audit Charter prescribes the John Hay Management Corporation's (JHMC) internal audit office its purpose; authority; and responsibility in the Organization. It supports the established position of the Internal Audit Office the table of organization.

This was developed to serve as a guide in the activities of John Hay Management Corporations' Internal Audit Office.

## **Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## **Objective**

The objective of the JHMC Internal Audit Office is to provide independent, objective assurance and consulting services designed to add value and improve JHMC's operations, and commit itself to assist in the oversight function of the Board of Directors thru the Audit Committee in the activities of the John Hay Management Corporation.

## **Mission**

The Mission of the Internal Audit Office is to enhance and protect the organizational value by providing risk-based and objective assurance, advice and insight and provide reliable, objective and independent information to the John Hay Management Corporation's Audit Committee and Board of Directors.

The Internal Audit Office helps JHMC in achieving its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness and efficiency of governance, risk management, control processes and compliance.

### **Standard for Professional Practice of Internal Auditing**

The Internal Audit Office will govern itself by the adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles of the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing. The Head of the Internal Audit Office will report periodically to senior management and the Audit Committee and the Board regarding the Internal Audit Office's conformance to the Code of Ethics and the Standards.

### **Authority**

To establish, maintain, and assure that the JHMC's Internal Audit Office has a sufficient authority to fulfill its duties, the Board of Directors and the Audit Committee will;

- Approve the Internal Audit Office's Charter.
- Approve the risk-based audit plan.
- Approve the Internal Audit Office's budget and resource plan.
- Receive communications from the Head of the Internal Audit Offices' performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Head of the Internal Audit.
- Make appropriate inquiries from management and the Head of the Internal Audit Office to determine whether there is inappropriate scope or resource limitations.

The Head of Internal Audit Office will have unrestricted access to, and communicate, interact directly with, the Audit Committee/ the Board of Directors, including private meetings without management present.

The Board of Directors and the Audit Committee authorize the Internal Audit Office to:

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

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

## **Reporting Lines**

The Internal Audit Office reports functionally to the Audit Committee and the Board of Directors and administratively to the President and CEO.

### **Functional Reporting includes the following;**

- Approval of the Internal Audit Charter
- Approval of the Risk-based Internal Audit Plan
- Approval of the Internal Audit Budget and Resource Plan
- Forwarding communications from the Internal Audit Manager on the Internal Audit Office's performance relative to its plan and other matters.
- Approval on the appointment and removal of the Internal Audit Manager.
- Making appropriate inquiries of management and the Internal Audit Manager to determine whether there are inappropriate scope or resource limitations.
- Audit Reporting
- Performance Evaluation of the Internal Audit Manager.
- Reporting of conducted consulting services.

### **Administrative Function includes the following;**

- Attendance Monitoring
- Leave Monitoring

## **Independence and Objectivity**

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

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement, including;

- Assessing specific operations for which they had responsibility within previous year.

- Performing any operational duties for JHMC.
- Initiating or approving transactions external to the Internal Audit Office.
- Directing the activities of any JHMC employee not employed by the internal audit office, except that such employee have been appropriately assigned to auditing teams or otherwise assist internal auditors.

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

Internal Auditors will:

- Disclose any impairment of independence or objectivity, fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Internal Audit Manager will confirm to the Board of Directors and the Audit Committee, at least annually, the organizational independence of the Internal Audit Office.

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

### **Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessment to the Board thru the Audit Committee, Management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for JHMC. Internal audit assessments include evaluating whether:

- Risk relating to the achievement of JHMC's strategic objectives are appropriately identified and managed.
- The actions of JHMC's officers, directors, employees, and contractors are in compliance with JHMC's policies, procedures, and applicable laws, regulations, and governance standards.

- The result of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact JHMC.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

The Internal Audit Manager will report periodically to the Board of Directors and the Audit Committee regarding:

- The Internal Audit Office's purpose, authority and responsibility.
- The Internal Audit Office's plan and performance relative to its plan.
- The Internal Audit Office's conformance with The IIA's Code of ethics and standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring attention of, or requested by the Board of Directors or the Audit Committee.
- Results of Audit engagements or other activities.
- Resource Requirements.
- Any response to risk by management that may be unacceptable to JHMC.

The Internal Audit Manager also considers relying upon the work of other internal and external auditors and consulting service providers as needed. He may also coordinate other activities with them as necessary.

Opportunities for improving the efficiency of governance, risk management, and control processes maybe identified during engagements. These opportunities will be communicated to the appropriate level of management.

The Internal Audit Office may perform advisory and related Management service activities, the nature and scope of which will be agreed with the Management, provided the internal audit office does not assume Management responsibility.

**Advisory and related Management Services includes the following;**

- Participation in the deliberation or discussion of the Management Committee where the Internal Audit Office can offer some contribution.

- Request from the Management an assistance or advisories on matters where the Internal Audit has an expertise.
- Other matters where assistance can be served by the Internal Audit Office not affecting the independence.

## **Responsibility**

The Internal Audit Manager has the responsibility to

- At least annually, present to the Senior Management or President and CEO a risk based internal plan, and submit to the Audit Committee and the Board for review and approval.
- Communicate to the Senior Management or President and CEO, the Audit Committee and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the audit plan, as necessary, in response to changes in JHMC' risk, operations, programs, systems, and controls.
- Communicate to senior management, the Audit Committee and Board any significant interim changes to the internal audit plan.
- Ensure each engagement in the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management, the Audit Committee and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit office collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact JHMC are considered and communicated to senior management, the Audit Committee and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit office.
- Ensure adherence to JHMC's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any

such conflicts will be resolved or otherwise communicated to senior management, the Audit Committee and the Board.

- Ensure conformance of the internal audit office with the Standards, with the following qualifications:
  - If the internal audit office is prohibited by law or regulation from conformance with certain parts of the Standards, the Internal Audit Manager will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the internal audit manager will ensure that the internal audit office conforms to the Standards, even if the internal audit office also conforms to the more restrictive requirements of other authoritative bodies.

### **Quality Assurance and Improvement Program**

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

The Internal Audit Manager will communicate to the Audit Committee and the Board the internal audit office's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at every three years by a qualified, independent assessor or assessment team from outside JHMC.

## **INTERNATIONAL AUDITING STANDARDS FOR THE PHILIPPINE PUBLIC SECTOR**

### **Attribute Standards**

#### **1000- Purpose, Authority, and Responsibility**

1010- Recognizing Guidance in the Internal Audit Charter

#### **1100- Independence and Objectivity**

1110- Organizational Independence

1111- Direct Interaction with the Head of Agency or the Governing Board/Audit Committee

1112- Roles of Head of Internal Audit beyond Internal Auditing

1120- Individual Objectivity

1130- Impairment to Independence or Objectivity

#### **1200- Proficiency and Due Professional Care**

1210- Proficiency

1220- Due Professional Care

1230- Continuing Professional Development

#### **1300- Quality Assurance and Improvement Program**

1310- Requirement of the Quality Assurance and Improvement Program.

1311- Internal Assessment

1312- External Assessment

1320- Communicating Results of the Quality Assurance and Improvement Program

1321- Use of “Conforms with the Internal Auditing Standards for the Philippine Public Sector”

1322- Disclosures of Nonconformance

### **Performance Standards**

#### **2000 – Managing the Internal Audit Service**

2010 – Planning

2010 – Communication and Approval of Internal Audit Service Plan

2030 - Resource Management

2040 – Policies and Procedures

2050 – Coordination and Reliance

2060 – Reporting to the Head of Agency or the Governing Body/Audit Committee

#### **2100 – Nature of Work**

2110 – Governance

2120 – Risk Management

2130 – Control



**2200 – Engagement Planning**

- 2201 – Planning Considerations
- 2210 – Engagement Objectives
- 2220 – Engagement Scope
- 2230 – Engagement Resource Allocation
- 2240 – Engagement Plan and Work Program

**2300 – Performing the Engagement**

- 2310 – Identifying Information
- 2320 – Analysis and Evaluation
- 2330 – Documenting Information
- 2340 – Engagement Supervision

**2400 – Communicating Results**

- 2410 – Criteria for Communicating
- 2420 – Quality of Communications
- 2421 – Errors and Omissions
- 2430 – Use of “Conducted in Conformance with the Internal Auditing Standards for the Philippine Public Sector”
- 2431 – Engagement Disclosure of Nonconformance
- 2440 – Disseminating Results
- 2450 – Overall Opinion

**2500 – Monitoring Progress**

**2600 – Communicating the Acceptance of Risks**