

**CHARTER OF THE
AUDIT AND COMPLIANCE COMMITTEE
LAND BANK OF THE PHILIPPINES**

Revised on May 7, 2018

1. OVERVIEW

This Charter shall ensure compliance with the requirements of BSP Circular No. 871, series of 2015 re: Internal Control and Internal Audit; BSP Circular No. 972, series of 2017 re: Enhanced Guidelines in Strengthening Compliance Frameworks; BSP Circular No. 969, series of 2017 re: Enhanced Corporate Governance Guidelines for BSP Supervised Financial Institutions, BSP Circular No. 950, series 2017 re: Amendment to Part 8 of the Anti-Money Laundering Regulations of the Manual of Regulations for Banks and the Code of Corporate Governance of the Securities and Exchange Commission (SEC) that identify the functions related to audit and compliance management under a board-level committee, thus, the creation of a joint Audit and Compliance Committee (per LBP Board Resolution No. 14-020-A dated January 24, 2014)

2. PURPOSE

The Audit and Compliance Committee shall assist the Board of Directors in fulfilling its oversight responsibilities specifically:

2.1. FOR INTERNAL AUDIT AND INTERNAL CONTROL (BSP Circular 871)

- a. To oversee Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework; it shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets
- b. To oversee the internal audit function

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2.2. FOR COMPLIANCE (BSP Circulars 972 and 950)

- a. To oversee the implementation of the Bank's Compliance Program
- b. To ensure that oversight on the Bank's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) compliance management is adequate

3. COMPOSITION

- a. The Audit and Compliance Committee shall be composed of at least three (3) of the Board of Directors, wherein all shall be non-executive directors, majority of whom shall be independent directors including the Chairperson. It shall include a Chairperson, and two (2) members, who shall be appointed/ designated by the Board of Directors. The Chairperson shall not be the Chairperson of the Board of Directors or of any other board-level committees.
- b. Appointed/designated members of the Audit and Compliance Committee who are ex-officio members of the Board of Directors may be represented by their respective alternates to the committee.
- c. Members of the Audit and Compliance Committee shall preferably be with accounting, auditing or related financial management expertise or experience.
- d. No member shall simultaneously serve on the Audit and Compliance Committee of other agencies and/or the Trust Committee of the Bank.

4. MEETINGS AND PROCEDURES

- a. The Audit and Compliance Committee shall meet at least once a month with authority to convene for special meetings, as the circumstances require.
- b. The Chairperson, shall be the presiding officer during committee meetings. In his absence, any of the members may preside.
- c. The presence of two (2) members shall constitute a quorum in all committee meetings.
- d. The Internal Audit Group shall serve as the Secretariat of the committee.

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2 **5. RESPONSIBILITIES/FUNCTIONS**
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4 The Audit and Compliance Committee shall have the following duties and
5 responsibilities:
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- 7 a. Oversee the financial reporting framework (i.e., financial reporting
8 process, practices and controls). It shall ensure that the reporting
9 framework enables the generation and preparation of accurate and
10 comprehensive information and reports.
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- 12 b. Provide an open avenue of communication, among the internal auditors,
13 external auditors, Senior Management, the Board of Directors and other
14 supervisory authority.
15
- 16 c. Provide functional supervision over the Internal Audit Group and
17 Compliance Management Group to ensure effective performance of their
18 functions.
19
- 20 d. Oversee the performance of internal audit service provider (may it be for
21 an assurance, consulting or any engagement in which internal audit
22 activity would require resource and competence/expertise from third party.
23
- 24 e. Recommend formulation or amendments to policies, systems and
25 procedures based on results of its evaluation of the reports from internal
26 audit, compliance, external audit and regulatory bodies.
27
- 28 f. Utilize the work conducted by internal audit and compliance functions by
29 undertaking timely and effective actions on issues identified.
30
- 31 g. Assess the reports from external auditors and regulatory agencies, and
32 ensure that management judiciously and appropriately acts on
33 recommendations on significant deficiencies and/or material weaknesses
34 identified.
35
- 36 h. Ensure that a review of the effectiveness of the Bank's internal controls
37 including financial, operational and compliance controls and risk
38 management, is conducted at least annually.
39
- 40 i. Exercise explicit authority to investigate any matter within its terms of
41 reference, full access to and cooperation by management, full discretion to
42 invite any director or officer to attend its meetings, and adequate
43 resources to enable effective discharge of its functions.

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2 j. Establish and maintain mechanisms by which officers and staff may, in
3 confidence, raise concerns about possible improprieties or malpractices in
4 matters of financial reporting, internal control, auditing or other issues to
5 persons or entities that have the power to take corrective action. It shall
6 ensure that arrangements are in place for the independent investigation,
7 appropriate follow-up action, and subsequent resolution of complaints.
8
9 k. Assess the organizational structure and staffing of IAG and CMG, subject
10 to the Bank's standard guidelines, for the effective performance of their
11 assigned tasks and endorse the same to management.
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13 **6.1. RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAG** 14 **AND CMG**

- 15
16 a. Endorse to the Board the appointment or removal of the Heads of IAG
17 and CMG.
18
19 b. Review and approve the IAG and CMG plans and programs and major
20 changes thereof.
21
22 c. Evaluate the performance of the IAG and CMG relative to their plans
23 and programs and other matters.
24
25 d. Review and approve the performance evaluation/appraisal of the
26 Heads of IAG and CMG.
27
28 e. Assess the appropriateness of IAG and CMG scope of plans and
29 programs vis-à-vis their resources.
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31 **6.2. SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION** 32 **OVER IAG**

- 33
34 a. Responsible for establishing and maintaining an independent,
35 competent and effective internal audit function commensurate with
36 the complexity of its risk profile.
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38 b. Review and approve the IAG's Charter and any amendment/s
39 thereto and endorse the same to the Board of Directors for
40 confirmation.
41
42 c. Review and approve an audit program that encompasses audit
43 scope and frequency, policies, processes, procedures, and

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1 strategies that would govern IAG, including major changes thereof.
2 It shall ensure that the scope covers the review of the effectiveness
3 of the Bank's internal controls, including financial, operational and
4 compliance controls, and risk management system.
5

- 6 d. Communicate and interact directly with the IAG Head, internal
7 auditors, and external auditors, including separate or private
8 sessions as appropriate and necessary. It shall also ensure that
9 there is coordination of audit effort between IAG and external
10 auditor (COA) in terms of audit scope, approach, independence,
11 and performance.
12
- 13 e. Approve/confirm the IAG annual budget.
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- 15 f. Ensure that IAG is free from interference in determining the scope
16 of the internal auditing examinations necessary to perform the work
17 and communication of results.
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- 19 g. Ensure that internal auditors have free access to all Bank's records,
20 personnel and properties relevant to the performance of their
21 functions.
22
- 23 h. Receive key audit reports, and ensure that Senior Management is
24 taking necessary corrective actions in a timely manner to address
25 the weaknesses, non-compliance with policies, laws and
26 regulations and other issues identified by auditors.
27
- 28 i. Evaluate the performance of IAG relative to their audit plans and
29 programs and other matters.
30
- 31 j. Ensure that IAG conforms with relevant rules and regulations (BSP
32 and COA issuances and Philippine Government Internal Auditing
33 Manual) and professional standards, such as, but not limited to, the
34 International Professional Practices Framework issued by the
35 Institute of Internal Auditors, and those standards issued by the
36 Information Systems Audit and Control Association, Committee on
37 Sponsoring Organizations of the Treadway Commission.
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6.3. SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER CMG

- a. Adopt measures to ensure the compliance function's standing, authority and independence from the business activities of the Bank
- b. Ensure that the Compliance Program is defined for the Bank and that compliance issues are resolved expeditiously
- c. Review and approve any update/amendment to the Compliance Charter, Compliance Manual, and Money Laundering and Terrorist Financing Prevention Program (MLPP) and endorse the same to the Board of Directors for approval.
- d. Oversee the implementation of the LBP Compliance Program and MLPP.
- e. Ensure that CMG have the right to obtain access to information necessary to carry out its responsibilities and conduct investigations of possible breaches of the compliance policy.
- f. Review reports submitted by CMG including Minutes of Meeting and resolutions of the Anti-Money Laundering Committee and all other matters related to AML and TF compliance and their risk management.
- g. Provide the Board of Directors with regular reports on the findings of regulatory bodies together with the actions of Management on said findings.
- h. Approve/confirm the CMG annual budget.
- i. Evaluate the performance of CMG relative to the plans and programs and other matters.
- j. Ensure that Bank personnel adhere to the pre-defined compliance standards of the Bank.

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6.4. OTHER RESPONSIBILITIES

- a. The Audit and Compliance Committee, through the Chairperson, shall regularly report to the Board of Directors its activities, issues and related recommendations.
- b. Obtain any information and or training needed to enhance the members' understanding/competence on the areas of financial reporting policies, practices and control, internal and external audit functions, and compliance function.
- c. Review and update this Charter at least annually or as often as necessary, whenever there are significant changes, and endorse the same to the Board for approval.
- d. Conduct annual self-assessment of the committee's performance including its effectiveness and compliance with this Charter.