

## **INTERNAL AUDIT CHARTER**

### **I. PURPOSE**

This charter establishes the authority and responsibility conferred by the Board of Directors of Pacific Online Systems Corporation (POSC or the Company or the Corporation) on the internal audit function, so that Internal Audit Group may adequately perform its role and mission. This charter also defines the position of the internal audit function in the organization so that it may be accorded a healthy level of independence to effectively carry out its duties and responsibilities.

### **II. MISSION AND SCOPE OF WORK**

The mission of the internal audit is to provide independent, objective assurance and consulting services designed to add value and improve the Company's operations. It helps the Corporation accomplish its objectives by bringing in a systematic, disciplined, risk-based approach to evaluate and improve the effectiveness of risk management, control and the governance process.

The scope of work of the internal audit function is to determine whether the Company's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed promptly;
- Interaction with various governance groups (i.e. BOD, Management, different Unit Heads and staff and external auditors) are set as needed;
- Significant financial managerial and operating information are adequate, applicable and communicated in a timely manner to appropriate staff;
- Resources are required economically, used efficiently, and protected adequately;
- Projects, plans and objectives are achieved, with sufficient explanation of variances;
- Quality and continuous improvement are fostered in the Company's processes; and
- Significant legislative or regulatory issues that affect the Company are recognized and addressed appropriately.
- The Internal Audit activities encompass objective examinations of evidence for the purpose of providing independent assessments.

Opportunities for improving management controls in relation to the operational, financial and governance aspects of the business may be identified during audits. These matters shall be communicated to the appropriate level of management and to the Board of Directors through the Audit Committee.

### **III. ACCOUNTABILITY**

The Board authorizes the Audit Committee to appoint the Internal Audit Head (or Chief Audit Executive) and recruit staff or outsource the internal audit function as may be deemed appropriate by the Audit Committee upon the recommendation of the Internal Audit Head. The Internal Audit Head shall be accountable to management and the Audit Committee to:

- a. Provide a regular assessment of the adequacy and effectiveness of the Company's process for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;
- b. Report significant issues related to the processes for controlling the activities of the organization, including resolution of such issues and potential improvements to those processes;
- c. Periodically provide information on the status and results of the annual audit plan and the sufficiency of the internal audit department resources; and
- d. Coordinate with and provide oversight of the other control and monitoring functions (i.e. risk management, compliance, security, legal, environmental and external audit) in the context of internal auditing.
- e. Report significant governance issues noted in the conduct of internal audit work or as may be brought to its attention by other Company personnel.

#### **IV. INDEPENDENCE**

To provide for the independence of the internal audit, staff shall report to the Internal Audit Head who reports administratively to the President and functionally to the Audit Committee in a manner outlined in the above section on Accountability.

On an annual basis, the Internal Audit Head and the IA staff are required to sign a declaration regarding their independence. In the event that the objectivity and independence are impaired in fact or in appearance, the internal auditors are required to disclose its details to the Internal Audit Head and/or to the Audit Committee.

#### **V. RESPONSIBILITY**

The Internal Audit Head has the responsibility to:

- a. Develop a timely and flexible annual audit plan using an appropriate risk-based methodology including any risks or control concerns identified by management, and submit that plan as well as periodic updates to the Audit Committee for review and approval;
- b. Implement the annual audit plan, as approved, including any special tasks or projects (i.e. including those of the subsidiaries) requested by the Audit Committee, subject to the limitation in the agreed scope of work;
- c. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter;
- d. Issue periodic reports, at the very least on a quarterly basis to the Audit Committee and the appropriate management level summarizing results of audit activities;
- e. Keep the Audit Committee informed of emerging trends and successful practices in internal auditing; and
- f. Consider the scope of work of the external auditors, the parent-company internal auditors, and regulators, as appropriate, for the purpose of providing optimal audit coverage for the Company at a reasonable overall cost.
- g. Provide a list of significant measurement goals and results to the Audit Committee.

- h. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- i. Assist in the investigation of significant suspected fraudulent activities within the organization and immediately notify management and the Audit Committee of the results.
- j. On a case-to-case basis and as agreed with management and the Audit Committee, participate in the systems development process and/or any special projects undertaken by the Company (systems related or otherwise). It is understood that the internal auditors' role in such special projects is purely on a recommendatory basis, and the Internal Audit team should not be part of any decision-making process by the project team in order to maintain the independence of the internal audit function.
- k. Follow through on the implementation of action plans committed by management to mitigate identified risks and address control lapses noted.
- l. Help foster a strong internal control environment through education and training within and across the Company, its subsidiaries, and associated entities as may be specified in the Annual Internal Audit Plan.

## **VI. AUTHORITY**

The Internal Audit Group is authorized to:

- a. Have unrestricted access to all functions, records<sup>1</sup>, property and personnel;
- b. Have full and free access to the Audit Committee
- c. Assign the necessary number and level of staff, schedule and set frequencies of activities, and apply the techniques required to accomplish audit objectives; and
- d. Obtain the necessary assistance of personnel in the different areas where they perform audits.

The Internal Audit Group is NOT authorized to:

- a. Perform any operational duties for the Company;
- b. Initiate or approve accounting transactions outside of the Internal Audit Group;
- c. Direct the activities of any Company employee, except to the extent such employee or employees have been appropriately assigned to assist the internal audit team.

## **VII. CONFIDENTIALITY OF INFORMATION**

The Internal Audit Head, its consultant(s) and staff have an obligation to keep confidential all information and records accessed in the course of its audit. Internal audit reports are strictly confidential documents which are Company property. Copies of detailed audit reports sent to the Audit Committee, the President and to those other officers who, by virtue of their position in the Company, need to be informed of the results of the audit shall at all times be marked Strictly Private and Confidential.

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<sup>1</sup> In compliance with the provisions of the Data Privacy Act of 2012.

## **VIII. STANDARDS OF AUDIT PRACTICE**

The Internal Audit Head, consultant(s) and staff shall meet or exceed the auditing standards set under the International Standards for the Professional Practice of Internal Auditing of the Institute of the Internal Auditors.

## **IX. PERIODIC ASSESSMENT**

The Internal Audit Head will communicate to Senior Management and the Audit Committee the Internal Audit Department's quality assurance and improvement program, including results of ongoing and periodic internal assessments at least annually as well as results of external periodic assessment at least every five years.

## **X. ANNUAL REVIEW OF CHARTER**

This charter is reviewed annually to ensure that it remains relevant to the needs of POSC and its subsidiaries.