



Armed Forces and Police Mutual Benefit Association, Inc.

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INTERNAL AUDIT OFFICE CHARTER (as of 23 July 2020)

I. PURPOSE

The purpose of Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) Internal Audit Office (IAO) is to help the Association accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

II. MISSION

The mission of the IAO is to provide independent, risk-based, and objective assurance, advice, and insight to strengthen internal controls and to attain international standards of performance and efficiency, in support of the accomplishment of the AFPMBAI Mission.

III. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

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

IV. AUTHORITY

The Head, IAO will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the President and CEO. To establish, maintain, and assure that AFPMBAI's IAO has sufficient authority to fulfill its duties, the Audit Committee will:

- A. Approve the IAO Charter.
- B. Approve the timely, risk-based, agile internal audit plan.
- C. Approve the IAO budget and resource plan.
- D. Receive timely communications from the Head, IAO on the IAO performance relative to its plan and other matters.

- E. Approve decisions regarding the appointment and removal of the Head, IAO.
- F. Approve the remuneration of the Head, IAO.
- G. Make appropriate inquiries of management and the Head, IAO to determine whether there is an inappropriate scope or resource limitations.

The Head, IAO will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without Management present.

The IAO is authorized by the Audit Committee to:

- A. 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.
- B. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- C. Obtain assistance from the concerned personnel as well as other specialized services to complete the engagement.

V. INDEPENDENCE AND OBJECTIVITY

The Head, IAO will ensure that the IAO remains free from all conditions that threaten the ability of 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 Head, IAO determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

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 judgment, including:

- A. Assessing specific operations for which they had responsibility within the previous year.
- B. Performing any operational duties.
- C. Initiating or approving transactions external to the IAO.
- D. Directing the activities of employees not employed by the IAO, except to the extent that such employees have been appropriately assigned to auditing teams, or to otherwise assist internal auditors.

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

- A. Disclose any impairment of independence or objectivity, in fact, or appearance, to appropriate parties.

- B. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- C. Make balanced assessments of all available and relevant facts and circumstances.
- D. Take necessary precautions to avoid being unduly influenced by their interests or by others in forming judgments.

The Head, IAO will confirm to the Audit Committee, at least annually, the organizational independence of the IAO.

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

VI. SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal audit activities encompasses, but is not limited to, **assurance services** – an objective examination of the evidence to provide independent assessments to the Audit Committee, Management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for AFPMBAI. Internal audit assessments include evaluating whether:

- A. Risks relating to the achievement of AFPMBAI's strategic objectives are appropriately identified and managed.
- B. The actions of AFPMBAI's officers, directors, employees, and contractors comply with AFPMBAI's policies, procedures, and applicable laws, regulations, and governance standards.
- C. The results of operations or programs are consistent with established goals and objectives.
- D. Operations or programs are being carried out effectively and efficiently.
- E. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact AFPMBAI.
- F. Information and the means used to identify, measure, analyze, classify, and report such information is reliable and has integrity.
- G. Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head, IAO will report periodically to senior management and the Audit Committee regarding:

- A. The IAO purpose, authority, and responsibility.
- B. The IAO plan and performance relative to its plan.
- C. The IAO conformance with The IIA's Code of Ethics and Standards and action plans to address any significant conformance issues.
- D. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- E. Results of audit engagements or other activities.
- F. Resource requirements.
- G. Any response to risk by management that may be unacceptable to AFPMBAI.

The Head, IAO also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The IAO may perform **consulting services** – advisory and related service activities, which are intended to add value and improve the Association’s governance, risk management, and control processes, without the internal auditor assuming management responsibility.

The IAO may perform audit-related services relative to the operation of the AFPMBAI subsidiary.

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

VII. RESPONSIBILITY

The Head, IAO has the responsibility to:

- A. Submit, at least annually, to the senior management and Audit Committee a risk-based internal audit plan for review and approval.
- B. Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- C. Review and adjust the internal audit plan, as necessary, in response to changes in AFPMBAI business, risks, operations, programs, systems, and controls.
- D. Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- E. Ensure each engagement of 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.
- F. Approve the completed audit report which will be presented to the President and CEO for approval of the implementation of the action plans by the Office Primarily Responsible. Completed reports that were submitted but cannot be resolved at the Management level will be presented for information and disposition of the Audit Committee.
- G. Present the final audit report to the Audit Committee for information.
- H. Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- I. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- J. Ensure the IAO collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- K. Ensure trends and emerging issues that could impact AFPMBAI are considered and communicated to senior management and the Audit Committee as appropriate.
- L. Ensure emerging trends and successful practices in internal auditing are considered.
- M. Establish and ensure adherence to policies and procedures designed to guide the IAO.
- N. Ensure adherence to AFPMBAI’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 and the Audit Committee.

- O. Ensure conformance of the IAO with the Standards, with the following qualifications:
 - 1. If the IAO is prohibited by law or regulation from conformance with certain parts of the Standards, the Head, IAO will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - 2. If the Standards are used in conjunction with requirements issued by other regulatory bodies, the Head, IAO will ensure that the IAO conforms with the Standards, even if the IAO also conforms with the more restrictive requirements of other regulatory bodies.

VIII. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

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

The Head, IAO will communicate to senior management and the Audit Committee on the IAO quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside AFPMBAI.

Approved by:

BGEN HONORATO S DE LOS REYES PA (RET)
CHAIRMAN, AUDIT COMMITTEE

CSUPT RUEL S RIVERA BJMP
VICE CHAIRMAN, AUDIT COMMITTEE

MGEN ADRIANO S PEREZ JR PA
MEMBER

PCOL JOSE MELENCIO C NARTATEZ JR
MEMBER

RADM REY T DELA CRUZ PN
MEMBER

MGEN RIZALDO B LIMOSO PA (RET)
PRESIDENT AND CEO

Prepared by:

JOCELYN T MIRANDA
HEAD, INTERNAL AUDIT OFFICE

20 August 2020

Reference: The Institute of Internal Auditors, Inc. publication