

# **BPI-PHILAM LIFE ASSURANCE CORPORATION**

## **Terms of Reference for the Audit Committee**

BPLAC Restricted and Proprietary Information

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### **Membership**

1. The members of the Audit Committee shall be appointed by the Board from among the Directors and shall consist of three (3) members of the Board, two (2) of whom shall be Independent Directors, who shall preferably have appropriate professional qualifications or accounting and finance experience. The Chair of the Audit Committee should be an independent director. The quorum for meetings of the Audit Committee shall be two members.
2. Each member of the Audit Committee shall serve an initial term of one (1) year and may be re-appointed thereafter by the Board.
3. A former partner of the Company's existing audit firm shall be prohibited from acting as a member of the Audit Committee for a period of two years commencing on the date of his ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm;whichever is later.
4. The Chairman of the Audit Committee shall be appointed by the Board.

### **Frequency of Meetings**

5. The Audit Committee should meet often enough to undertake its role effectively, and schedule to meet not less than four times a year.
6. In addition, the Chairman of the Audit Committee may call a meeting of the Audit Committee if so requested by any member of the Audit Committee, the Chairman of the Board or the external auditor of the Company.

### **Attendance at Meetings**

7. The Audit Committee may invite any members of Management and representatives of the external and internal auditors to attend the meetings.
8. At least twice a year, the Audit Committee may meet with the external and internal auditors separately without Management being present. The Audit Committee may also meet separately with any member of Management or anyone else they may wish to see.

### **Conduct of Meetings**

9. An agenda and accompanying meeting papers should be sent in full to all members of the Audit Committee in a timely manner and at least three business days before the intended date of a meeting of the Audit Committee (or such other period as agreed by its members).

10. On a quarterly basis, the agenda of the Audit Committee meetings shall regularly include, among others, the following: Quarter Review of Financial Position; Internal Audit Report; Compliance Report; Major Litigation Report; and other Finance-related developments, if any. On semi-annual basis, the following may be included in the agenda: Update on non-audit services performed by external auditor, if any, and hiring of external auditor's employees, if any. On an annual basis, the following items shall also be included in the agenda (the inclusion and timing of which shall vary as may be determined by the Committee or the Company Secretary): Audited Financial Statements for the Fiscal Year; External Audit Report and External Audit Plan; Internal Audit Plan; Appointment of the External Auditor and Audit Fee for the Financial Year; Annual Tax Update; Review of the External Auditor's Independence, Objectivity and Effectiveness; and Review of the Audit Committees Compliance with these Terms. The Audit Committee, at its discretion, may include and discuss other business, as it deems necessary to perform its functions under these Terms
11. Meetings of the Audit Committee may be in person or held through video or teleconference and all required actions of the Committee may be taken through such means provided such actions are approved by a quorum of the Audit Committee following notice to each member of the Audit Committee.
12. Management is obliged to supply the Audit Committee with adequate information in a timely manner, in order to enable it to make informed decisions. The information supplied must be complete and reliable. Where a Director requires more information than is provided by Management, the relevant Director should make additional necessary enquiries. The Board and each Director shall have separate and independent access to the Management.

#### **Authority**

13. The Audit Committee is authorized by the Board to investigate any activity within these Terms. It is authorized to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Audit Committee.
14. The Audit Committee is authorized by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Audit Committee shall be provided with sufficient resources to discharge its duties. The Audit Committee shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external party who advises the Audit Committee.

#### **Duties**

15. The duties of the Audit Committee shall include:

##### Relationship with the Company's External Auditors

- (a) being primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor  
  
and on the remuneration and terms of engagement of the external auditor, and to consider any questions of resignation or dismissal of that

- auditor. The appointment, reappointment and removal of the external auditors shall be based on fair and transparent criteria such as (i) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) technical competence and expertise of the auditing staff; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports;
- (b) performing oversight functions over the external auditor, and regularly reviewing and monitoring the external auditor's technical competence, independence, objectivity and the overall effectiveness of the audit process in accordance with applicable standards, and rules, regulations and circulars issued by the regulators;
  - (c) developing and implementing policy on the engagement of an external auditor to supply non-audit services; evaluating the non-audit work, if any, and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; The Committee shall disallow any non-audit work that will conflict with the external auditor's duty as such or may pose a threat to its independence. The non-audit work, if allowed, should be disclosed in the Company's Annual Report;
  - (d) discussing with the external auditor before the audit commences, the nature and scope of the audit and the reporting obligations; setting, or delegating the same to management, the compensation of the external auditor in relation to the scope of its audit; and ensuring co-ordination where more than one audit firm is involved;
  - (e) discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of Management where necessary), and establishing a system of reporting where the external auditor can communicate directly to the Audit Committee on a timely basis, as well as a system that addresses, in a timely and effective manner, any findings of fraud or error on the financial statements;

#### Relationship with the Company's Internal Auditors

- (f) organizing an internal audit department, and considering and approving the appointment of an independent internal auditor and the terms and conditions of his engagement and removal;
- (g) performing oversight functions over the Company's internal auditors, and ensuring that the internal and external auditors act independently from each other, and that both parties are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- (h) Reviewing the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources, and budget necessary to implement it. The Committee shall

also review other reports and findings submitted by Internal Audit, and

ensure that management action plans are in place and implemented to address the findings.

- (i) Establishing and identifying the reporting line by virtue of the acquisition of 51% of BPLAC Shares, Philam Life Internal Audit shall be the lead Internal Auditor but BPI Internal Audit may conduct its own audit as it may deem necessary and report its findings to the Audit Committee. The Philam Life Internal Audit Head shall also be the BPLAC Internal Audit Head and shall report directly to the Audit Committee and shall be free from interference by outside parties, to enable him to properly fulfill his duties and responsibilities. The internal audit shall be independent and audits shall be done with impartiality and with due professional care.

#### Review of financial information of the Company

- (j) monitoring integrity of the Company's financial statements, annual reports and accounts, half-year reports and, if prepared, quarterly reports, and reviewing significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual reports and accounts, half-year reports and, if prepared, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with any legal requirements in relation to financial reporting;
- (k) in respect of (f) above:
  - (i) liaising with the Board and Management;
  - (ii) meeting, at least twice a year and more frequently if the Audit Committee thinks fit, with the Company's auditors; and
  - (iii) considering any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and giving due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

#### Oversight of the Company's financial reporting system and internal control procedures

- (l) reviewing the Company's financial controls, internal control, information technology security and risk management systems;
- (m) discussing with Management any matters in relation to the Company's internal control system and ensuring that Management has discharged its duties in establishing and maintaining an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (n) considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and Management's response;
- (o) ensuring co-ordination between the internal and external auditors, ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring the effectiveness of the internal audit function;
- (p) reviewing the Company's financial and accounting policies and practices;
- (q) reviewing the external auditor's management letter, any material queries raised by the auditor to Management in respect of the accounting records, financial accounts or systems of control and Management's response;
- (r) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (s) reporting to the Board on the matters set out in these Terms;
- (t) reviewing arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and ensuring that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (u) acting as the key representative body for overseeing the Company's relationship with the external auditor;
- (v) overseeing compliance with applicable law and regulatory policy with respect to the Company's operations; and
- (w) considering any other topics, as defined by the Board.

## Reporting Procedures

16. Full minutes of the Audit Committee's meetings shall be kept by the Company Secretary or a duly appointed secretary of the meeting, and such minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
17. Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by Directors, members or dissenting views expressed.

Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.

18. Without prejudice to the generality of the duties of the Audit Committee set out in these Terms, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations and of any material issues regarding conflicts of interest, misconduct, anomalies or material defects in the internal control systems and violations of laws relating to the Company's operations, unless there are legal or regulatory restrictions on its ability to do so. The Internal Audit of Philamlife shall support the Audit Committee of BPLAC in the rendition of its function.