



**CITYLAND DEVELOPMENT CORPORATION**

**AUDIT & RISK COMMITTEE CHARTER**

**(REVISED JUNE 2019)**

# AUDIT & RISK COMMITTEE CHARTER

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# AUDIT & RISK COMMITTEE CHARTER

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## I. INTRODUCTION

Cityland Development Corporation (the "Corporation") hereby adopted the Audit & Risk Committee Charter (the "Charter")<sup>1</sup> to incorporate the provisions set out in the Corporation's new Manual on Corporate Governance<sup>2</sup>.

This Charter serves as the guide of the Audit & Risk Committee (the "Committee") in the performance and exercise of its functions and responsibilities.

From time to time and as the need arises, the Committee shall review the Charter for any revisions thereto, to adopt for any internal and external changes. These revisions shall be subject to the approval of the Audit & Risk Committee and the Board of Directors.

## II. PURPOSE AND AUTHORITY

The Committee is established by and among the Board of Directors to enhance its oversight capability over the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures, and practices, at all levels.

The Committee, in the performance of its functions shall have the authority to conduct investigations into any matters within the scope of its responsibilities and obtain advice and assistance from outside existing legal, accounting, other advisors, as necessary.

The Committee shall maintain open communication with the independent/external auditors, the management, internal auditors and the Board of Directors.

Section IV of this Charter enumerates the functions and responsibilities of the Committee.

## III. COMMITTEE STRUCTURE AND COMPOSITION

In accordance with the new Manual on Corporate Governance:

1. The Audit & Risk Committee shall consists of at least three (3) appropriately qualified non-executive directors and headed by an Independent Director.
2. The members must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance.

The Committee members are appointed by the Board at the Annual Organizational Meeting of the Board of Directors to serve until their successors are elected.

In cases of removal or resignation, the Board of Directors shall be the body to appoint the members of the Audit & Risk Committee.

## IV. FUNCTIONS AND RESPONSIBILITIES

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<sup>1</sup> The Board of Directors adopted the Audit Committee Charter in its meeting held on October 4, 2012 in accordance with SEC Memorandum Circular No. 6, Series of 2009.

<sup>2</sup> The Corporation adopted the new Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016 on May 23, 2017 and made effective June 1, 2017.

The Audit & Risk Committee shall be responsible for the following oversight functions:

### 1. Financial Reporting

The Committee is expected to have a clear understanding of the Corporation's business and industry in which it operates. It shall also recognize that the management has the primary responsibility over the financial statements.

The Committee shall assist the Board in the financial reporting process through the fair and balance review of all financial statements and disclosures as certified by the Chief Financial Officer for release to the public through the Securities and Exchange Commission, Philippine Stock Exchange and Corporation's website.

i. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board focusing particularly on the following matters:

- *Any change/s in accounting policies and practices;*

Appropriateness of accounting policies adopted by the Management and determination of impact of new accounting standards and interpretations.

- *Areas where significant amount of judgement has been exercised;*

The Committee shall determine the reasonableness of estimates, judgements and assumptions used by the management in the preparation of the financial statements.

- *Significant adjustments resulting from the audit;*

Significant accounting adjustments made by the management and proposed by the auditors as a result of the audit performed shall be reviewed by the management.

- *Going concern assumptions;*

The Committee shall consider whether the Corporation has going concern issues and determine whether appropriate disclosures were made in the financial statements.

- *Compliance with accounting standards; and*

The financial statements of the Corporation shall be prepared in accordance with the accounting standards.

- *Compliance with tax, legal and regulatory requirements.*

As part of the function of the Audit & Risk Committee, it shall ensure that the financial disclosures are prepared in compliance with tax, legal and regulatory requirements. It shall ensure that reports are disclosed and filed to government agencies in a timely manner.

It shall also review any significant litigations, claims, contingencies or legal issues

which may impact the Corporation's financial statements.

- ii. Coordinates, monitors and facilitates compliance with laws, rules and regulations.

### **2. Internal Audit**

The Corporation shall have an Internal Audit Department which shall directly report to Audit & Risk Committee. The following are the responsibilities of the Committee as to the internal audit aspect:

- i. Recommends the approval of the Internal Audit Charter (IA Charter), which formally defines the role of the Internal Audit and the audit plan as well as oversees the implementation of the IA Charter. Any subsequent revisions to the IA Charter should be approved by the Audit & Risk Committee;
- ii. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, integrity of the financial reporting and security of physical and information assets;
- iii. Ensures that the IA Department has a well-designed internal control procedures and processes that will provide a system of checks and balances. Such should be in place in order to:
  - Safeguard the resources of the Corporation and ensure their effective utilization;
  - Prevent occurrence of fraud and other irregularities;
  - Protect the accuracy and reliability of the Corporation's financial data; and
  - Ensure compliance with applicable laws and regulations.
- iv. Oversees the IA Department and recommends the appointment and/or grounds for approval of the Head of the IA Department;
- v. Establishes and identifies the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. The IA Department should directly report to the Audit & Risk Committee;
- vi. Reviews and monitors Management's responsiveness to the findings and recommendations raised by the internal auditors;
- vii. Performs oversight functions over the internal auditors; and
- viii. Ensures the independence of the internal auditors and that they are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

### 3. External Audit

- i. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders.

The Committee shall determine the independence of the external auditors including their professional qualifications and competence. It shall also ensure that the Corporation adheres with the rotation of the assigned engagement partner. The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Corporation, shall be changed with the same frequency.

- ii. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- iii. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid and to the Corporation's overall consultancy expenses. The Committee should disallow any non-audit work that conflict with the duties of the External Auditor or may pose a threat to independence.

Any non-audit work, if allowed, should be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report.

- iv. Performs oversight functions over the external auditors.
- v. Ensures that the external auditors are given unrestricted access to all records, properties and personnel to enable them to perform their audit functions.
- vi. Reviews the disposition of the recommendation in the External Auditor's management letter.
- vii. Reviews and monitors the external auditor's suitability and effectiveness on an annual basis.

### 4. Risk Oversight

The function of the Audit & Risk Committee includes the oversight in the Corporation's risk exposure (e.g. credit, market, liquidity, economic, political and other risks).

- i. Develops risk management policies and procedures for the Corporation which contains the following elements:
  - Common language or register of risks;
  - Well-defined risk management goals, objectives and oversight;
  - Uniform processes of assessing risks and developing strategies to manage prioritized risks;
  - Designing and implementing risk management strategies; and
  - Continuing assessments to improve risk strategies, processes and measures.
- ii. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness

and effectiveness. The Committee revisits the defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

- iii. Advises the Board on its risk appetite levels and risk tolerance limits;
- iv. Reviews at least annually the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic, and business environment, and when major events occur that are considered to have major impact on the Corporation;
- v. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stakeholders;
- vi. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function includes regular receipt from Management of information on risk exposures and risk management activities; and
- vii. Reports to the Board on a regular basis, or as deemed necessary, the Company's risk material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

### **5. Related Party Transactions**

The Committee has the responsibility to review the related party transactions of the Corporation. The following are the functions of the Committee in relation to its review of related party transactions:

- i. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;
- ii. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

In evaluating the RPTs, the Committee takes into account, among others, the following:

- The related party's relationship to the Corporation and interest in the transaction;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- The benefits to the Corporation of the proposed RPT;
- The availability of other sources of comparable products or services; and
- An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar

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circumstances. The Corporation should have an effective price discover system in place and exercise due diligence in determining a fair price for RPTs.

- iii. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties;
- iv. Reports to the Board on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- v. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- vi. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

The Committee may adopt a Related Party Transactions Policy which will discuss in detail the reporting and monitoring of related party transactions.

### **V. MANAGEMENT RESPONSIBILITY**

The Management shall be primarily responsible in ensuring that the policies authorized by the Board of Directors are being implemented properly.

The Management is also responsible in providing relevant information and assurance to the Committee on the Corporation's risk exposure and risk management activities. Thus, there is a need for the Management and the Committee to meet regularly to discuss about the risks to which the Corporation is exposed. Based on the Committee's risk assessment, the Corporation may adopt a whistle-blower policy which may prevent the occurrence of fraud and minimize the risk exposure of the Corporation.

An evaluation of the Corporation's management and its competence in carrying out its financial reporting and operational activities shall be conducted by the Audit & Risk Committee, as well as its compliance with the Corporation's Personnel Manual.

### **VI. MEETINGS**

The Audit & Risk Committee shall meet at least quarterly together with the Head of the Internal Audit without the presence of the Chief Executive Officer or other management team members prior to its meeting with the Board of Directors. The agenda for the meeting shall be prepared by the Internal Audit Head based on the agreed calendar of activities as executed in the annual internal audit plan as approved by Committee and the Chairman. The quarterly meetings shall include discussion about the quarterly and/or annual financial reports, approval of the financial statements and related disclosures, and findings noted on the Corporation's internal controls and audit activities.

The Committee shall meet with the Board to discuss items regarding the scope and items covered by the Audit & Risk Committee. The Committee shall also meet at least once a year with the



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external auditors without anyone from the management present to discuss the results of audit.

### VII. BOARD REPORTING

The Audit & Risk Committee shall submit a report to the Board of Directors at least annually, or at such frequencies as will be required by the Board, a full report on the results of the Committee's activities.

This is to keep the Board of Directors informed with the important findings on the Committee's oversight responsibilities in the operations of the Corporation.

In cases needed, the Committee may be required to issue certifications on critical compliance issues as may be present and current to provide guidance to the Company.

### VIII. EVALUATIONS AND CONTINUOUS IMPROVEMENT

To ensure that the Audit Committee continually performs and fulfills its functions and responsibilities in accordance with the new Manual of Corporate Governance and applicable laws and regulations, the Committee shall perform an assessment of its performance annually or in such short intervals as may be required by the Board of Directors.

1. A self-assessment worksheet shall be filled up by the members of the Committee to evaluate its performance based on the expectations and guidelines set out in this Charter. The self-assessment questionnaire shall be reviewed as needed, to keep up with the laws, regulations and best practices set by the Manual and this Charter.
2. Based on the results of the assessment, the Committee shall come up with the necessary plan of action to improve its performance. This may include identification of relevant training and education needs to keep the members up to date with the emerging corporate governance best practices, accounting and auditing standards as well as evaluation and identification of needed resources including access to outside existing advisors.
3. To promote transparency, the assessment process shall be documented and the results of the Audit & Risk Committee self-assessment shall be validated by the Compliance Officer.
4. The results of the assessment shall also be made available to the management, internal auditor, external auditor and counsel, as applicable to facilitate dialogue in the improvement of the Committee's performance.

The Audit & Risk Committee, may also be assessed by the Board of Directors of its performance in accordance with this Charter and the Manual of Corporate Governance.

### IX. OTHERS

The Internal Audit Department shall support the Audit & Risk Committee in the performance of its functions, including:

- Keeping of all minutes of the meetings and making these available for inspection by any member of the Committee or the BOD, as may be requested.
- Reviewing of all papers for submission to the Audit & Risk Committee for approval.
- Providing all secretariat support to the Committee.


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**CITYLAND DEVELOPMENT CORPORATION  
AUDIT & RISK COMMITTEE**



**Peter S. Dee**  
Chairman



**Stephen C. Roxas**  
Member



**Grace C. Liuson**  
Member