



Audit and Compliance Committee Charter

AUDIT AND COMPLIANCE COMMITTEE CHARTER 2019



Audit and Compliance Committee Charter

PREAMBLE

The Audit and Compliance Committee (“ACC”) of Rizal Commercial Banking Corporation (“Bank”) was constituted by the Board of Directors pursuant to the provisions of its By-laws, the Corporate Governance Manual, and the Manual of Regulations for Banks (“MORB”).

This Audit and Compliance Committee Charter (“Charter”) sets out the roles, responsibilities, and authority of the ACC and the rules of procedure that will guide the function of the Committee.

1.0 CREATION (SOURCE OF AUTHORITY)

- 1.1 The ACC shall be governed by the BSP Manual of Regulations, particularly **Section X141.3(c)(7)(d)** which contains provisions on the constitution of committees to increase efficiency and allow deeper focus in specific areas, under regulations governing the powers, responsibilities, and duties of directors to constitute committees to increase efficiency and allow deeper focus in specific areas.
- 1.2 The ACC shall be guided by the SEC Code of Corporate Governance for Publicly Listed Companies particularly **Recommendation 3.2** on the establishment of an Audit Committee.¹
- 1.3 The ACC shall be guided by the Bank’s By-laws and Corporate Governance Manual.
- 1.4 The ACC shall comply with applicable Philippine laws, rules and regulations.

2.0 GENERAL PURPOSE AND SCOPE OF AUTHORITY

- 2.1 The ACC shall be responsible for overseeing 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, efficiencies and effectiveness of operations, and safeguarding assets.²
- 2.2 The ACC shall provide oversight over the institution’s financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive audit committee members. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.³

¹ SEC Memorandum Circular No.19, series of 2016.

² Section X185.1 (b) of the MORB.

³ Section X141.3 (7)(d)(i) of the MORB.



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- 2.3 The ACC shall review and approve the audit scope and frequency. It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.⁴
- 2.4 The ACC shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.⁵
- 2.5 The ACC shall oversee the Compliance Program, and shall ensure that compliance issues are expeditiously resolved.⁶ Ensuring that bank personnel and affiliated parties adhere to the pre-defined compliance standards of the bank rest collectively with senior management, of which the CCO is the lead operating officer on compliance. The Senior Management through the Chief Compliance Officer ("CCO") shall periodically report to the Committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.⁷

3.0 COMPOSITION AND QUALIFICATIONS

- 3.1 Members of the ACC shall be appointed by the Board of Directors upon the recommendation of the Corporate Governance Committee.
- 3.2 The ACC shall be composed of at least three (3) members of the board of directors, two of whom shall be independent and the other with audit experience.⁸ The Committee members shall have (a) the knowledge of the industry in which the Bank operate; (b) the ability to read and understand fundamental financial statements; and (c) the ability to understand key business and financial risks and related controls and control processes.

⁴ *Id.*

⁵ *Id.*

⁶ Section X180.5 of the MORB.

⁷ Section X180.5 of the MORB.

⁸ Section X143.1 (c)(7)(d)(i) of the MORB.



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- 3.3 The Chairperson of the ACC shall be independent, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank.⁹
- 3.4 The chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the ACC.¹⁰
- 3.5 The individual Committee members shall be encouraged to participate in relevant and appropriate self-study or other educational opportunities to assure understanding of the business and environment in which the Bank operates.

4.0 MEETING, QUORUM, VOTING REQUIREMENTS

- 4.1 The ACC shall meet as frequently as considered necessary by the said Committee. Provided, however, that it shall convene at least twice a month to discuss (a) audit matters and (b) compliance matters in separate meetings. Meetings of the ACC shall be called by the Chairman as deemed appropriate, or upon request of the majority of the members.
- 4.2 A quorum will comprise of majority of the members of the ACC. Voting on Committee matters shall be on one member – one vote basis. Majority vote of all members present shall constitute an official action of the ACC.
- 4.3 The members of the ACC shall attend its meetings in person or through teleconferencing and videoconferencing conducted in accordance with the rules and regulations of the SEC in such a manner that will allow the member who is taking part in said meetings to actively take part in the deliberations on matters taken up therein, except when justifiable causes prevent his attendance to ensure that the quorum requirement will be met. Justifiable causes include, but are not limited to, grave illness or death of an immediate family or serious accidents.
- 4.4 The notice and agenda of the meeting shall be furnished to the members prior to each meeting and will include relevant supporting papers as appropriate.
- 4.5 Minutes of the meeting shall be submitted to the Board of Directors.
- 4.6 The Internal Audit Group and Regulatory Affairs Group shall provide support to the ACC in the fulfillment of its functions.

⁹ *Id.*
¹⁰ *Id.*



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5.0 SPECIFIC DUTIES AND RESPONSIBILITIES

5.1 INTERNAL CONTROL AND RISK MANAGEMENT

- 5.1.1 Monitor and evaluate the adequacy and effectiveness of internal control system and risk management including financial reporting control and information technology security
- 5.1.2 Provide oversight over the senior management's activities in managing material risk facing the bank, which include among others, credit, country and transfer, market, interest rate, liquidity, operational, compliance, legal and reputational risk. This includes receiving periodic information on risk exposures and risk management activities.
- 5.1.3 Evaluate whether management is setting the appropriate control culture by communicating the importance of internal control and the management of risk and ascertain that all officers and employees have an understanding of their roles and responsibilities in the Bank's risk and control system.
- 5.1.4 Consider the effectiveness of the Bank's information technology, security control and contingency plans.
- 5.1.5 Ascertain whether internal control recommendations made by internal and external auditors and regulating bodies have been implemented by management.

- 5.2 **INTERNAL AND EXTERNAL AUDIT** – The ACC shall: (a) Perform oversight functions over the corporation's internal and external auditors including external service providers of permitted outsourced audit activities. It shall ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions; and (b) Review the reports submitted by the internal and external auditors as well as those submitted by external service providers.

5.2.1 Internal Audit

- 5.2.1.1 Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.
- 5.2.1.2 Review the extent and scope, activities, staffing, resources and organizational structure of the Internal Audit function¹ including outsourced activities and ensure no unjustified restrictions or limitation are made. The ACC shall ensure functional reporting of the Internal Audit to the ACC. The ACC shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties and maintains an open communication with senior management, the ACC, external auditors and examiners / representatives of regulatory agencies.
- 5.2.1.3 Review and approve the audit plan taking into consideration the internal audit activities that will be outsourced to ensure its conformity



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- with the objectives of the Bank. The plan shall include the audit scope, resources and budget necessary to implement it.
- 5.2.1.4 Meet regularly with Chief Audit Executive and/or deputies to discuss the results of audit work and the implications of audit findings on the overall quality of internal control and procedures within the Bank organization. If necessary, conduct special meetings with the Chief Audit Executive and/or deputies to discuss any matters that the Committee or auditors believe should be discussed privately.
 - 5.2.1.5 Review the effectiveness of the Internal Audit function including the performance of external service providers and assess compliance to sound internal auditing standards such as the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities / government agencies, as well as with relevant code of ethics.
 - 5.2.1.6 Review audit reports including those pertaining to fraud discoveries and the corresponding recommendations to address the noted weaknesses. Ascertain that management responds to the recommendations by the internal auditors and is taking appropriate corrective actions in a timely manner.
 - 5.2.1.7 Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis. Discuss the same with Chief Audit Executive and report significant matters to the Board of Directors.
 - 5.2.1.8 Ensure that outsourced internal audit activities are permitted by the bank's internal policy and existing requirements of regulatory bodies including their independence.
 - 5.2.1.9 Review and approve the Internal Audit Group Charter.
 - 5.2.1.10 Review and concur in the appointment, replacement or dismissal of Chief Audit Executive, as well as the external service providers based on fair and transparent criteria.
 - 5.2.1.11 Review qualifications of Chief Audit Executive and deputies and assess their performance.
 - 5.2.1.12 Also, set, review and approve the compensation of the Chief Audit Executive and key internal auditors.
 - 5.2.1.13 To ensure the effective implementation of the Internal Audit and discharge of the functions of the Internal Audit Group, an annual performance evaluation shall be made by the Audit Committee on the CAE, with results discussed in the Audit Committee's minutes of meeting.
 - 5.2.1.14 Recommend for approval of the Board the frequency of reporting of the subsidiaries with own internal audit function to IA head of the parent bank

5.2.2 External Audit:



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- 5.2.2.1 Recommend to the Board the selection of the external auditors, considering professional qualification, independence and effectiveness, and recommend the fees to be paid.
- 5.2.2.2 Recommend any replacement of the external auditors.
- 5.2.2.3 Consult with external auditors without management's presence about internal controls and the accuracy of the financial statements.
- 5.2.2.4 Prior to the commencement of the audit, discuss with the external auditor the nature, scope, approach and expenses of the audit, including coordination of audit efforts with Internal Audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- 5.2.2.5 Evaluate and determine non-audit work, if any, of the external auditor and review periodically the non-audit fees paid to the external auditor both in relation to their significance to the total annual income of the external auditor and in relation to the Bank's total expenditure on consultancy.
- 5.2.2.6 The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. If allowed, the non-audit work shall be disclosed in the Company's Annual Report.
- 5.2.2.7 Ascertain the rotation of audit partner or external audit firm as required by regulations.
- 5.2.2.8 Ascertain that management responds to recommendations by the external auditors and is taking appropriate corrective actions in a timely manner.

5.3 FINANCIAL REPORTING

- 5.3.1 Review and discuss with management and external auditor significant accounting and financial reporting issues including complex or unusual transactions and highly judgmental areas and recent professional and regulatory pronouncement and understand their impact on the financial statements.
- 5.3.2 Review with management and the external auditor the results of audit including any difficulties encountered during the audit, any restriction on the scope of activities and access to information and any disagreement with management.
- 5.3.3 Review the annual and quarterly financial statements before submission to the Board and regulators focusing on the following matters:
 - a. any changes in accounting policies and practices;
 - b. significant adjustments arising from audit;
 - c. compliance with accounting standards;
 - d. compliance with tax, legal and regulatory requirements;
 - e. going concern assumptions;
 - f. major judgmental areas; and
 - g. completeness of disclosures of material information including subsequent events and related party transactions.



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- 5.3.4 Review and communicate with legal counsel any legal matters, fraud or illegal acts which could significantly impact the financial statements.
- 5.3.5 Understand how management develops financial information and sufficiency of risk controls over the financial reporting process.

5.4 COMPLIANCE

- 5.4.1 The ACC shall oversee the design of the Bank's compliance program, and the effective implementation thereof. The compliance program must clearly identify the avenues through which business risks may occur for the Bank.¹¹ Business risk refers to the conditions which may be detrimental to a bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risks shall include, but not limited to, the following:
 - a. Risks to reputation that may arise from internal decisions that may damage bank's market standing;
 - b. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a bank;
 - c. Risks from the actions of the bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice; and
 - d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model.¹²
- 5.4.2 The compliance function shall have a formal status within the organization. The charter or other formal document that defines the compliance function's standing, authority and independence shall be reviewed by the ACC, and shall endorse the same to the Board of Directors for approval. The ACC shall ensure that the charter addresses the following issues:
 - a. Measures to ensure the independence of the compliance function
 - b. the organizational structure and responsibilities of the unit or department administering the compliance program;
 - c. the relationship of the compliance unit/department with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;
 - d. its right to obtain access to information necessary to carry out its responsibilities;
 - e. its right to conduct investigations of possible breaches of the compliance policy;
 - f. its formal reporting relationships to senior management, the board of directors, and the appropriate board-level committee; and
 - g. its right of direct access to the board of directors and to the appropriate board-level committee.

¹¹ See Section X180.3 of the MORB.

¹² Section X180.1 of the MORB.



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The ACC shall ensure that the Compliance Charter defining the status of the compliance function shall be communicated throughout the organization.¹³

- 5.4.3 The ACC shall ensure the effective monitoring of the Bank's compliance with relevant banking laws, rules and regulations through the following:
 - a. Review and approval of the annual testing plan and any changes thereto;
 - b. Ensuring that material breaches to the compliance program and/or compliance matters as reported by the Chief Compliance Officer are promptly addressed/given appropriate attention by the bank.
 - c. Receive reports concerning the Bank's record or state of compliance with rules and regulations of BSP and other regulatory bodies, including status of previous exceptions to avoid recurring exceptions/violations.
- 5.4.4 The ACC shall oversee the implementation of the Deputy Compliance Officer Program;
- 5.4.5 The ACC shall monitor Monthly Accomplishment Reports of the Divisions of Regulatory Affairs Group/Compliance Office;
- 5.4.6 To ensure the effective implementation of the Compliance Office System and discharge of the functions of the Compliance Office, an annual performance evaluation shall be made by the Audit Committee on the CCO, with results discussed in the Audit Committee's minutes of meeting.

6.0 REPORTING

- 6.1 The Committee shall report on a monthly basis to the Board of Directors.
- 6.2 The minutes of meetings of the Committee that specify opinions and official actions of the Committee on various matters shall be disclosed to the Board of Directors.
- 6.3 The Committee Secretariat shall prepare the minutes of the meeting for the Committee's approval.
- 6.4 Evaluations made by the Committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors, shall be reviewed by the board of directors.

7.0 SELF ASSESSMENT

- 7.1 The Committee shall conduct its self-assessment at least once annually in accordance with SEC Memorandum Circular No. 4, series of 2012 or the Guidelines

¹³ See Section X180.2 of the MORB.



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for Assessment of the Performance of Audit Committees and Companies listed on the Exchange.

8.0 CHARTER AMENDMENTS

- 8.1 The Committee shall from time to time assess the adequacy of the Charter and recommend changes thereto to the Board.
- 8.2 The Committee charter shall be approved by the Board of Directors and reviewed and updated at least annually or whenever there are significant changes therein.