

**Kasanyangan Center for Community Development  
and Microfinance Foundation, Inc. (KCCDMFI)**

**INTERNAL AUDIT CHARTER  
2019**

**INTRODUCTION**

Internal Audit Department (IAD) is an independent department of Kasanyangan Center for Community Development and Microfinance Foundation, Inc. (KCCDMFI) that conducts objective assurance and consulting activities designed to add value and improve KCCDMFI operations. It helps the institution accomplish its objectives by bringing a systematic, disciplined approach to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of KCCDMFI.

The Internal Audit Charter will be periodically reviewed and presented to the Audit Committee for approval. Final approval of the Internal Audit Charter resides with the Audit Committee.

**PROFESSIONALISM**

The internal audit activity will adhere to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be used as reference of the internal audit activity. In addition, the internal audit activity will adhere to the relevant policies and procedures of KCCDMFI, other supplemental standards issued by regulatory authorities/government agencies, as well as with the relevant code of ethics, and the internal audit standard operating procedures manual.

**AUTHORITY**

IAD should be authorized full, free, and unrestricted access to any and all of KCCDMFI records, systems, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board of Directors, through the Audit Committee. The internal audit activity exercises accountability for utmost confidentiality and safeguarding of KCCDMFI records and information.

## ORGANIZATION

The Internal Audit Department (IAD) Head will report functionally to the Audit Committee and administratively to the President.

The Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan
- Receive communications from the IAD Head on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries with IAD Head and Executive Management to determine whether there is inappropriate scope or resource limitations.

Additionally, through the Chairperson, the Audit Committee will:

- Approve decisions regarding the appointment, transfer or removal of the IAD Head.
- Approve the remuneration of the IAD Head.

The President and the Executive Management will:

- Provide IAD full support and cooperation at all levels of internal audit activity.
- Provide IAD complete access to all records, property and personnel relative to the performance of their duties and responsibilities.
- Ensure that IAD has an adequate budget and staffing to perform its responsibilities.
- Provide a written response to all IAD reports submitted.
- Promptly inform the IAD of known or suspected cases of fraud in nature involving company funds, property and employees.

## INDEPENDENCE AND OBJECTIVITY

The internal audit activity will remain free from interference or influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors shall not have direct operational responsibility or approval authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the internal audit activity. Internal auditors will make an objective assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. If independence or objectivity of internal audit function is impaired, in fact or in appearance, the details of the impairment will be disclosed to the Audit Committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding. The IAD Head will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit Department.

## **PURPOSE, ROLES AND RESPONSIBILITIES**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy, efficiency, and effectiveness of the organization's governance, risk management, internal controls, management of information system and compliance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the KCCDMFI stated goals and objectives. This includes:

## **GOVERNANCE**

- Evaluate and assess KCCDMFI Officers and staff demonstration of commitment to Integrity and Ethical Values
- Evaluate and assess KCCDMFI Officers and staff adherence to KCCDMFI Code of Conduct, policies and procedures
- Evaluate and assess KCCDMFI Officers and staff pursuit of excellence and commitment to attract, develop and retain competent officer and staff in alignment with KCCDMFI objectives
- Evaluate and assess the effectiveness of KCCDMFI organizational structure, reporting lines and appropriate authorities and responsibilities in the pursuit of KCCDMFI objectives
- Evaluate and assess KCCDMFI management control to enforce accountability to all KCCDMFI officers and staff for their given authority and assigned responsibility in pursuit of KCCDMFI objectives
- Review and assess the effectiveness of “whistle blowing policy” or feedback mechanism to promote free expression of opinion and suggestion from any officer, staff or member of the organization in pursuit of KCCDMFI objectives
- Review and assess the level of trust and confidence of the staff and members of KCCDMFI to its governing body, oversight board and management team.
- Monitor and assess the business processes of KCCDMFI if such promotes governance principles in fairness, accountability and transparency

## **RISK MANAGEMENT**

- Evaluate and assess risk exposure relating to achievement of KCCDMFI's strategic objectives and verify if these risks are properly recorded in Risk Register
- Review the Business Impact Analysis (BIA) regularly conducted by the Department/Branch to every potential risk that will cause KCCDMFI not to achieve its strategic objectives, including non-compliance to relevant laws and regulation
- Monitor and evaluate the effectiveness of the KCCDMFI's risk management processes, risk treatment and risk response to all identified risk
- Provide annually an assessment on the adequacy and effectiveness of KCCDMFI's processes for controlling its activities and managing its risks including Business Continuity Plan and Disaster Recovery Plan

## **CONTROL ACTIVITIES**

- Evaluate the operations and programs to ascertain whether results are aligned with established objectives and goals and whether the operations or programs are being carried out as planned
- Ensure that basic internal controls are in place, such as but not limited to separation of duties (SOD), Maker-checker principle, authorization, proper accounting of transactions, records control and safekeeping, and asset control management.
- Evaluating the efficiency the procurement process and effective use of the acquired resources
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify appropriate Executive Management and the Audit Committee of the results.
- Performing consulting and advisory services related to governance, risk management and internal control as appropriate for the organization. Consulting services include: counsel and advice, process evaluation, and training.

## **INFORMATION AND COMMUNICATION**

- Evaluate the reliability, effectiveness, access and integrity of management of information systems, including the electronic data and the means used to identify, measure, classify, and report such information.
- Evaluate the means of safeguarding information assets and, as appropriate, verifying the existence and secured storage of such information including document management system
- Review of any software acquisition if such solutions are functioning as promised by the vendors and purchased in accordance with KCCDMFI procurement policies

## **MONITORING AND COMPLIANCE**

- Review and assess the systems of monitoring process in place to assure compliance to company's strategic plans, policies, procedures and relevant regulation
- Review and assess the reporting mechanism to establish effective status and feedback monitoring
- Keeping the Audit Committee informed of emerging trends and best practices in internal auditing.
- Reviewing the internal audit manual annually, and requesting approval of the Audit Committee when there are amendments.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

## **INTERNAL AUDIT PLAN**

At least annually, the IAD Head will submit to the Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as resource requirements for the following year. As part of the planning, the IAD Head will confer and consult the President and/or Executive Management with respect to their most pressing issues and concerns that may undermine the achievement of KCCDMFI strategic and operational objectives and goals. The IAD Head will communicate the impact of resource limitations and significant interim changes to the Audit Committee. The internal audit plan will be developed and implemented based on a prioritization of the audit universe using a risk-based methodology, including the inputs of the Audit Committee and Executive Management. The IAD Head will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Audit Committee through monthly accomplishment reports.

The plan will include provisions or "buffer" for special engagements, projects, and/or investigations during the year as mandated by the Audit Committee or at the request of the President or any members of Executive Management.

## **REPORTING AND MONITORING**

A written report will be prepared and issued by the IAD Head following the conclusion of each internal audit engagement and will be distributed as appropriate. Material issues and high risk findings will also be communicated to the Audit Committee. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The IAD Head will be responsible for appropriate follow-up on engagement findings and recommendations. All open issues will be monitored up to resolution.

The IAD Head will periodically report to the Audit Committee on IAD's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Executive Management and the Audit Committee.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

IAD will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's

conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The IAD Head will communicate to the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

### **OUTSOURCING OF INTERNAL AUDIT ACTIVITIES**

External service providers may be considered to perform internal audit activities, in accordance with existing regulations on outsourcing. Outsourcing shall however, be done on a limited basis to have access to certain areas of expertise that are not available to IAD or to address resource constraints. Further, IAD Head shall ensure that the knowledge or inputs from the outsourced experts shall be assimilated into the KCCDMFI to the greatest extent possible.

### **CONSULTING OR ADVISORY SERVICES**

Executive Management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence. In such cases, the internal auditor shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of an audit. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility. The internal audit activity should also exercise due professional care in conducting consulting engagements. Some examples of consulting services that may be requested from IAD are as follows:

- Pre-Implementation Review for new systems
- Review of department's operating or control procedures
- Advice on the interpretation, implementation or compliance of a unit to control policies
- Membership in ad-hoc committees and task forces to provide advice on control, risk management and governance processes
- Facilitation of training pertaining to internal control

### **COORDINATION WITH THE EXTERNAL AUDITOR, OTHER ASSURANCE PROVIDERS, AND/OR SUPERVISORY AUTHORITIES**

IAD may coordinate directly, or through other parties (ex., Risk or Compliance Officer), to ensure proper coverage and minimize duplication of efforts. The degree of coordination and

cooperation may vary depending on circumstances, including considerations of confidentiality, independence and regulatory provisions. Modes of coordination and cooperation may include:

- Communication of audit strategy and plans
- Regular meetings between external auditors/other assurance providers and internal auditors
- Arrangements for the sharing of information
- Communication of audit reports
- Temporary assignment of personnel or arrangements for joint reviews
- Organizing common training programs and courses, and sharing training materials
- Sharing methodologies, scope of work, and schedules
- Granting access to audit documentation
- Collaborating on certain audit procedures, such as collecting audit evidence or testing data.

### **FRAMEWORK FOR EVALUATING INTERNAL CONTROL**

The internal audit activity helps the KCCDMFI accomplish its objectives by bringing a systematic, disciplined approach to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of KCCDMFI. To complement and align with KCCDMFI's existing policies and procedures and in the absence of such policies, IAD is guided by industry best practices and established frameworks for evaluating internal control such as, but not limited to, the following.

- COSO
- IIA's Standards and Guidance - International Professional Practices Framework (IPPF)
- ISACA's COBIT 5 (Business Framework for the Governance and Management of Enterprise IT) and IT Assurance Framework (ITAF)

**Prepared by:**

**IAD Head**

**Approved by:**

**Chairperson, Audit Committee**