

**HOLCIM PHILIPPINES, INC.**

**INTERNAL CONTROL AND QUALITY ASSURANCE (ICQA) CHARTER**

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## **I. PRELIMINARY MATTERS**

Pursuant to, and in compliance with the Securities and Exchange Commission Memorandum Circular No. 19, Series of 2016 (the "Code of Corporate Governance for Publicly-Listed Companies" (hereinafter, the "CG Code"), the Board of Directors of Holcim Philippines Inc. (the "Company") promulgates this Internal Control and Quality Assurance Charter (the "Charter") to provide the framework for the conduct of internal audit activity for the Company.

This Charter sets out the purpose, authority, responsibility, organizational structure, among others, of the Internal Control and Quality Assurance (ICQA) function of Holcim Philippines Inc. and subsidiaries.

## **II. PURPOSE**

The Internal Control and Quality Assurance function is constituted by the Board to assist the Audit Committee of the Board (the "Committee") in the effective performance of its oversight responsibility over the Company's financial reporting, risk management, related party transactions, internal control system, internal and external audit processes, and compliance with applicable laws and regulations<sup>1</sup>.

To this end, ICQA shall provide independent and objective assurance and consulting service that is guided by a philosophy of adding value to improve the Company's operations. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of the Company's governance, risk management, and internal control processes<sup>2</sup>.

## **III. STANDARDS OF AUDIT PRACTICE**

ICQA will govern itself by adherence 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 (the "Standards")<sup>3</sup>. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of ICQA's performance.

## **IV. AUTHORITY, CONFIDENTIALITY AND SCOPE OF WORK**

ICQA derives its authority from the Board. With strict accountability for confidentiality and safeguarding of records and information, ICQA is granted authority for full, free and unrestricted access to any of the organisation's records (either manual or electronic),

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<sup>1</sup> SEC Memorandum Circular No. 19, Series of 2016, at p.16, par. 3.2

<sup>2</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 34, par. 12.2

<sup>3</sup> Attribute Standard No. 1010: Recognition of the definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

physical properties, and personnel, relevant to a review<sup>4</sup>. All employees are requested to assist the ICQA in fulfilling its roles and responsibilities.

Information acquired by ICQA in the course of their duties will remain confidential and will not be used for purposes outside the scope of the audit review.

The Head ICQA/Chief Audit Executive has full and free access to the Executive Management and the Board.

The scope of ICQA work covers Holcim Philippines Inc., its subsidiaries and affiliates.

## V. ORGANIZATION

The Audit Committee of the Board oversees<sup>5</sup> the ICQA function. For this purpose, ICQA shall directly report to the said committee<sup>6</sup>.

The Board will:

- Approve the ICQA Charter<sup>7</sup>
- Approve the decisions regarding the selection, appointment or removal of the Head ICQA/Chief Audit Executive<sup>8</sup>.

The Committee will:

- Review and approve the risk based internal audit plan which includes the ICQA budget and resource plan<sup>9</sup>.
- Review and approve extent and scope of internal audit work<sup>10</sup>.
- Review the effectiveness of the function, including its strategic focus, activities and plans, staffing, and qualifications<sup>11</sup>.
- Approve all decisions regarding the performance evaluation (of the function including that of the Head)<sup>12</sup> as well as the annual compensation and salary adjustment of the ICQA team<sup>13</sup>.
- Recommend to the Board the selection, appointment or removal of the Head ICQA/Chief Audit Executive.
- Recommend to the Board the approval of the ICQA Charter<sup>14</sup>.

The Head ICQA/Chief Audit Executive will communicate directly with the Board, including in executive sessions, and between Board meetings as appropriate.

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<sup>4</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 18, par. j

<sup>5</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 17, par. c

<sup>6</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 17, par. d

<sup>7</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 15, par. 2.10

<sup>8</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 14, par. 2.8

<sup>9</sup> SEC Memorandum Circular No. 04, Series of 2012, at p. 7, Oversight on Internal Audit, no. 7

<sup>10</sup> SEC Memorandum Circular No. 04, Series of 2012, at p. 7, Oversight on Internal Audit, no. 8

<sup>11</sup> SEC Memorandum Circular No. 04, Series of 2012, at p. 6, Oversight on Internal Audit, nos. 3 & 4

<sup>12</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 14, Par. 2.8

<sup>13</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 11, last paragraph and p. 17, par. c & d

<sup>14</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 17, par. a

## **VI. INDEPENDENCE AND OBJECTIVITY**

The independence of ICQA is fundamental to its ability to deliver objective assurance and consulting services. For this purpose, ICQA will remain free from interference by any element in the Company, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

ICQA does not have any direct responsibility or authority over any of the activities or operations that it reviews. Accordingly, they will not implement internal controls, develop procedures or process, install systems, prepare records, or engage in any other activity that may impair their judgment. The performance of the reviews does not relieve management of any assigned responsibilities.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments<sup>15</sup>.

To ensure the independence of ICQA, the Head ICQA/Chief Audit Executive<sup>16</sup> shall directly report functionally to the Committee and administratively to the CCEO to facilitate day to day operations only.

The Head ICQA/Chief Audit Executive will confirm to the Audit Committee, at least annually, the organizational independence of the ICQA<sup>17</sup>.

## **VII. ROLES<sup>18</sup>**

- a. Provide an independent risk-based assurance service to the Board and Management, focusing on reviewing the effectiveness of the governance and control processes in:
  1. promoting the right values and ethics;
  2. ensuring effective performance management and accounting in the organization;
  3. communicating risk and control information; and
  4. coordinating the activities and information among the Board, external and internal auditors, and Management.
- b. Perform regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;

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<sup>15</sup> Model Internal Audit Activity Charter, The Institute of Internal Auditors

<sup>16</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 35, under Explanation paragraph.

<sup>17</sup> SEC Memorandum Circular No. 4, Series of 2012, at p. 6, item 3, Oversight on Internal Audit

<sup>18</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 34, par. 12.2

- c. Perform consulting and advisory services related to governance, risk management and control as appropriate for the Company;
- d. Perform compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of the Company;
- f. Evaluate projects, operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations, projects or programs are being carried out as planned;
- g. Evaluate the reliability and integrity of financial and operational information and the means used to identify, measure, classify, and report such information.
- h. Evaluate the means of safeguarding assets, both physical and information.
- i. Evaluate the effectiveness and efficiency of the Company's processes and determine whether they are geared towards continuous improvement.
- j. Evaluate the effectiveness of the Company's risk management process.
- k. Evaluate specific operations at the request of the Board or Management, as appropriate; and
- l. Monitor and evaluate governance processes.

#### **VIII. RESPONSIBILITIES**

The ICQA Department is responsible for:

- a. Establishing a flexible annual audit plan using an appropriate risk-based methodology, including any risks or internal control concerns identified by Management or the Board through the BRM process or otherwise, and submit that plan, as well as periodic updates, to the local Executive Management and to the Audit Committee for review and approval.

The audit plan shall include the audit scope, resources and budget necessary to implement it.

The Head ICQA/Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the Company's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit

plan or impact of resource limitations will be communicated to senior management and the Committee for review and approval<sup>19</sup>.

- b. Coordinating the scope of work with the external auditors, other internal assurance functions and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Company at a reasonable overall cost.
- c. Implementing the annual audit plan, as approved, including as appropriate any special tasks or projects requested by Management and the Committee.
- d. Reporting and communicating significant audit findings and recommendations of the audit to the responsible Management. Issue periodic reports to Executive Management and the Committee summarizing results of activities.
- e. Reviewing and monitoring the implementation of agreed action plans based on audit findings, and assist Management in ensuring that they have been properly addressed.
- f. Reporting and communicating significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Nevertheless, it is the responsibility of the CCEO to immediately report any issue critical to the organization which come out of audits performed or other compliance sources (e.g. Environmental, OH&S, Legal) to the Committee and to respective Area Manager of LafargeHolcim Ltd.

- g. Maintaining a professional staff with sufficient knowledge, skills, talents, experience, and professional certifications to meet the requirements of this Charter.
- h. Provide secretariat support to the Audit Committee of the Board.

#### **IX. REPORTING AND MONITORING**

A written report will be prepared and issued by the Head ICQA/Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board through the 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 should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

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<sup>19</sup> SEC Memorandum Circular No: 19, Series of 2016, at p. 35, par. c

ICQA will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Head ICQA/Chief Audit Executive will periodically report to senior management and the Audit Committee on ICQA's purpose, authority and responsibility, as well as performance relative to its plan<sup>20</sup>.

#### **X. PERFORMANCE MEASUREMENT AND IMPROVEMENT PROGRAM**

The performance of ICQA is evaluated at least annually by the Committee<sup>21</sup>.

ICQA will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of ICQA's conformance with the Definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing and an evaluation of whether internal auditors apply the Code of Ethics<sup>22</sup>. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvements.

The Head ICQA/Chief Audit Executive will communicate to senior management and the Committee on ICQA's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five (5) years.<sup>23</sup>

#### **XI. REVIEW OF THE CHARTER**

This Charter shall be reviewed annually by the Head ICQA/Chief Audit Executive and any changes thereto will be presented to the Committee for review and endorsement to the Board for approval.

APPROVED this 22nd day of November, 2017.

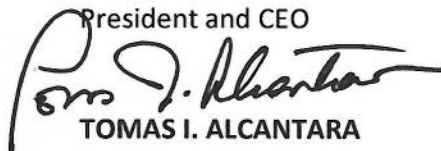


**VICTORIA T. TOMELDEN**  
Chief Audit Executive



**DAVID L.B. BALANGUE**  
Chairman, Audit Committee of the Board

**SAPNA SOOD**  
President and CEO



**TOMAS I. ALCANTARA**  
Chairman of the Board

<sup>20</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 36, par. e, Recommendation 12.3

<sup>21</sup> SEC Memorandum Circular No. 19, Series of 2016, at p. 14, par. 2.8

<sup>22</sup> SEC Memorandum Circular No. 4, Series of 2012, at p. 7, Oversight on Internal Audit, item no. 6

<sup>23</sup> Standard nos. 1300 and 1310, International Standards for the Professional Practice of Internal Auditing