

## **PILIPINAS SHELL PETROLEUM CORPORATION**

### **BOARD AUDIT AND RISK OVERSIGHT COMMITTEE CHARTER**

In line with Revised Manual of Corporate Governance of the Corporation, the Board Audit and Risk Oversight Committee (“Committee”) is governed by the following charter:

#### **Purpose**

The Corporation established the Committee 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. The Committee shall also be responsible for the oversight of the Corporation’s enterprise risk management (“ERM”) system to ensure its functionality and effectiveness.

#### **Membership**

The Committee shall consist of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, shall be independent directors. All of the members of the Committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance, and at least one (1) member of the Committee must have relevant thorough knowledge and experience on risk and risk management. The Chairman of the Committee should not be the chairman of the Board or of any other Committees.

#### **Quorum and Frequency of Meeting**

- a) A quorum shall be at least 2 members
- b) Meetings shall be held at least four times each calendar year, usually preceding the meetings of the Board.
- c) The external auditors and internal auditors may request a meeting if they consider it necessary in any Committee meeting.
- d) At least once a year, the Committee shall meet with the external auditors without the Management present.
- e) The VP Finance & Treasurer shall attend the quarterly meetings although he/she does not have any voting rights
- f) The Committee may call for a meeting as and when required with reasonable notice as the Committee members deem fit

#### **Secretary**

The Company Secretary (or any one or more of it, if more than one company secretary) or such other approved person shall be the secretary of the Committee (the “Committee Secretary”). The Committee Secretary shall provide assistance to the members of the Committee, including but not limited to assist the Committee Chair in planning the work of the Committee, formulating meeting agendas, maintenance of Committee minutes, collation and distribution of information required by the Committee and provide practical support, as and when needed.

#### **Authority**

- a) The Committee is authorized by the Board to investigate any activity within its charter and

shall have full and unrestricted access to information it requires from any employee, and all employees are directed to co-operate with any request made by the Committee

- b) The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise whenever it deems necessary

### **Duties and Responsibilities**

For purposes of audit, the Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Committee shall have the following functions:

- a) Recommends the approval of the Internal Audit Charter (“IA Charter”), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b) Reviews and monitors Management’s responsiveness to the Internal Auditor’s findings and recommendations;
- c) Performs oversight functions over the Corporation’s internal and External Auditors. 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;
- d) Reviews the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources, and budget necessary to implement it;
- e) Prior to the commencement of the audit, discusses with the external auditor the nature, scope, and expenses of the audit, and ensures proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Organizes an Internal Audit (“IA”) Department, and consider the appointment of an independent internal auditor and the terms and condition of its engagement and removal;
- g) Through the IA Department, monitors and evaluates the adequacy and effectiveness of the Corporation’s internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances shall be in place in order to (a) safeguard the Corporation’s resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Corporation’s financial data, and (d) ensure compliance with applicable laws and regulations;
- h) Oversees the IA Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (“CAE”). The Committee shall also approve the terms and conditions for outsourcing internal audit services;
- i) Monitors and evaluates the adequacy and effectiveness of the Corporation’s internal control system, including financial reporting control and information technology security;

- j) Reviews the report submitted by the internal and external auditors;
- k) Reviews and approves the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices;
  - Major judgmental areas;
  - Significant adjustments resulting from the audit;
  - Going concern assumptions;
  - Compliance with accounting standards; and
  - Compliance with tax, legal, and regulatory requirements;
- l) Coordinates, monitors, and facilitates compliance with laws, rules and regulations;
- m) Evaluates and determines the non-audit work, if any, of the external auditor, and reviews periodically non-audit fees paid to the external auditor in relation to their significance to the Corporation's overall consultancy expenses. 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. The non-audit work, if allowed, shall be disclosed in the Corporation's annual report and Annual Corporate Governance Report;
- n) Reviews the disposition of the recommendations in the External Auditor's management letter;
- o) Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the SEC, 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; and
- p) Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Committee.
- q) The Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by and from outside parties.
- r) The Committee shall meet with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.
- s) In terms of risk oversight, the Committee has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place.

The Committee shall likewise have the following functions:

- a) Develops a formal ERM plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes, and measures;
- b) Oversees the implementation of the ERM plan through its management risk oversight function. The Committee conducts regular discussions on the Corporation's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- c) Evaluates the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. The Committee revisits 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;
- d) Advises the Board on its risk appetite levels and risk tolerance limits;
- e) 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 impacts on the Corporation;
- f) 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 stockholders;
- g) Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and
- h) Reports to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

Management shall formulate, under the supervision of the Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- a) The extent of its responsibilities in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained;
- b) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation for the benefit of all the stockholders and other stockholders shall be maintained;
- c) On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information system, including the reliability and integrity of operation information, effectiveness and efficiency of operation, protections of assets, and compliance with contracts, laws, rules and regulations;
- d) The Corporation shall consistently comply with the financial reporting requirements of the SEC; and

- e) The External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditors' firm assigned to the Corporation, shall be changed with the same frequency.

On external auditor, the Board, after consultations with the Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

The Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the External Auditor shall be recommended by the Committee, approved by the Board and ratified by the stockholders.

The reason/s for the resignation, dismissal, or cessation from the service of an external auditor, and the date thereof, shall be reported in the Corporation's annual and current reports and disclosed to the regulators and the public through the website of the Corporation and required disclosure. Said reports shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Corporation to the external auditor before its submission.

The Committee has the responsibility on assessing the integrity and independence of the external auditor and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter should also contain the Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

The Committee shall disclose the nature of the non-audit services performed by its external auditor in the Annual report to deal with the potential conflict of interest. The Committee shall be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

On the other hand, the Internal Auditor shall report to the Committee. He shall submit to the Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

This Charter was reviewed and approved by the Board of Directors on 26<sup>th</sup> day of March 2020.