



26 June 2013

**Ms. Janet A. Encarnacion**  
Head, Disclosure Department  
Philippine Stock Exchange  
Philippine Stock Exchange Plaza  
Ayala Triangle Plaza, Ayala Ave.  
Makati City

Dear *Ms. Encarnacion*:

The Company's Board of Director has approved the Company's Audit Committee Charter today, 26 June 2013, copy of which is hereto attached.

This disclosure is made pursuant to the Revised Disclosure Rules in relation to SEC Memorandum Circular No. 4, Series of 2012.

Thank you

Very truly yours,

A handwritten signature in blue ink, appearing to read "Socorro Ermac Cabreros".

**Atty. Socorro Ermac Cabreros**  
Corporate Secretary



## **AUDIT COMMITTEE CHARTER P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

### **1. INTRODUCTION**

This charter sets out the roles, responsibilities, and authority of the Audit Committee (Committee) of Phoenix Petroleum Philippines, Inc. (Corporation). This includes the rules and procedures that shall guide the function of the Committee, as approved by the Board of Directors (Board).

This is pursuant to the Corporation's Revised Corporate Governance Manual approved on 28 January 2011 by the Board and shall be effective on April 1, 2011.

### **2. PURPOSE**

The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities to its shareholders relating to:

- the Corporation's financial statements and the financial reporting process
- the system of internal control
- the internal audit activity
- the audit process of External Auditor, including its qualifications and independence, and
- the Corporation's process for monitoring compliance with laws and regulations and the code of conduct.

### **3. AUTHORITY**

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests-or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.

#### **4. COMMITTEE STRUCTURE**

In accordance with the Corporate Governance Manual, the Committee shall be composed of at least three (3) Board members, preferably with accounting and finance background, one of whom shall be an independent director and another should have related audit experience or adequate understanding at least of the Corporation's financial management systems and environment. The Chair of the Committee should be an independent director.

#### **5. COMMITTEE PROCEDURES**

##### **5.1. Meetings**

- The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members should attend meetings in person, or by the use of modern technology through teleconference devices.
- The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with internal and external auditors in executive sessions at least once a year.
- Meeting agenda will be prepared and provided in advance to members, along with appropriate briefing materials.

## 5.2. Escalation

The Committee shall timely refer to the Board its recommendations or decisions which require ratification or approval by the Board or, if otherwise, as it may deem necessary or proper.

## 5.3. Minutes and Records

- The Committee shall appoint a Secretary who shall prepare the minutes of meetings of the Committee and keep records of the Committee.
- The Committee shall cause the records to be kept for the following:
  - a. appointments and resignations of the Members;
  - b. all agenda and other documents sent to the Members;
  - c. minutes of proceedings and meetings of the Committee.
- All records shall be open for inspection by any Member upon reasonable prior notice during usual office hours of the Corporation.

## 6. RESPONSIBILITIES

The Committee will carry out the following responsibilities:

### 6.1. Financial Reporting

- Review the quarterly, half year and annual financial statements, before their submission to the Board, with particular focus on the following matters:
  - 1.) Any change/s in accounting policies and practices;
  - 2.) Major judgmental areas;
  - 3.) Significant adjustments resulting from the audit;
  - 4.) Going concern assumptions;
  - 5.) Compliance with accounting records;
  - 6.) Compliance with tax, legal and regulatory requirements.

- Elevate to internal standards the accounting and auditing processes, practices and methodologies of the Corporation.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing *Standards*.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim and annual financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members and reflect appropriate accounting principles.

## 6.2. Internal Control

- Provide 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.
- Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### 6.3. Internal Audit

- Review and approval of the Internal Audit Charter and subsequent revisions thereto.
- Organize an internal audit department and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.
- Review the annual internal audit plan to ensure its conformity with the objective of the Corporation. The plan includes audit scope, resources and budget necessary to implement it.
- Establish and identify 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. The Committee shall ensure that, in performance of the work of the Internal Auditor, he shall be free for interference by outside parties.
- Perform oversight functions over its internal and external auditors. It ensures that the internal auditors and external auditors act independently from each other, and that both are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
- Review of reports of the Internal Auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards*.
- On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the Committee or internal audit believes should be discussed privately.

#### 6.4. External Audit

- Recommend the appointment of External Auditor duly accredited by the SEC.
- Prior to commencement of audit, discuss with the External Auditor the nature, scope and expenses of the audit to ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication efforts.
- Evaluate and determine the non-audit work, if any, of the External Auditor and review periodically the non-audit fees paid to the External Auditor and 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 threat to his independence. The non-audit work, if allowed, should be disclosed in the Corporation's annual report.
- Review of reports of the External Auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors. (Statement of Independence).
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
- Ensure that the Corporation's External Auditor should be rotated or the handling partner should be changed every five (5) years or earlier.

#### 6.5. Compliance

- Coordinate, monitor and facilitate compliance with laws, rules and regulations.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies and any auditor observations.
- Review the process for communicating the code of conduct to company personnel and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

#### 6.6. Reporting Responsibilities

- Regularly report to the Board about committee activities, issues and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors and the Board.
- Report annually to the shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the company issues that relate to Committee responsibilities.

#### 6.7. Other Responsibilities

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.



- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the Committee's and individual members' performance on a regular basis.