

# PROFESSIONAL SERVICES, INC

## CHARTER OF THE AUDIT COMMITTEE

### Section 1. PURPOSE

- 1.1. The Audit Committee (the “Committee”), as a delegate of the Board of Directors (the “Board”), shall assist the Board in fulfilling its oversight responsibilities for audit and financial management functions, including development of accounting system and processes,<sup>1</sup> financial reporting process, the system of internal control, the internal and external audit process, and the compliance with laws and regulations.

### Section 2. MEMBERSHIP

- 2.1. **Composition** – The Committee shall be composed of at least three (3) appropriately qualified non-executive directors, the Chairperson of which shall be an independent director. All of the members of the Committee must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing, and finance.<sup>2</sup> Each member must have adequate understanding or competence of the Corporation’s financial management systems and environment.<sup>3</sup> The members of this Committee may be increased by the Board depending on the exigency and relevance of the services of such additional member or members.<sup>4</sup> For this purpose, the current members of the Committee shall serve as such until their successors shall have been qualified and appointed.
- 2.2. **Chairperson** – The Chairperson of the Committee must be an Independent Director and must not be the Chairperson of the Board or of any other committees.<sup>5</sup>
- 2.3. **Regular Attendee** – The Committee shall invite the Chief Audit Executive (CAE)<sup>6</sup> as a regular attendee in the meetings. For this purpose, the function of the CAE shall be

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<sup>1</sup> By-Laws, Article IV Section 3(b);

<sup>2</sup> Manual on Corporate Governance, Section 1(3)(D)

<sup>3</sup> By-Laws, Article IV Section 3(a)

<sup>4</sup> By-Laws, Article IV Section 3(a)

<sup>5</sup> Manual on Corporate Governance, Section 1(3)(D)

<sup>6</sup> The Chief Audit Executive (CAE) is a member of the Corporation’s management team and refers to a top position within the organization who is responsible for internal audit activities (Manual on Corporate Governance, Section 1(5)(E))

discharged by the Head of the Internal Audit Department. The CAE shall participate in the discussion as a regular member, but without voting right.

- 2.4. Other Attendees** – The Committee may also request the Chairperson of the Board, the President, and other Senior Officers to attend Committee meetings. The Committee may also require other members of the management to be present at the meetings as and when appropriate. External Auditors and other experts and consultants may also be invited to the meetings.
- 2.5. Term** – The members of the Committee shall be appointed by the Board during the Board’s annual organizational meeting. Each member shall serve upon his or her election and until the next organizational meeting of the Board, unless earlier removed or replaced.
- 2.6. Vacancy** – The members of the Committee may be removed or replaced by the Board by majority vote of directors present in a Board meeting constituting a quorum. Any vacancy in the Committee caused by death, resignation, removal, or disqualification of member shall be filled by the Board. The member elected to replace or appointed to fill the vacancy shall hold office for the remainder of the term and until his or her successor shall have been qualified and appointed.
- 2.7. Compensation** – The Board shall determine such compensation the members of the Committee shall be entitled to.

### **Section 3. POWERS, DUTIES AND RESPONSIBILITIES**

- 3.1. General Authority** – In accordance with the authority granted by the Board, and consistent with the Corporation’s Manual on Corporate Governance, the Committee shall enhance the Board’s oversight capability over the Corporation’s financial reporting, internal control system, internal and external audit process, and compliance with applicable laws and regulations.<sup>7</sup>
- 3.2. Specific Authority** – To carry out its responsibilities, the Committee relies heavily on the knowledge and expertise of the Internal and External Auditors. The Internal Auditors shall help the Committee in monitoring the risks, control issues, and financial reporting issues. The External Auditors shall help the Committee in ensuring the integrity of the financial statements. In this regard, the Committee shall be empowered to:

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<sup>7</sup> Manual on Corporate Governance, Section 1(3)(D)

- (a) Oversee and compensate the work of External Auditors engaged by the Corporation to conduct annual audits;
- (b) Resolve any disagreement between the management and the External Auditors regarding financial reporting;
- (c) Pre-approve all auditing and non-auditing services;
- (d) In cases deemed necessary by the Committee, retain independent counsel, accountants, or consultants to advise the Committee or assist in the conduct of an investigation without the need to secure permission from the Board or management, and at the expense of the Corporation;
- (e) Probe and solicit any information from all employee and officers, who must fully cooperate with the Committee;
- (f) Meet with officers, External Auditors, or outside counsel, if necessary.

**3.3. Duties and Responsibilities** – The Committee shall support the corporate governance process through provision of check and balances. The Committee shall be responsible for the following:

**3.3.1. Committee Operations**

**3.3.1.1.** Perform oversight functions over the Corporation's Internal and External Auditors and ensure their independence and unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions taking into consideration relevant Philippine professional and regulatory requirements;

**3.3.1.2.** Recommend to the Board the appointment, reappointment, removal and fees of the External Auditors, duly accredited by the Securities and Exchange Commission, who undertakes an independent audit of the corporation, and provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders;

**3.3.1.3.** Meet with the Board at least once a year without the presence of the CEO or other management team members, and periodically meets with the head of the Internal Audit Department;

**3.3.1.4.** Evaluate on an ongoing basis the existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, Related Party Transactions (“RPTs”) are monitored, the Related Party Registry is updated to capture

subsequent changes in relationships with counterparties (from non-related to related and *vice versa*);

**3.3.1.5.** Perform the functions of the Related Party Transactions Committee in the absence thereof; and

**3.3.2. Oversight on Financial Statements and Financial Reporting Process** – The Committee shall:

**3.3.2.1.** Review significant accounting and reporting issues, including complex or unusual transactions on highly judgmental areas, and understand their impact on the financial statements;

**3.3.2.2.** Review the financial reports focusing on the reasonableness of estimates, assumptions and judgments, the appropriateness of application of alternative accounting treatments, significant adjustments resulting from the audit, related party transactions and going concern assumptions;

**3.3.2.3.** Review with management and the External Auditors the results of the audit, including any difficulties encountered;

**3.3.2.4.** Review the financial statements and all related disclosures and other financial reports, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting standards and principles, and complies with legal and regulatory requirements;

**3.3.2.5.** Review with management and the External Auditors all matters required to be communicated to the Committee in accordance with Philippine Standards on Auditing;

**3.3.2.6.** Understand how management develops interim financial information, and the nature and extent of Internal and External Auditors' involvement; and

**3.3.2.7.** Review and approve the Interim 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
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements

**3.3.3. Oversight on the Risk Management and Internal Controls** – The Committee shall:

**3.3.3.1.** 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;

**3.3.3.2.** Through the Internal Audit Department, monitor and evaluate 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: (i) safeguard the Corporation's resources and ensure their effective utilization, (ii) prevent occurrence of fraud and other irregularities, (iii) protect the accuracy and reliability of the Corporation's financial data, and (iv) ensure compliance with applicable laws, rules and regulations;

**3.3.3.3.** Discuss with the management, the Internal Auditors, and the External Auditors the major issues on the effectiveness of the internal control system, including internal financial controls, operational and compliance controls, and the information technology security and controls, and identify the control weakness; and

**3.3.3.4.** Monitor management's responsiveness to the findings and recommendations. Request the management to explain any actions taken to rectify or improve the identified control weakness and assess its impact on the adequacy and effectiveness of the internal control system.

**3.3.4. Oversight on Management and Internal Audit Department** – The Committee shall:

**3.3.4.1.** Recommend the approval of the Internal Audit Charter, which formally defines the responsibilities, powers and authority of the Internal Audit Department, the audit plan of the Internal Audit Department, as well as oversees the implementation of the Internal Audit Charter;

**3.3.4.2.** Recommend the approval of the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan;

**3.3.4.3.** Oversee the Internal Audit Department and recommend the appointment and removal of an Internal Audit head as well as his or her qualifications, and grounds for appointment and removal. The Committee shall also approve the terms and conditions for outsourcing internal audit services, if applicable;

- 3.3.4.4.** Establish and identify the reporting line of the Internal Auditor to enable him or her to properly fulfill his or her duties and responsibilities. For this purpose, he or she shall directly report to the Audit Committee; and
- 3.3.4.5.** On a regular basis, meet separately with the Internal Auditor to discuss any matters that the Committee or the Internal Auditor believes should be discussed privately.
- 3.3.5. Oversight on External Audit** – The Committee shall:
- 3.3.5.1.** Prior to the commencement of the audit, discuss with the External Auditors the nature, scope, approach and expenses of the audit, and ensures the proper coordination, if more than one audit firm is involved in the activity, to identify proper coverage and minimize duplication of efforts;
- 3.3.5.2.** Review the performance of the External Auditors, and exercise final approval on the appointment or discharge of the auditors;
- 3.3.5.3.** 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;
- 3.3.5.4.** Evaluate and determine the non-audit work, if any, of the External Auditors, and periodically review the non-audit fees paid to the External Auditors in relation to the total fees paid and the Corporation's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with the duties of an External Auditors or may pose a threat to External Auditors' independence. The non-audit work, if allowed, shall be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report;
- 3.3.5.5.** On a regular basis, meet separately with the External Auditors to discuss any matters that the Committee or auditors believe should be discussed privately;
- 3.3.5.6.** Communicate with the Corporation's legal counsel on matters covering litigations, claims, contingencies or other significant legal issues that may have impact on the financial statements;
- 3.3.5.7.** Review the recommendations in the External Auditors' management letter; and
- 3.3.5.8.** Review the management representation letter before submission to the External Auditors.

**3.3.6. Oversight on Compliance with Applicable Legal and Regulatory Requirements** – The Committee shall:

**3.3.6.1.** Coordinate, monitor and facilitate compliance with laws, rules and regulations;

**3.3.6.2.** Review the effectiveness of the system for monitoring compliance with laws, rules and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance;

**3.3.6.3.** Review the findings of any examinations by regulatory agencies, and any audit observations; and

**3.3.6.4.** Obtain regular updates from management and the Corporation's legal counsel regarding compliance matters.

**3.3.7. Assuming the Function of Related Party Transactions Committee** – The Committee shall:

**3.3.7.1.** Evaluate all Related Party Transactions ("RPT") to ensure that these are not undertaken on more favorable economic terms (*e.g.*, price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied;

**3.3.7.2.** Determine any potential reputational risk issues that may arise as a result of or in connection with RPTs. In evaluating RPTs, the RPT Committee shall consider, among others, the following:

- (1) The related party's relationship to the Corporation and interest in the transaction;
- (2) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- (3) The benefits to the Corporation of the proposed RPT;
- (4) The availability of other sources of comparable products or services; and
- (5) An assessment of whether the proposed RPT is undertaken on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation shall have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

- 3.3.7.3.** Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's RPT exposures, and policies on potential and/or actual conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties;
- 3.3.7.4.** Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process;
- 3.3.7.5.** Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures; and
- 3.3.7.6.** Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties.
- 3.3.8. Other Responsibilities – The Committee shall:**
  - 3.3.8.1.** Regularly report to the Board of Directors about committee activities, issues, and related recommendations;
  - 3.3.8.2.** Provide an open avenue of communication between the Internal Auditors, the External Auditors, and the Board of Directors;
  - 3.3.8.3.** 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;
  - 3.3.8.4.** Review any other reports the Company issues that relate to Committee's responsibilities;
  - 3.3.8.5.** Perform other activities related to this Charter, as requested by the Board of Directors; and
  - 3.3.8.6.** Institute and oversee special investigations, as needed.

#### **Section 4. MEETINGS, QUORUMS AND ACTIONS**

- 4.1. Calendar of Activities –** The Committee will agree on an annual calendar of activities that shall determine the agenda for each meeting, subject to adjustments as needed. The



Chief Audit Executive shall be the main person responsible to initiate the calendar of activities and shall make sure that the schedule of activities in the calendar shall be carried out as planned.

- 4.2. Regular Meetings** - The Committee shall hold regular meetings in person or through teleconferencing or videoconferencing, or through such other modes of communication in accordance with the schedule in the calendar of activities, or at least quarterly, preferably prior to the meeting of the Board of Directors. Meetings shall include review and discussion of the quarterly or year-end financial statements, the related disclosures and other reportorial requirements, and updates on internal audit activities.
- 4.3. Special Meetings** – In cases when there is a need for special meetings to take up critical items that would need approval in between quarterly meetings, the Chairperson of the Committee shall call the Committee to convene for a special meeting when he or she considers appropriate, or upon the request of at least two (2) members. Alternatively, the Chairperson may just allow the routing of the covering paper.
- 4.4. Regular Executive Session** – Upon discretion of the Committee Chairperson, meetings of the Committee may be concluded in an executive session, without the presence of the CAE and other members of the management team, to be able to discuss matters that the Committee believe should be discussed privately.
- 4.5. Special Executive Session** – The Committee shall conduct a separate meeting in executive session with the CAE, and the External Auditors to discuss any matter that the Committee or the auditors believe should be discussed privately, including the results of the audit, the quality of management, financial controls, operational controls and internal controls at least once a year.
- 4.6. Joint Meetings** – The Committee shall formally meet with the Board Oversight Committee at least once a year to have collaborative discussion on the management of corporation-wide risks. Separately, the Committee shall also formally meet with the Corporate Governance Committee at least once a year to have collaborative discussions on Corporation’s compliances on legal and regulatory requirements, the management of such and other relative issues.
- 4.7. Notices** – Following the calendar, Committee members shall be reminded by a notice to be given through written letter notice, electronic mail, short message service, telefax or other similar means at least ten (10) working days prior to the meeting or scheduled activities.
- 4.8. Waiver of Notice** - Notwithstanding shorter notice, the meeting shall be deemed to have been duly convened if so agreed by the members present constituting a quorum. A

member may give his or her consent to short notice or waive the notice requirement in any meeting of the Committee.

- 4.9. Agenda** – The agenda for each Committee meetings shall be developed based on the calendar of activities approved by the Committee, plus the inputs from the management and auditors. The agenda, which shall include, as much as practicable, all materials and presentations, shall be circulated to each member at least five (5) calendar days before the meeting.
- 4.10. Quorum** – Attendance of majority of the members of the Committee shall constitute a quorum. Members attending the meeting through teleconferencing or videoconferencing or through other modes of communication shall be counted as present in determining the quorum and the votes required.
- 4.11. Resolution** – The Committee shall make decisions and resolutions by consensus vote to the extent possible. If not possible, a resolution shall be reached by a majority vote of all members of the Committee. Any matter which fails to be approved by a majority vote of all the Committee members may be referred to the Board, with the approval of the Chairperson of the Board, for further consideration or reconsideration.
- 4.12. Secretariat** – The Internal Audit Department shall provide all the secretariat support to the Committee. The Chief Audit Executive shall be primarily responsible for recording the minutes of the meetings. All the minutes and records, including other related documents shall be available for inspection by any member of the Committee and of the Board of Directors upon request and during reasonable office hours.

## **Section 5. REPORTS OF THE COMMITTEE**

- 5.1. Regular Reports** – The Committee shall submit to the Chairperson of the Board a report to keep the Board apprised on the results of the Committee’s activities. The Committee shall be ready to present the report to the Board during its meeting.
- 5.2. Annual Report** – the Committee shall also submit an Annual Audit Committee Report to the Board and Shareholders, and it shall be published in the Annual Report of the Corporation.

## **Section 6. MISCELLANEOUS PROVISIONS**

- 6.1. Investigation** – The Committee shall have the have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities, as it may deem appropriate.

- 6.2. Evaluation** – The Committee shall conduct assessment of its performance annually, formulate plans for improvement, and review implementation of such plans. Supplementarily, the Board shall have independently evaluation of the performance and effectiveness of the Committee in delivering and fulfilling its duties and responsibilities, as set forth in this Charter.
- 6.3. Review of the Committee Charter** – The Committee shall review this Charter at least once a year and as often as deemed necessary. Any proposed amendment or revision shall be forwarded to the Board for approval. Once approved by the Board it shall take effect immediately and prospectively.

This Charter of the Audit Committee was approved by the Board of Directors on 17 December 2021. This shall form part of the Revised Manual on Corporate Governance of the Corporation.




**NORMAN P. SERAPIO**  
Compliance Officer

**ATTESTED BY:**



**JOSE XAVIER B. GONZALES**  
Chairman



**EUGENIO JOSE F. RAMOS**  
President and CEO