



## **INTERNAL CONTROL POLICIES SYSTEM**

### **1. INTRODUCTION ON INTERNAL CONTROL**

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. Internal control ensures the reliability of financial reporting.

Internal Control Process consists of five interrelated components as follows:





## 2. CONTROL ENVIRONMENT

The control environment is the control consciousness of an organization. An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. The control environment encompasses technical competence and ethical commitment. Governing board and management enhance the control environment when they behave in an ethical manner-creating a positive tone and when they require that same standard of conduct from everyone in the organization.

Policies and procedures should address hiring, orientation, training, evaluations, counselling, promotions, compensation, and disciplinary actions. In the event that an employee violates organization policies and procedures or standards, appropriate disciplinary action is taken to maintain an effective control environment

- Ensure that the department has well-written departmental policies and procedures manual which addresses its significant activities and unique issues.
- Ensure that employees are well acquainted with the company policies and procedures that pertain to their job responsibilities, ethical issues, and standards of conduct.
- Ensure that job descriptions exist, clearly state responsibility for internal control, and correctly translate desired competence levels into requisite knowledge, skills, and experience; make sure that hiring practices result in hiring qualified individuals.
- Ensure that appropriate disciplinary action is taken when an employee violates policies and procedures or standards.

### 2.1 Approvals, Authorizations, and Verifications

Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees.

Reconciliations	•An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
Reviews of Performance	•Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions.
Security of Assets	•Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.
Segregation of Duties	•Duties are segregated among different people to reduce the risk of error or inappropriate action. Responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.
General controls	•General controls are needed to support the functioning of application controls; both are needed to ensure complete and accurate information processing.



## **2.2 Control activity Authorization/Approval**

Authorization is the delegation of authority to approve transactions with proper review and supporting documentation are satisfied in compliance with company policies, and procedures and applicable laws, regulations. Approving authority should review supporting documentation, question unusual items, and make sure that necessary information is present to justify the transaction-before they sign it. Transactions that exceed the specified amount level would require approval at a higher level.

- **CONTROL ACTIVITY - RECONCILIATIONS**

Reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action. This control activity ensures the accuracy and completeness of transactions that have been charged to proper accounts.

- **CONTROL ACTIVITY - REVIEW**

Management compare information about current performance to budgets, forecasts, prior periods or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions.

Management's review of reports, statements, reconciliations, and other information should be documented as well as the resolution of items noted for follow-up.

- **CONTROL ACTIVITY – ASSET SECURITY**

- Security of physical and intellectual assets
- Physical safeguards; Perpetual records are maintained
- Periodic counts/physical inventories
- Compare counts to perpetual records

- **CONTROL ACTIVITIES – SEGREGATION OF DUTIES**

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees.

No one person should

- Initiate the transaction
- Approve the transaction
- Record the transaction
- Reconcile balances
- Handle assets
- Review reports




### 3. MONITORING

The purpose of monitoring is to determine whether internal control is adequately designed, properly executed and effective. Internal control is adequately designed and properly executed if all five internal control components are met. Just as control activities help to ensure that actions to manage risks are carried out, monitoring helps to ensure that control activities and planned actions are carried out properly and in a timely manner.

While internal control is a process, its effectiveness is an assessment of the condition of the process at one or more points in time.

The Internal Auditor is responsible to



Develop a reasonable budget sufficient to accomplish the approved audit plan.

Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management or the Audit Committee.

Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements

Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

Evaluate the means of safeguarding assets and, as appropriate, verifying the existence of assets.

Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.

Establish and ensure adherence to policies and procedures

Assist in the investigation of suspected fraud occurrences and notify management and the Audit Committee of the results.



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#### **4. INTERNAL AUDIT POLICIES AND PROCEDURES**

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##### **4.1 Organization and Policy**

###### **(a) Purpose**

This document establishes the official policies and procedures of Transpacific Broadband for the Internal Audit Department. It explains the purpose, authority and responsibility of the internal audit function and the duties of the Internal Auditor.

###### **(b) Authority**

Internal audit is required by Securities and Exchange Commission and the Philippine Stock Exchange for publicly listed companies. The Internal Auditor is an appointed Senior Management position who serves at the discretion of Management. The Internal Auditor receives direction from Management in the accomplishment of the internal audit program objectives and the management of the Department. The Internal Auditor has the authority and responsibility to conduct audits and reviews of company operations

###### **(c) Mission Strategy**

The mission of the Internal Audit Department is to serve the company and its investing public through the performance of independent, objective reviews and evaluations of all relevant activities. In performing these duties, the Internal Auditor will endeavor to assist Management in achieving the corporate objectives.

The Internal Auditor will accomplish the mission to provide MANAGEMENT with an efficient, proactive and comprehensive internal audit program through the conduct of:

	Revenue audits
	Performance audits
	Special reviews requested by Management
Comprehensive Audit	Assistance to Finance and Accounting Department and/or the external auditors in the performance of the annual audit of financial statements
	Compliance audits to ensure conformance with the requirements of laws
	Information systems audits of computer hardware, applications and related controls
	Investigations of reported situations involving possible impropriety in matters pertaining to the business of the company



#### **(d) Required Access To Records**

The Internal Auditor must have full access to all Company records, properties and personnel in order to properly conduct required audit activities. Accordingly, company employees shall furnish any requested information and records within their custody and respond to any questions regarding powers, duties, activities, organization, property, financial transactions and methods of business. In addition, employees provide access to the Internal Auditor for the inspection of all company property, equipment and facilities within their custody and the observation of any operations for which they are responsible.

The confidentiality of the information and documentation gathered during the conduct of internal audit activities, and any resulting audit report, is subject to policy.

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#### **4.2 Method of Operation**

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##### **(a) Internal Audit Functions**

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The following describes the functional operation of the Internal Audit Department and the requirements for accomplishing its mission:

##### **(b) Definition and Objective of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve operations of the Company as a service to management. External entities are also reviewed to determine whether revenues have been properly remitted to the Company. The fundamental objective of internal auditing is to assist all members of management to discharge their responsibilities. This objective is met by furnishing management with analyses, appraisals and recommendations concerning the activities reviewed.

##### **(c) Scope of Operations**

The Department's scope of operations covers every phase and sector of Company operations. This requires going beyond the accounting and financial records to obtain a full understanding of the operations under review and involves such activities as, but is not limited to:

- Reviewing and appraising the soundness, adequacy and application of accounting, financial and other operating controls and activities and promoting effective and efficient controls;
- Determining the extent of management compliance with applicable laws and regulations and with established policies, plans and procedures;
- Determining the extent to which Company assets are accounted for and safeguarded from losses of all kinds; and
- Determining the sufficiency, validity and reliability of accounting and statistical data



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#### **(d) Responsibility and Authority**

- The Internal Auditor is directly responsible for the performance of internal audit activities and the administration of the Department
- The Internal Auditor has no direct responsibility or authority over, any activity under review
- Where internal control over the Company's assets or grants and/or contractual compliance is involved, the Internal Auditor will:
  - Review and evaluate policies, plans and procedures, but have no responsibility for establishing same;
  - Appraise the existing and proposed procedures and make recommendations and/or comments regarding acceptable standards; and
  - Review contracts entered into by the Company that pertain to revenue-generating activities or expenditures of the company funds.

#### **(e) Independence, Objectivity And Ethics**

The Internal Auditor is responsible directly to Management for the performance of internal audit activities and for the reporting of findings and recommendations. The Internal Auditor is independent of the company operations being reviewed.

The Internal Auditor shall maintain high standards of conduct, honor and character so that credibility and integrity are not open to question. The Internal Auditor will subscribe to the Codes of Professional Ethics and Standards as promulgated by the Institute of Internal Auditors and the Philippine Institute of CPAs, as applicable.

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#### **4.3 Audit Planning, Conduct And Communication**

The Internal Auditor shall, on an annual basis, develop a plan of audit activities and operations and submit to Management for approval. The annual audit plan shall include identification of each audit to be conducted in terms of the programs, functions and activities to be audited. The plan may be amended during the year with the approval or at the direction of Management. Audits shall be conducted in compliance with Generally Accepted Government Audit Standards.

#### **4.4 Required Continuing Professional Education**

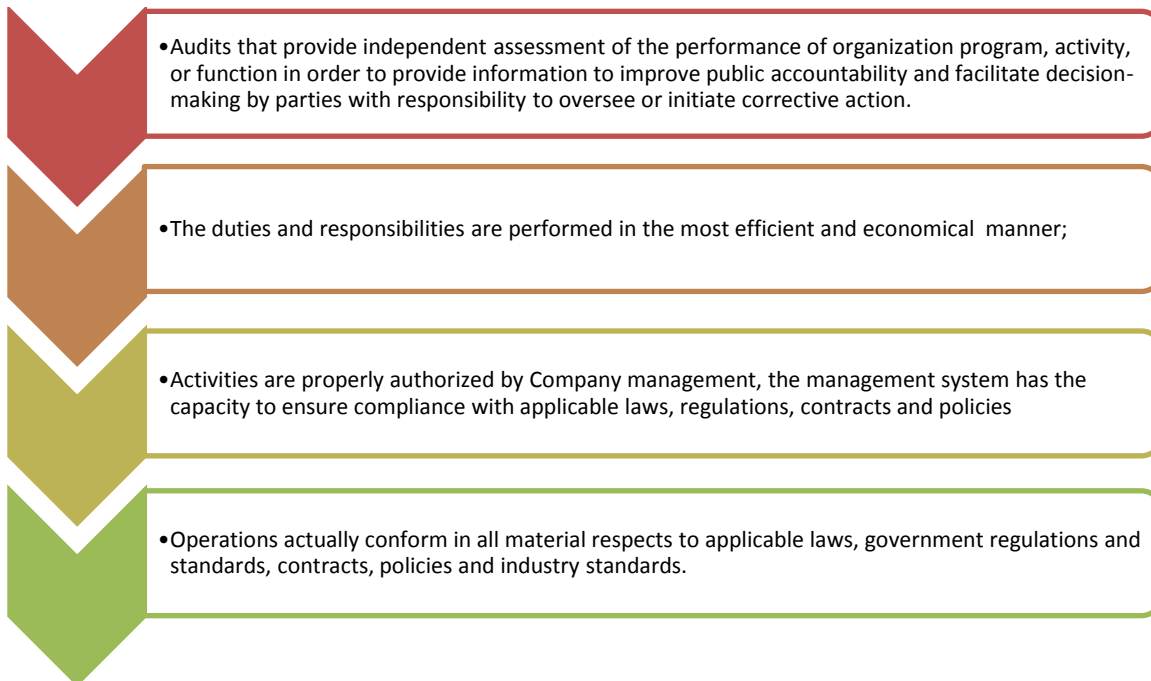
Internal Auditors must satisfy the continuing education requirements specified in the Government Auditing Standards. Such continuing education ensures that internal auditors remain current on professional techniques and standards.



## **4.5 Internal Audit**

### **(a) Performance Audits**

Performance audits include, but are not limited to, reviews of departmental procedures and operations to determine whether:



### **(b) Compliance Audits**

These audits generally are performed to ensure compliance with laws and requirements. These can include reviews of management practices and financial data to determine the extent to which a unit complies with applicable laws, Company Code and policies and procedures.

### **(c) External Audit Assistance**

Assistance may be provided to the external auditors and the Accounting Department during the annual audit of the Company's financial statements.

### **(d) Fraud Investigations**

Any suspected criminal act (e.g., theft, robbery, assault, etc.) should be promptly reported to the appropriate Company officials as well as proper law enforcement agency.

Suspensions of fraud, misappropriation of Company assets and funds, unethical behavior of Company staff or other irregularities may be reported to Management through the Internal Auditor. Callers





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may remain anonymous if they wish. As directed by Management, an independent investigation may be performed by the proper law enforcement agency, the Internal Audit Department.

It is Company intent to protect any employee or person who discloses information of suspected violations from retaliatory actions by other individuals, employees, managers, agencies or independent contractors in accordance with Whistle-blower's Rules.

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#### **4.6 Audit Reports**

Upon completion of fieldwork, the Internal Auditor will prepare an original draft of the audit report. The report will communicate to Company management, in a clear and concise manner, the results of the audit or review. The format of the report will depend upon the type of audit performed.

- (a) The Internal Auditor will review the original draft and make any changes deemed appropriate.
- (b) The Internal Auditor and Company management will hold a conference to discuss the draft report. Changes to the draft report may result from this "exit" conference.
- (c) Official written responses to specific audit report recommendations will be requested from Company management to be included in the issued report. The responses should include the degree of agreement or acceptance of each recommendation.
- (d) Management is encouraged to provide an explanation in support of the positions taken, if considered necessary. Responses should be accompanied by a target implementation date and the departmental individual or position responsible for implementation.